The Money Charity Response – Which? Call for insight and Collaboration on Protecting Consumer Access to Banking in a Digital Age (December 2019)

The Money Charity is a financial capability charity whose vision is to empower people across the UK to build the skills, knowledge, attitudes and behaviours to make the most of their money throughout their lives.[1]

We welcome the opportunity to respond to the Which? call for insight and collaboration on Protecting consumer access to banking in a digital age.

In this response, we set out our Key Points, make some overall comments on the issue then answer the questions posed in the call for insight.

[1] See box on back page.

Key Points

1. We agree with the view that banking and payments are essential services for contemporary society and need a whole-network approach led by Government (Overall Comments).

2. The need for multi-channel access applies to all ages of the population and includes access to cash and to face-to-face banking (Overall Comments).

3. Digital banking and payments systems need further upgrading and investment to improve their reliability, security and usability (Overall Comments).

4. Core banking and payments services must be provided universally to a defined minimum standard (Question 1).

5. Leadership is needed from Government to make sure that firms and the industry implement the necessary universal banking and payments services (Question 2).

6. Barriers to online banking and digital payments include security concerns and excessive card scheme fees on small electronic payments. The latter need to be addressed by a market study carried out by the CMA, PSR or other competent authority with a view to lowering scheme charges and removing the need for the “£5 minimum payment” rule imposed by many small traders (Question 3).

7. Financial service regulations should be designed with a view to helping consumers make financially capable decisions. A rule that currently does not do this is the credit card minimum monthly payment rule. This needs to be re-designed to help consumers avoid credit card debt turning into long-term debt at short-term interest rates. We propose a new rule for credit card minimum payments (Question 4).

8. To help consumers engage with online and digital payments, a key innovation is Confirmation of Payee (COP). This needs to be designed effectively to reduce or eliminate the occurrence of false negatives (accounts returned as non-matched when in fact the account number is correct). Until such time as COP has been introduced and evaluated there should be no move to change consumer liability under the Authorised Push Payment (APP) reimbursement code (Question 5).

9. The Money and Pensions Service (MaPS) and the Department for Education (DfE) should take the lead in improving consumers’ digital financial skills. For both organisations there is a resourcing issue if they are to have a population level effect (Question 6).

10. The Nationwide Building Society Open Banking for Good (OB4G) programme, which The Money Charity participated in, is an example of an inclusive service designed to improve consumers’ financial resilience and capability (Question 7).

11. Research by the Competition and Markets Authority (CMA) has shown that banks continue to earn a large part of their revenues from current account balances, so we feel that a move away from free-if-in-credit banking is not justified (Question 8).

12. Government should take the lead in underlining the importance for access and fairness of free-if-in-credit banking and should remind firms that any combined move away from this model would likely constitute illegal price fixing (Question 9).

13. Introducing bank account charges would be highly regressive and would deter low income and marginal groups from participating in the banking system (Question 10).

Overall Comments

First, we would like to commend Which? for conducting the research published in the report Everyday Finances: What consumers need in a changing world of banking and payments (November 2019). In our view this research complements and expands on the evidence available from other recent studies including Britain Thinks' research commissioned by Pay.UK, GoHenry's research into their user base and Common Vision's research into Millennials and Money. A feature of these reports is that **the need for a multi-channel approach to banking and payments (digital, cash and face-to-face) extends across the whole population.** It is not a case of the young being digital and the old being analogue, but rather that appropriate forms of digital and analogue are sought by people of all ages.

A second conclusion to emerge clearly from recent research, including the Which? call for insight, is that **consumers view the banking and payments industries as utilities or essential services.** These services are not archetypal private goods, supplied by competing firms, which people are free to buy or not buy as they see fit. Rather they are part of the 'wiring' of contemporary society, like water, energy and the Internet. Even if private firms are involved in delivery, a network approach with some degree of central coordination needs to be adopted to make sure that all residents of the UK are able to access the service.

