Payment Systems Regulator

Digital Payments Initiative: Barriers to using digital payments

Summary of a roundtable discussion held by the Payment Systems Regulator on 29 November 2022

January 2023

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Introduction

1. We held a roundtable discussion to explore the barriers that stop people who rely on cash using digital payments. The participants included a range of experts from consumer groups and payments industry representatives. The discussion focused on:

- the reasons people continue to rely on cash
- payment cards that meet cash-reliant consumers' needs, such as prepaid cards
- more flexible options for paying bills, such as request-for-payment services
- providing access for cash-reliant consumers

2. The roundtable was part of our Digital Payments Initiative, building on the report of the PSR Panel and our response.

3. The roundtable was held on an unattributed basis, meaning participants can use the information from the meeting but must not attribute it to any of the participants. The views recorded in this summary are a write-up of the points made in the roundtable conversation and do not necessarily reflect those of the PSR or of all the participants. There is a list of participants in the annex.

Why people rely on cash

4. People on low incomes who prefer to use cash have several reasons:

- control (of their spending)
- cost
- trust (including in banks and how they use their customers' data)

5. Cash is tangible and physically finite. Many people find this helps them budget and control their spending. Many low-income consumers have limited time and capacity to learn new approaches.

6. One roundtable participant represented an organisation that helps people on low incomes manage their money and get online. They presented an illustrative case study of a service user (see Box 1).

Box 1: Case study

A Bengali speaking 51-year-old widow came seeking financial guidance. She:

- had a smartphone, but only used it for Facebook and WhatsApp messages – she had no broader access to the internet
- had a basic bank account that she withdrew £40 from in cash each week; she used this for expenses throughout the week, enabling her to strictly control her spending
- had a pre-payment meter, which she preferred to Direct Debit billing because it gave her control

She said she could not imagine being able to budget as carefully as she did without cash. With cash, she knew what she started with and could physically see how much she had left for the week.

She did not use a banking app because she:

- was afraid of being scammed
- assumed there would be a cost involved
- was concerned about using up her phone data allowance

She also did not feel confident reading a bank statement.

She said shops that only take card payments made her feel unwelcome, unimportant and not part of the world.

Prepaid cards

7. Prepaid cards can be loaded with funds from a central source (for example, by a government department, local authority or charity) or funded by an individual topping them up. Prepaid card issuers include banks, electronic money institutions and credit unions. There is a wide range of prepaid cards targeted at different customer groups. However, they are not necessarily specifically designed for people on low incomes.

8. Prepaid cards can be a 'bridge' for people who rely on cash: they can help them understand the benefits of digital payments, build digital and financial skills, and build trust, without the need for a bank account. For example, people who started to use cards during the pandemic have tended to continue using them.

How well do prepaid cards meet the needs of the cash-reliant?

9. Prepaid cards are described as 'near cash', for a number of reasons:

- People can set them up without a bank account.
- They can be loaded with only the funds the card holder has budgeted for.
- They cannot go into negative balance and place the customer in debt.
- Some are unbranded with no unique customer information (such as name).
- They can typically be used just like debit and credit cards – including at retailers that only accept cards, for contactless and online purchases, and for ATM withdrawals.

10. However, it is not clear how well prepaid cards meet the needs of people who value the tangibility of a cash budget to help them manage their spending. For example, prepaid cards do not have the immediate visual 'transparency' of physical cash. Consumers may receive low balance alerts, and be able to see their balance online or in an app. But immediate notifications could help make prepaid cards more like the experience of using cash. These could include information on what people have spent and their remaining balance, sent to the channel that suits them best (for example, as WhatsApp or text messages).

11. It is important to understand the point of view of people with low incomes who rely on cash. For example, research has shown that many people want to know their available balance instantly (although not everyone is the same).

12. Prepaid cards may offer additional services to users, such as being able to block cards if they lose them and recover the funds. Some cards also help people budget using virtual 'jam jars.' For some prepaid cards, users need to have a smartphone to access all the services – including balance queries and virtual jam jars.

13. However, compared to storing cash in physical jam jars to control their budget, it can be easier for people to release the controls with virtual jam jars. They can make spontaneous decisions to use money from a jar, which they cannot do with cash if they do not actually have the cash with them. So physically storing cash may help people control their budget better.

Other potential barriers

14. People using commercially provided prepaid cards typically pay charges that people using bank account debit cards do not. These may include monthly fees, fees to top up the card and fees to withdraw cash.

15. Only some prepaid cards provide a sort code and account number that lets users make direct debit payments and use open banking services.

16. There are barriers that can prevent cash-reliant people being aware of prepaid cards, understanding their features and applying for them (see the section below on providing access to cash-reliant consumers).

Public sector funded prepaid cards

17. Government departments and local authorities use prepaid cards to disburse funds such as emergency payments to vulnerable people, payments for asylum seekers and Healthy Start payments. Prepaid cards have benefits for the funders, including speed and cost. Prepaid cards may also carry less stigma for the user than vouchers, because it is not immediately obvious that the prepaid card is different from any other card.

