Response to Payments Strategy Forum – Being responsive to user needs – Draft strategy for consultation

14 September 2016

Key points

In the response that follows we have given individual answers to the consultation questions, but there are three particular themes that recur throughout:

- The need for inclusive, age-friendly design. It is essential that redesign of the UK's payments system anticipates the needs of older customers and involves them at all stages of the design process. Whatever underlying architecture is adopted, it needs to be capable of supporting end-user applications that are fully matched to the abilities and preferences of the older user group.

- The need for a stronger effort to detect and prevent financial crime, including scams that make use of customer and payment system vulnerabilities. The system at the moment is too porous to fraudsters, whose activity undermines public confidence in the security of the banking and payments systems. We believe that banks and Payment System Providers can do much more to detect scams in live-time, disrupt them and weed scammers out of the system.

- In view of the lengthy development time for a new payments system architecture, it is important that this architecture be 'future-friendly', not requiring extensive redesign for each wave of innovation, but capable of supporting new innovations as they arise, including the making of payments through the voice-activated 'Internet of things'.

Introduction – Age UK

Age UK is a charity and social enterprise driven by the needs and aspirations of people in later life. We provide information and advice to over five million people each year, conduct campaigns, training and research focused on later life and assist a network of around 150 local Age UKs throughout England. The Age UK family includes Age Scotland, Age Cymru and Age NI. We are a member of the Payments System Regulator (PSR) payments community and communicate regularly with the PSR and Payments UK. We also communicate frequently with many individual UK financial and payments organisations. We are glad to take this opportunity to contribute to the emerging UK payments strategy.

Age UK receives evidence from a variety of sources including: local Age UKs, participants in policy forums and consultation events, clients of advice services, callers to the national information and advice line, emails from older people around the country and results from formally-conducted research. We are therefore well placed to understand the payments issues topmost in the minds and lives of older people.

In the response below we have focused on those questions we are qualified to answer and which we regard as priorities for the older population. Where the questions raise technical issues outside our area of competence we have answered 'no comment'.

Responses to Consultation Questions

CQ1: Needs of End Users.

Cash and cheques

Although not referred to in the consultation document, we wish to reiterate the importance for older people in the UK of traditional (cash and cheques) means of payments. The need for physical means of payment comes through repeatedly in Age UK research and consultations,[1] and we believe that cash and cheques should continue as long as there is public demand for them. There is also a continuing need for the networks that support physical means of payment, including bank branches, post offices and ATMs.

We agree that the cash and cheque handling systems should continue to be modernised, to reduce costs and improve productivity, for example by the introduction of the planned cheque imaging system.

There has been speculation that the UK could become a 'cashless society',[2] but we believe this speculation is misplaced, for three reasons: (1) most people still use cash and want cash to continue, (2) if legal tender is not available, people invent new forms of physical money. Any product that that is sufficiently durable and standardised can serve as money (cigarettes, chocolate, pens, tea, take-away vouchers, drugs etc) and we think that any precipitate attempt to abolish cash would simply lead to a profusion of new physical currencies, (3) the concept of a 'cashless society' assumes complete coverage and reliability of the electronic payment system, which is not the case today and unlikely to be so in the foreseeable future. Physical cash will continue to serve as a standby for when people are out of reach of electronic payments or when there is an electronic system breakdown.

Request to Pay, Payee Identification and enhanced data

We agree with the Strategy's focus on providing customers with more control over payments and more information about payments. Payee identification is particularly important in relation to reducing scams and fraud.

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[1] For example, Age UK 2011, pp 16-17 and Age UK 2016, pp 11-15.
[2] For example, http://www.bankofengland.co.uk/publications/Pages/speeches/2015/840.aspx

Customer Control

The Strategy should consider how best customers can be assisted to be in control of their accounts and spending, for example through the clarity and user-friendliness of payments records and summary statements. The reason many older customers continue to prefer paper records[3] is because paper records are often easier to find and organise, are more tangible and can be supplemented with written notes and calculations that remain in the customer's financial files for future reference. New systems must seek to replicate the familiarity, ease and durability of traditional methods without imposing additional costs on customers, such as fees to access back copies of bank statements.