Where an essential service is delivered by competing private sector firms, contradictory effects appear, for example simultaneous overprovision and under-provision: areas of the country with smaller or dispersed populations can lose all their services, such as when all bank branches in a town close, while other parts of the country are over-provided. An example of the latter is that between The Money Charity's head office near Clapham Common, London, and the nearest Tube station are nine free-to-use ATMs, four bank branches and a large Post Office. In contrast, around the UK there are many small towns, villages, rural areas and suburbs that have lost all their bank branches and where ATM coverage is threatened by current trends.

The need for action is urgent. Action needs to be taken by the industry collectively, but also by Government, which should provide leadership and a framework for long-term collective solutions.

It is not a matter of maintaining out-of-date technologies but of taking an opportunity for innovation using the latest technological solutions. For example, the Ceeney Review[2] concluded that the UK's current cash infrastructure is highly inefficient but can be radically streamlined and improved with the right leadership, planning and technology. In the future it should be cheaper, not more expensive, to maintain networks of cash delivery and face-to-face banking.

It will also be necessary for the industry to overcome certain mental or commercial blocks that have inhibited some forms of innovation to date. For example, when consumers are interviewed on the subject of bank branches, they spontaneously suggest the idea of a "hub branch" or "vanilla branch" as part of the solution to bank branch closures.[3] This idea appears in Which?'s report as well. Up to now, the industry has been reluctant to embrace this solution, but in our view, needs to think again. If necessary, Government should provide the additional push needed to make this happen.

As well as maintaining physical and face-to-face options, **digital banking solutions are in need of major improvement.** Current digital challenges include:

- Poor Internet and mobile coverage, speed and reliability in many parts of the country.
- Digital banking systems being prone to breakdown, as with the major TSB outage in May 2018 and NatWest's mobile banking crash on Black Friday 2019.
- Digital systems being prone to scams and fraud, such as Authorised Push Payment (APP) fraud facilitated by the Faster Payments system.
- Challenges with authorisation and control of personal data in digital systems including Open Banking.
- The industry adopting performance standards which are too low, for example the 99.5% success target for Open Banking requests, compared to the 99.999% standard adopted by the payment card schemes and the 99.99999% standard achieved by air travel.
- Complexity in software, logons, passwords etc that acts as a participation barrier for some groups with low Internet and/or mobile access.

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[2] Access to Cash Review – Final Report, March 2019, available at: https://www.accesstocash.org.uk
[3] See, for example, Age UK's 2016 report, Age-friendly banking – what it is and how to do it, available at: https://www.ageuk.org.uk/our-impact/policy-research/publications/reports-and-briefings/

These and other digital design challenges need to be met and surmounted to develop a system that is truly “fit for purpose” for the twenty-first century.

Answers to consultation questions

Question 1: Do the core banking and payments services identified (Section 2.1) represent the core services that all consumers need access to?

We agree with the list of core services set out in Section 2.1, namely:

- A bank account
- A card for making payments
- An ability to withdraw cash
- An ability to set up and manage regular payments
- An ability to get advice from a real person
- An ability to pay for things on credit

In our view, reflected in our financial capability workshop materials and experience, it is not a matter of any means of achieving the above list, but quality and minimum standards need to apply. For example, cash withdrawal from a convenience store, post office or pay-to-use ATM is usually not equivalent to cash withdrawal from a conveniently located free-to-use ATM.

In relation to payment by credit, it should be noted that credit card payments have an additional protection in consumer law[4] that does not apply to other means of payment such as PayPal. This is an important right, which is institutionally entrenched in the UK and is part of consumers’ basic expectation.

Question 2: Are there sufficient regulations or other protections in place to ensure that all consumers are, and will continue to be, able to access the services they need to manage their day-to- day finances?