18. Funders can restrict what people can use prepaid cards for. For example, they can prohibit payments for gambling, limit use to certain types of stores (as with the Healthy Start card), or prohibit cash withdrawals. The card may also send the funder anonymised data on how people use the funds.

19. Government-funded prepaid cards could have a role helping people engage with card use and with digital payments more generally. However, typically each funder uses their own specific card and may not allow consumers to top up their card. Restrictions on where each funded card can be used may embarrass users when their card is turned down, and reduce trust.

Bill payments

20. Research suggests many people have incomes that significantly fluctuate month by month. Regular monthly direct debit or continuous payment authority (card) payments may not suit many people on low and irregular incomes. This means these people might not make full use of digital bill payment services.

21. Request-for-payment services enable the biller to send a message to the consumer, giving them flexible options and more control over paying their bills. For example, someone may be able to pay weekly rather than monthly, or at the time when they receive income.

22. If giving people more flexibility and control helps them keep up with their bill payments, there are benefits to billers in terms of reduced arrears and collection costs.

23. Request to Pay is one standard for such services. It specifies a set of payment options that the biller must give the consumer, including pay in full, pay in part, or delay payment. There are also request-for-payment services that let billers offer different options.

24. Barriers to the take-up of request-for-payment services may relate more to billers than to consumers. Some billers have found that Request to Pay’s payment options do not meet their needs. Some billers’ existing systems may be difficult to adapt to more flexible payment options.

25. Open banking now allows Variable Recurring Payment (VRP) services, which could also let consumers take greater control over their recurring bill payments. At the moment there is only partial coverage – most banks have not enabled VRP payments for all their customers. So VRP services are not yet very attractive to billers. Barriers to banks engaging may include the need to resolve issues around liability, as well as their income from card interchange fees.

26. There could be a case for ‘sandbox’ testing regulatory options in this area.

Providing access for cash-reliant consumers

27. Companion cards are one example of a digital payment option targeted at the needs of an excluded group – medically vulnerable people who were shielding during the pandemic. Users can top up their companion cards and give them to volunteers to buy food and other essentials. They have potential wider application – for example, for people helping people with dementia. But there is limited awareness of them.

28. Bank staff have been found to have limited awareness of vulnerable characteristics (for example, dementia), and to be lacking in empathy. Some people are reluctant to tell banks about their needs related to, for example, dementia and other mental health issues, for fear of being stigmatised and discriminated against.

29. Some people do not understand the features of relevant payment options – for example, the protections offered by cards, or restrictions on use of funded prepaid cards. Information is typically online, so the people who need it cannot necessarily get it. Some prepaid card providers have a call centre, while others have webchat only. People often need online access to apply for prepaid cards.

30. Researchers have found that people find some types of language that banks and issuers use to reach out condescending. For example, the term 'vulnerable' can be stigmatising. Social media is a key source of information for many people, and people tend to listen to others who 'look like' them and appear to have succeeded. Therefore, the payments industry needs to look at how it reaches out to and communicates with people struggling and reliant on cash, to make sure the messaging is effective.

31. Some banks have experimented with a range of touchpoints for promoting services and communicating in a trusted way. But banks may not have the incentives to reach out to, and serve, low-income cash-reliant consumers. These consumers are costly to serve and do not provide much revenue for the banks, because they have low deposits and banks cannot loan to them. While FCA action, such as its guidance on vulnerability, has an effect, the government could consider what incentives it could provide to banks.

32. There might be something to be learned from the way that free access to cash is required and managed. Access to cash is managed centrally in the overall consumer interest.

Annex
List of roundtable participants

Name	Role and organisation
Kate Fitzgerald	Head of Policy, PSR (roundtable chair)
Andrew Self	Senior Manager, PSR
Faith Reynolds	Member of the PSR board
Carl Packman	Head of Corporate Engagement, Fair By Design, Barrow Cadbury Trust
Martin Coppack	Director, Fair By Design
Jeff Mitchell	Founder and Director, Clean Slate
Tony Herbert	Senior Policy Advisor, Which?
John Kamoto	Policy and Research Officer, Age UK
Jamie Evans	Senior Research Associate, Personal Finance Research Centre, University of Bristol
Eimear Duffy	Senior Policy Officer – Financial Services, Consumer Council for Northern Ireland
Dominic Lindley	Independent Financial Services Consultant
Johnny Timpson	Member of the Financial Services Consumer Panel
Conor D'Arcy	Head of Research and Policy, Money and Mental Health Policy Institute
Jonathan Turner	Technology Strategy and Innovations Lead, Fair4All Finance
Nabeel Irshad	VP Business Development, Mastercard
David McPhee	Director, Regulatory Engagement and Policy, Pay.UK
Anupama Mundollikkalam	Research Manager, Research and Insight, Pay.UK
Nick Quin	Head of Financial inclusion, LINK
Mike Banyard	Director, Ordo
Jo Toolan	Head of Client Management, PayPoint

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