Financial crime

We agree with the emphasis placed on reducing financial crime, scams and fraud. Respondents to Age UK consultations have suggested that the banking and payments industries need to do more to 'weed scammers out of the system'[4] and that there should be enhanced and better placed education and warnings about scams and fraud. This is a priority area of activity, particularly in light of the recently released crime statistics for England and Wales that show that nearly half of all crime in the year ending March 2016 involved offences of fraud or computer misuse.[5]

ID and 'passing security'

A frequent complaint of older bank and payments customers is the complexity of proving ID and 'passing security'. Many older people do not have passports and/or driving licences[6] and sometimes customer service staff are reluctant to accept alternatives even though they appear on the BBA's list of acceptable documents.[7] Security systems depend on tapping in numbers, remembering recent transactions and other 'memorable information' and using passwords, passcodes and client numbers. These security methods are an access barrier and are disliked by many older people.[8] The new payment system should prioritise innovations that allow seamless access to services combined with a high level of natural security, such as voice and face recognition and other biometric indicators. Voice recognition technology harnesses a customer skillset that declines little (or may even improve) with age[9] and so has the potential to be particularly useful for older people. This and other technology should be fully tested with a diverse range of older people

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[3] Age UK 2016, p 12.
[4] Age UK 2016, p 19.
[5] ONS 2016.
[6] According to the FCA, 9.5 million consumers in England and Wales do not have a passport and one in four residents in England do not have a driving licence. FCA 2016a, p 12.
[7] https://www.bba.org.uk/wp-content/uploads/2009/03/Proving_your_identity1.pdf
[8] Age UK 2016, p 39.
[9] Salthouse 2004, p 553.

(including those living with cognitive decline and other long-term health conditions) before adoption.

Age-friendly customer interfaces

Digital interfaces are problematic for many older people, particularly the oldest old, people with disabilities and those without digital experience gained during their working lives. Problems include: screen visibility, screen design, the behaviour of swipe screens, confusing instructions and instruction sequences, buttons on telephones, buttons on ATMs and getting cards into and out of ATMs.[10] At the same time, experience shows that there are innovations that can address these challenges, such as accessible cards and mobile phone apps that talk to the user.

The payments system should be developed from an 'inclusive design' perspective, keeping all types of end user in mind, and making sure that any decisions on underlying architecture are compatible with developing age-friendly interfaces to sit on top. Older people themselves should be involved in the design process, with potential customer interfaces tested at an early stage with users who are representative of the full range of skills and limitations of the older customer group.

Improvements to the UK's Internet and mobile networks

One of the paradoxes of the 'drive to digital' by the UK's banking and payments industries is that the UK's Internet and mobile networks are not yet ubiquitous, fast and reliable enough to enable digital to work effectively in all places at all times. Many parts of the country outside the main metropolitan centres have slow or no Internet speeds and mobile black spots.[11] There is also evidence of a difference between the technical availability of certain Internet speeds and the actual consumer experience, illustrated by one of our 2015 workshop participants in mid-Wales who said, 'Sometimes [Internet banking] stops in mid-transaction and you have to do it again.'[12]

In moving toward the new payments architecture, the UK payments industry and the PSR should put their weight behind calls for faster delivered Internet and mobile speeds and universal coverage throughout the whole of the UK. Only when all households and businesses have been connected at speeds sufficient to handle the network data demands of all users will it be possible to say that the UK has made its digital transition.

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[10] Age UK 2016, Cooper 2016.

[11] House of Commons Library 2016, Which? *Mobile phone coverage map.*

[12] Age UK 2016, p 12.

CQ2: Financial capability principles.

We agree with the principles set out in Appendix 5 of the consultation document, 'Creating design principles for the development of payment systems', in particular the focus on consumer involvement, the range of needs and abilities and consumer outcomes.

The principles could be strengthened by (1) including reference to specific groups whose needs should be taken into account (for example, the oldest old, people with disabilities, off-line non-digital consumers and people from minority ethnic groups), and (2) developing a design guide for industry professionals that captures emerging design experience and records the typical issues arising for the target groups (vision, dexterity, interface, memory, cognitive load, perceptual speed etc) and the types of solutions that work for these groups.

Regarding overseeing the implementation of the principles, this is properly the job of the Payments System Regulator, which should continue to consult with consumer groups and charities to make sure that system designs address the needs of particular user groups, and should periodically commission its customer research to audit results.

CQ3: Request to Pay (RTP), Identification of Payee (IOP) and enhanced data.