Not yet. As pointed out in our opening remarks, there is a need for Government and regulator leadership to achieve the coordination appropriate for an essential service, particularly in relation to:

- Bank branches, hub branches or alternative means of maintaining face-to-face banking.
- A comprehensive UK network of free-to-use ATMs and cash access points.
- Improvements to the digital infrastructure as set out in our opening remarks.

There is a fallacy of composition in leaving such services to private competitive companies alone, because what makes sense for firms acting individually (e.g. closing a

[4] Joint liability of the credit card company under Section 75 of the Consumer Credit Act.

bank branch or an ATM) may sum to a UK system that is insufficient and full of holes, with overprovision in some places and absence of provision in others. It is the role of the Government and regulators empowered by Government to make sure that the system as a whole works properly.

In relation to the specific mechanisms mentioned in Question 2, in our view:

- Basic Bank Accounts should be provided by all banks as a condition of authorisation.
- The Access to Banking standard is an informational standard, but leaves the closure of branches to individual banks. Government needs to supplement this with a coordinated face-to-face banking solution. This could include physical hub branches and innovative solutions such as video banking.
- The Post Office Banking Framework provides some but not all essential bank services through post offices. For example, you cannot carry out inter-account transfers. New technology should be developed to enable a seamless and complete Post Office banking solution.

Question 3: Does Which?'s research correctly identify the key barriers to accessing online banking and digital payments? Are there any further barriers that will need to be addressed to ensure consumers have the option to access online banking and digital payments services should they want to?

From our experience, we agree with the barriers listed in the Which? report:

- Lack of perceived benefit (by some consumers).
- Lack of confidence in using online banking (of some consumers).
- Lack of access to the necessary infrastructure (of some consumers).

The last point is often overlooked by professional policy-makers who have access to sufficient income to pay for digital equipment and access, but many of those in the UK who do not use the Internet are on extremely low incomes, e.g. the State Pension only (currently worth £8,750 per year at the full rate) and cannot afford computers and Internet connections. As long as this is the case, Internet access in the UK will not become universal.

In addition to the points made by Which? we would like to add two further:

- Many non-users of Internet banking services have security concerns, fearing fraud, scams or identity theft. In fact, having Internet banking does make it easier to be scammed, so some people who use the Internet for other things avoid Internet banking for exactly the reason that they do not want to make themselves vulnerable to criminal activity. This barrier will persist until the industry finds a way of stopping the current levels of fraud, scams and identity theft.

- A common barrier to making small digital payments is the “£5 minimum payment” rule that some High Street shops apply before allowing people to pay by bankcard. The existence of this practice contradicts the narrative of “everything’s going digital”. It requires people to carry cash and the peculiarity of it invites further investigation.

Informal investigations by The Money Charity with people knowledgeable about UK payments have indicated that the ‘culprit’ in this practice is the scheme fees levied by card companies, rather than card acquirer fees or interchange fees (which are regulated). These scheme fees can lead to a per transaction cost of up to 50p for small traders, which is a substantial fraction of a £1 or £2 payment, hence leading to the minimum payment rule. We understand that large companies, e.g. supermarkets, have negotiated much lower costs with card schemes, so are able to accept card payments of any size. We have also been told that scheme fees were increased to compensate for the regulation of interchange fees.

In the UK, there are two market-dominant providers of payment cards, namely VISA and Mastercard, one of which also owns Vocalink, the key infrastructural asset of the UK payments system. It appears that these firms are using their market power to impose on small traders costs that are substantially above the marginal cost of providing the service. This, we believe, requires a market study by the Payments System Regulator, CMA or other competent authority.

As the UK moves increasingly to card and electronic payments, it is necessary to apply pro-competition or regulatory remedies to dominant players. Otherwise we will arrive at a situation where one or two companies dominate all UK payments and impose administered prices, following the normal economics of monopoly and oligopoly pricing, where price is not competitive but adjusted to maximise profits, and where lower volumes are accepted as a means of raising prices.

Which? is ideally placed to open this issue to scrutiny and we encourage Which? to make this one of the campaign objectives.

Question 4: Is there any evidence or examples of retail banking, payments or short-term credit products or services being provided online or digitally that may be causing harm because either:

a. access is restricted to certain consumers

b. firms are using technology to offer consumers products or services in a way that is likely to encourage poor financial decisions?

As a financial capability charity our approach to financial regulation reflects the idea that the regulatory framework (including the impact of regulation on the choice architectures created by firms) should assist people to make financially capable decisions, not hinder them from so doing or encourage them to make positively bad decisions. There are a number of dimensions to this including:

- The way information is presented, including the numeracy and reading levels of the material.
- The rules on charging and conditions of service.
- The ways in which choices are presented.
- The rules on repayment amounts and terms.
- The ways in which firms relate to consumers with particular characteristics (vulnerability, disability, gambling issues etc)

Because of product complexity and certain well known human behavioural characteristics (present bias, loss aversion, effort aversion, anchoring, comfort seeking, the 'marshmallow effect' etc) financial service firms constantly face the temptation to revenue and profit maximise by taking advantage of consumer weaknesses. Avoiding this temptation takes good financial rules and self-discipline by firms. Recent FCA studies, such as into defined benefit pension transfer advice, motor vehicle finance and short-term credit unfortunately show that significant consumer exploitation tends to occur on a large scale, in some cases even where there are rules that are supposed to stop it.[5] This suggests that the regulatory environment needs both improvement and better enforcement.

One issue that has been concerning us recently (to answer Question 4(b) above) is **persistent credit card debt and the rules on credit card minimum payments.** This issue will come into sharper focus in 2020 as PD36[6] arrives. The current minimum payment rule, agreed about ten years ago between Government and the banks and now in FCA rules, is for the minimum monthly credit card payment to be fees and charges plus 1% of the outstanding balance. The FCA has found that the minimum payment acts as a powerful anchor, with about one third of credit card users paying only the minimum payment. Credit card payments are highly polarised between those who pay the minimum and those who pay off their credit card in full each month.

As we document each month in The Money Statistics,[7] the effect of paying only the minimum payment is that a given credit card debt will last for over 26 years. In effect, it becomes long-term debt at short-term interest rates. The FCA's new rules require credit card companies to manage down the debt of those with persistent credit card debt. However, it would be better to reduce the number of people getting into persistent debt in

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[5] For example, in the case of consumer information about motor vehicle finance, documented in the FCA's motor finance study.
[6] The thirty-six-month point in the implementation of the FCA's new rules on persistent credit card debt.
[7] https://themoneycharity.org.uk/money-statistics/

the first place. Our calculations show that this could be done with a modest amendment to the minimum payment rules:

- Raise the monthly minimum payment to 1.7% of the outstanding balance (plus fees and charges).
- Introduce a £ ratchet, so that for example if your payment was £30 in Month 1, your payment would remain at £30 per month in subsequent months, rather than reducing by being calculated as a percentage. If you increased your borrowing, this would increase the amount of your monthly minimum, and the new higher amount (say £50 per month) would then be paid every month until the debt was paid off.

The combination of these two changes would reduce the maximum term for credit card debt to 3-4 years, which is around what the FCA thinks should be the maximum.

We encourage Which? to look at including a change to credit card minimum repayment rules as part of the campaign, especially with the approach of PD36 in 2020.

Question 5: How can support to be offered to consumers to enable them to engage safely with online banking and digital payments? Are there examples of programmes or initiatives that have been successful in helping people develop the skills and confidence they need to bank online?

We do workshop modules on safe online shopping, for example in our refugee workshops, which identify the various types of scams and fraud people may be subject to and give advice on how to shop safely. As with all our workshops, these modules include visual material, quizzes, exercises etc. For further details, contact our Workplaces and Communities team.