We support the development of RTP, IOP and enhanced payments data which, for the personal user, may have several advantages including avoidance of payment error, avoidance of accidental overdrafts and reduction in scams and fraud.

One issue the industry will need to consider is the alignment (or not) between account names and trading names. For example, one may buy a meal from a particular restaurant but find that the payment has been made to a company with a different name at a different address, because the latter is the holding or parent company that receives the payment. Similarly with Internet commerce: payments may be routed to overseas subsidiaries for tax or business organisation purposes, rather than to the entity from which the customer is making a purchase. Thought will need to be given as to how these commercial relationships are expressed in the payments system, in order to avoid unnecessary customer confusion and deter payments that are actually correct (false negatives) while detecting inconsistencies that reflect mistakes, fraud or scams.

CQ4: Transitional solutions.

We are not qualified to comment on the practicability of intermediate technical solutions, but have a general concern about the timescale. While it is important to get it right, to keep the project moving forward we suggest that where possible improvements should be fast-tracked. For example, in order to support the anti-scam campaign being developed by the government's Joint Fraud Taskforce, we would like to see Confirmation of Payee introduced as soon as possible.

Making the payments architecture 'future friendly'

In view of the development time, it is important that the new architecture anticipates technical developments likely to appear in the decade 2025-2035 and beyond, ensuring that payment applications can be upgraded rapidly towards the voice-commanded Internet of things which is reported to be the next technological paradigm.[13] For example:

- A person tops up their pre-pay electricity meter by means of a voice command to the meter that is automatically processed through the payments system.
- A grandparent sends a sum of money as a present to their grandchild using a voice command to their television set. Their banking app, which would no longer appear as a banking app, but simply as a screen display showing the payment in progress, would generate a message (suitably formatted) to the recipient's phone, TV or other device letting them know that the present had been sent.
- A person tells their autonomous car to drive to the local village to pick up a bottle of milk, with the payment made automatically to the shop when the bottle of milk is placed in the car, and a confirmation of the transaction sent to payee and payer.

The architecture of the system should be such that innovations such as these can be added quickly and at low cost, without requiring expensive system redesign or access charges.

Age UK's age-friendly banking project has placed before the industry a design challenge to achieve a future banking and payments system that is fully inclusive for people of all ages, and where new technology functions to enhance access, rather than creating adaptation and interface barriers.[14]

CQ5: Customer awareness and education in relation to financial crime.

We agree there should be a single national lead, if possible, of the work to raise customer awareness of financial crime. However, it is important that in assigning this task to any particular trade association, the responsibility of individual banks and payments service providers to take appropriate action is not diluted, as it is what banks and Payment System Providers (PSPs) do in live time that often affects whether or not a scam succeeds. The effectiveness of anti-scam initiatives can be improved by:

- Improving the placement of anti-scam warnings, for example by placing warnings on log-in and payment initiation pages/screens instead of in low visibility security menus.
- Showing customers what scams look like, rather than giving them abstract advice.

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[13] https://www.theguardian.com/technology/2016/jul/18/what-is-the-internet-of-things-arm-holdings-softbank
[14] Age UK 2016.

- Providing warnings via a range of channels (including analogue), bearing in mind that many older people are not on-line.
- Testing the outcome of education initiatives to see if they actually work.
- Intercepting scams in live-time, using techniques such as phone-based anti-scam messaging and short payment delays.[15] 'Frictionless' payment systems where payments are processed immediately are not always beneficial, particularly if someone has cognition, memory or mental health challenges. It should be possible to build delays into the system on request to allow customers time to have 'second thoughts'.

CQ6: ID verification, authentication and risk assessment.

We agree that more needs to be done to improve the consumer experience of ID and authentication processes.

Regarding initial ID, the BBA already has a list of acceptable documents,[16] but this is not widely advertised and the consumer experience of ID is highly variable. Too often people are told they must produce a passport or drivers' licence (even if they do not have them) rather than being taken flexibly through the list of acceptable documents.[17] This issue has been raised in workshops convened by local Age UKs.[18] ID checks should be proportional to risk and can be supplemented by bank observation of newly opened accounts to ensure there is a 'normal' pattern of account activity. Data analytics should be able to establish the parameters of the 'normal' and detect criminal activity such as scammer mule accounts.