As with any new online activity, people need advice and reassurance to enable them to bank online successfully. They need to know they are looking at the correct website, how to avoid phishing and scams, what a logon process involves, then how to use the site in question. Actually, online banking websites and apps are pretty easy to use once you are familiar with them. The key thing is the initial familiarisation in a secure environment.

One good idea is to provide people with a sandbox or training environment, i.e. a site that looks exactly like the bank's site, but does not use real money. In such an environment, users can experiment without putting real money at risk. This can be done in a bank branch or in a workshop or training setting, remembering that people of different ages and abilities have different speeds of memory and skill learning.

In a live online banking environment, the key risks are around payment errors and scams. The payments industry has promised the development of Confirmation of Payee (COP), which will work by linking account numbers and sort codes to a database of account names. The idea is that each of us will be able to confirm the payee before continuing with an online payment. This is a much-needed innovation. If it works well, it will transform the payments experience. However, we do not yet know the delivery date for COP or how it will function when it goes live. A key consumer issue will be matching payee names with payee bank account names, as many traders have account names that are different from their trading names. Being able to make true matches and distinguish non-matches from false negatives will be a key challenge for the system.

Related to this, we have heard via the Open Banking community that the industry may move to shift responsibility to the consumer under the APP Code, if the consumer goes ahead with a transaction that has not been matched by COP. In our view, it is entirely premature to float such an idea. We have made representations on this to the Open Banking Implementation Entity. Until the performance and accuracy of COP is known there should be no move to shift APP Code liability.

Question 6: What institution(s), if any, should be responsible for increasing the digital skills of consumers?

The appropriate institutions, we believe, are:

- The Department for Education and the schools system (for young learners), and
- The Money and Pensions Service (MaPS), in relation to digital banking and payments skills (as opposed to other digital skills) for people of working age and older.

In relation to Young People, Ofsted also has a role, as the focus of Ofsted inspections has a big impact on what schools choose to prioritise.

We have made a full response to MaPS on what we think the UK's financial capability strategy should look like.[8]

A key issue we highlighted to MaPS is the question of sufficient resourcing. MaPS has indicated that it plans to set quite ambitious population-level targets for improved financial capability, which means reaching a significant proportion of the whole UK population with interventions and/or institutional re-design of sufficient intensity to make an impact on people's measured skills and behaviour. To do so means finding the appropriate channels to reach people and resourcing those channels sufficiently.

Question 7: Are there any good examples of inclusive products and services? How can we encourage banks and other firms to develop and adopt products and services that meet the needs of consumers that may need additional support because of:

[8] See The Money Charity Response – MaPS Listening Document, June 2019, available at: https://themoneycharity.org.uk/work/policy/consultation-responses/

a. any health conditions or impairments,

b. a low level of financial resilience or capability,

c. a low level of digital capability?

There are a number of examples, such as bank cards for sight-impaired people and aids to help people with disabilities interact with in-branch banking services. We suggest seeking input from organisations such as Age UK, Action on Hearing Loss and RNIB for more information on such services.

Regarding 7(b), we are interested in the potential of new technology to assist people improve financial resilience and capability. For example, we have participated in Nationwide Building Society's Open Banking for Good programme and seen the development of some interesting apps which assist people classify their expenditure and automatically budget according to criteria they choose. Another good idea is "save while you spend" which moves a small amount of money to a savings account every time you may a payment, automatically building a savings balance without requiring a deliberate act of saving. Especially now that many people are banking by app, we see great potential in automatic financial management features that may help people take care of regular payments, budgeting and saving.

Question 8: What challenges does the UK banking industry face in continuing to provide core bank account services via a free-if-in-credit banking model?

We are aware of the narrative that free-if-in-credit banking is under threat and may need to be replaced with something else, however we caution against hastily reaching this conclusion. The CMA conducted a detailed study of retail banking business models and found that, even in a period of very low interest rates (2011 to 2014) around half of bank net revenue came from the "net value of funds", i.e. the difference between the cost of funds in Personal Current Accounts and the amount earned in interest on the assets (loans) backed by these funds.[9]

With large amounts of consumer money still held either in current accounts or ultra-low interest savings accounts, while interest rates on mainstream loans vary from 2% (mortgages) to 40% (overdraft rates), it is reasonable to assume that banks will continue to make large amounts of money from the free-if-in-credit model. The banks may wish to make more profits, but this alone is not sufficient to justify a move away from a long-established and expected approach to banking.

A further consideration is that current account charges will be regressive in impact. While charges may not matter much to those on high professional incomes, they would bite severely into the income of low income workers, beneficiaries, pensioners and others on the margins (e.g. refugees, migrants, ex-offenders) and would be a disincentive to

[9] Competition and Markets Authority 2016, Retail Banking Market Investigation – Final Report, page 104.

engaging with the banking system, probably encouraging a move back to cash for those affected.

We know from work done by Toynbee Hall,[10] that low-income people have been severely affected by overdraft charges and reversed payment charges, and that this has sometimes made them abandon bank accounts and return to cash.

Question 9: What actions should be taken to guarantee access to free-if-in-credit banking for those that need it? Is it reasonable for the UK industry to support free-if-in-credit banking:

a. for all consumers?

b. while protecting a geographical spread of banking access points that allows all consumers to access core banking services offline?

As this is a social policy and infrastructure issue as well as a banking issue, we think the Government should underline its support for the free-if-in-credit model, to ensure that all consumers have access to core banking services. It is hard to see how the industry can move against the model without engaging in price fixing, as there is unlikely to be a first mover for the other banks to follow (the first mover would lose customers) and a joint move to impose a price for something previously “free” would be illegal.[11]

Regarding protecting the geographical spread of banking access points, as we argued in our Opening Remarks above, there is plenty more banks can do to maintain such a network before considering changing the current account charging model. For example, exploring the hub branch concept and applying new communications technology to give people in-person services at a distance.

Question 10: What are the potential benefits or harms that consumers may experience if the UK moves away from a free-if-in-credit banking model? It would of be of particular interest to get insight of whether specific groups of consumers would be positively or negatively affected.

As we pointed out in answer to Question 8, current account charges would be highly regressive, bearing down most on those with the least means to pay, such as low income and part-time workers, pensioners, beneficiaries, new migrants, refugees, ex-offenders etc. We know from Toynbee Hall’s work and from experiences related in our workshops that such people are badly affected by other regressive charges such as overdraft fees and reversed payments charges. As well as being unfair, regressive charges would put people off engaging with the banking system and lead to a resurgence in the numbers of the unbanked.

To put the point about regressivity into numbers, if a bank introduced a charge of £5 per

[10] Toynbee Hall/Policis 2015, *The electronic payment needs of people on low incomes*, page 3.
[11] https://www.gov.uk/cartels-price-fixing/types-of-anticompetitive-activity

month (£60 per year) this would be only 0.1% (1/1000th) of the net income of someone with a net income of £60,000 per year. However, for a pensioner on £8,750 per year, it would amount to 0.7% of their income, a rate seven times as high as for the £60k person, and a significant absolute amount in relation to other needs such as food, heating, appliance repair etc

(end)

The Money Charity is the UK's financial capability charity providing education, information, advice and guidance to all.

We believe that everyone achieves financial wellbeing by managing money well. We empower people across the UK to build the skills, knowledge, attitudes and behaviours to make the most of their money throughout their lives, helping them achieve their goals and live a happier, more positive life as a result.

We do this by developing and delivering products and services which provide education, information and advice on money matters for those in the workplace, in our communities, and in education, as well as through influencing and supporting others to promote financial capability and financial wellbeing through consultancy, policy, research and media work.

We have a 'can-do' attitude, finding solutions to meet the needs of our clients, partners, funders and stakeholders.

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