Regarding on-going identity verification ('passing security') Age UK receives continuous feedback that current methods are clunky, difficult and disliked.[19] These feelings are not confined to older people but may be particularly acute for people over the age of 60 because passwords, passcodes, recent transactions etc play to cognitive abilities that decline gradually with age.[20] Some (eg tapping numbers into a phone) are affected by physical disability as well. We are keen to see innovation in processes for passing security. For example, voice recognition and other biometrics may provide a quick and seamless way of passing security and getting to the desired payments option. The scientific evidence is that people's voice skills improve up to age 60 and then decline only slightly, generally remaining close to the lifetime average,[21] so customer interfaces that rely on voice rather than other skills may play to the strengths of older people. Such interfaces should be tested with a range of older people of varying abilities to find out which are the most effective.

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[15] Age UK 2016, pp 17-19.
[16] https://www.bba.org.uk/wp-content/uploads/2009/03/Proving_your_identity1.pdf
[17] FCA 2016a, pp 64-65
[18] Age UK 2016, p39 and author conversation with Age UK London.
[19] Age UK 2016, p 39.
[20] Salthouse 2004.
[21] Salthouse 2004, p 553.

CQ7: Central data repository and data analytics capability to reduce financial crime.

We agree that banks and PSPs should combine data and skills to detect and reduce financial crime.

When Age UK has run workshops on age-friendly banking, participants have been surprised at the sophistication of some of the 'social engineering' scams that scammers have devised and feel vulnerable to such attacks. As well as becoming more aware of the risks themselves, participants felt that 'banks need to do more to track and stop the use of bank accounts by scammers as part of their scams.'[22] There was a strong feeling that this is a system integrity issue as much as a customer awareness issue.

The ability of scammers to manipulate customers using bank accounts and the faster payment system undermines confidence in the system as a whole and adds to general security fears around Internet banking that are reported to us.[23]

Just as aircraft safety is disproportionately important to the aviation industry,[24] we believe that it is strongly in the interests of banks and PSPs to bear down on financial crime and to pay as much attention to scams as they do to what is described generally as 'fraud'. Currently, under the rules of the FCA Banking: Conduct of Business (BCOB) sourcebook (following the Payment Services Directive) customers are not liable for unauthorised payments except in limited circumstances involving customer fraud or negligence.[25] However this does not apply where the customer is misled by a fraudster into authorising the payment. The fact that the financial responsibility for scams is usually passed to the customer (and sometimes to particularly vulnerable customers) has the unintended effect of damaging public confidence in the banking and payments systems as a whole. For example, Age UK 2016 reported workshop participants saying things such as 'Internet purchases are scary – I wouldn't do it' and 'I don't trust Internet banking'.[26] Cooper 2016 reported that only 7% of her sample of people aged 80+ were active Internet bankers, while four fifths of non-users were worried about fraud and two thirds about making mistakes.[27]

In these circumstances, pressing people who are inexperienced Internet users to take up online banking may place them at risk of significant or catastrophic loss due to fraudulent misrepresentation by criminals. Consideration should be given to changing the rules on liability in the Banking: Conduct of Business (BCOB) sourcebook[28] so that payments made

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[22] Age UK 2016, p 19.
[23] Age UK 2016, p 12.
[24] Primo & Cobb 2003, Ch 1. Some types of customer detriment have an impact much greater than their statistical incidence.
[25] BCOBs paragraph 5.1.12.
[26] Age UK 2016, p 12.
[27] Cooper 2016, pp 14 and 23.
[28] FCA 2016.

as a result of fraud against the customer are treated as 'unauthorised payments'. This would incentivise banks to introduce effective anti-scam protection and, working with enforcement authorities, pursue scammers until they are arrested and prosecuted.

It is also important that banks and PSPs report suspected financial crimes even if it is not their own customers who are the victims, for example when a mule account receives a payment from the account of a customer of another bank who has been scammed.

We agree with the Payment Strategy Forum's risk analysis, particularly paragraph 6.17, page 20 of the draft strategy document. To maintain public confidence it is essential that data collected for crime detection purposes should only be used for these purposes. The data should not under any circumstances be used for marketing or marketing-related purposes.

CQ8: Financial crime intelligence sharing.

We agree that work should continue along the lines indicated, with due attention to the risks as identified.

CQ9: A central Know Your Customer (KYC) utility.

We agree that work should continue along the lines indicated, with due attention to the risks as identified.

CQ10: Enhanced sanctions data.

No comment

CQ11: Access to sort codes for new payment service providers.

We agree that controlling access to sort codes should not be used as an anti-competitive device.

CQ12: Access to Bank of England settlement accounts for non-bank payment service providers.

We agree that access to BoE settlement accounts should not be used as an anti-competitive device.

CQ13: Aggregator access models.

No comment.

CQ14: Common Payment System Operator participation models and rules.

No comment.

CQ15: Merging interbank payment service operators: Bacs, Cheque and Credit Clearing Company and Faster Payments Service.

We agree that consolidation of interbank payments service operators should be explored. At the same time, the pricing system should be more transparent and the PSR should make sure that monopoly profits (economic rent) do not arise from consolidated operations. This aspect of PSR's work should receive greater emphasis.

PSR should also ensure that interbank payments are modernised as much as possible. For example, with the Direct Debit system at present, it is not possible in certain circumstances for an originator to correct an error in direct debit instructions even where the error is discovered in advance of the debit, meaning that customers have to 'clean up the mess' after the event with their bank and/or with the originator. PSR should ensure that customers are offered as much flexibility as possible with direct debits, for example being able to choose the frequency of a direct debit rather than having the frequency imposed by the originator.

CQ16: Adoption of ISO20022 messaging standard.

No comment.

CQ17: Indirect access liability models

No comment.

CQ18: A single implementation entity for all work on application programme interfaces (APIs)

No comment on the technicalities, but the designers of the payments system need to make sure that the payments architecture will facilitate the type of age-friendly consumer solutions we anticipate emerging from age-friendly design in the coming years.

The architecture needs to be 'future-capable' so as to reduce the development and implementation time for future innovations.

We have a general concern in relation to APIs (applicable also to the CMA open banking remedies) that by opening up the use of customer data, bank customers may be exposed to a range of risks including risks to security, privacy and control. Given what we have said above (response to CQ7) about older customers' reluctance to use Internet banking, there is a risk that adverse publicity about any mishaps with the implementation of APIs may further increase barriers to adoption of new payments and banking technologies. Individual transaction histories should be deemed to be the property of the customer and strict safeguards on the use of customer data should be applied. In particular, the use of the data should be restricted to the purposes explicitly authorised (eg selecting a current

account provider or facilitating a payment) not for customer profiling, marketing or price discrimination. Data should not be on-sold.

We note that the Information Commissioner's Office has stated the following (inter alia) about the potential risks of broader access to consumer transactional data:

> 'We are, however, cautious about the opening up of access to financial transaction data without there being sufficient safeguards in place to adequately protect consumers from the risk of fraud, unauthorised access or theft, or to ensure that the data is used fairly and in a way that is not going to erode consumer trust and confidence.'[29]

CQ19: Simplified Delivery Mechanism.

No comment.

CQ20: Simplified Payments Platform.

No comment on the technicalities, but the designers of the payments system need to make sure that the payments architecture will facilitate the type of age-friendly consumer solutions we anticipate emerging from age-friendly design in the coming years.

The architecture needs to be 'future-capable' so as to reduce the development and implementation time for future innovations.

CQ21: Timetable for payments innovation plan.

While it is important to plan and sequence correctly, the end user benefits seem to be some way off (3+ years). It is important that the new system be future-friendly so that development times for new consumer services can come down in future.

CQ22: Overall approach to implementation.

The PSR should oversee the implementation of the redesigned payments system, making periodic reports to parliament and government on (a) how the reforms raise the productivity of the payments system, (b) how the reforms reduce costs and remove any monopoly prices or profits arising from the ownership and market structure of the payments industry, and (c) contribute to enhanced consumer welfare in payments, including age-friendly services appropriate to the UK's ageing society.

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[29] ICO 2015. Paragraph 12.

CQ23: Cost benefit analysis.

We agree that cost benefit analysis should be applied to the reforms. Where there are high up-front costs to redesigned payments systems, it is important that these achieve long-term gains, particularly improvements in payment system productivity and 'future-friendliness' that allows new consumer services to be developed and introduced quickly in the future. In the current ultra-low interest rate environment, gains occurring in the future should be relatively lightly discounted, which should favour a positive cost benefit assessment of payment system innovations.

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