

Payments Strategy Forum: 'Being responsive to user needs – A draft strategy for consultation'

Response from the Money Advice Service
September 2016

1. About us

- 1.1. The Money Advice Service (MAS) is a UK-wide, independent service set up by Government to improve people's financial well-being. Our free and impartial money advice is available online, and by phone or webchat.
- 1.2. Our core statutory objectives are set out in the Financial Services Act 2010. In 2012 we were also given responsibilities under statute to improve the availability, quality and consistency of debt advice across the UK. We are paid for by a statutory levy on the financial services industry, raised through the Financial Conduct Authority.
- 1.3. As the statutory body for financial capability, MAS has led the work with organisations across all sectors – financial, 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.
- 1.4. On 16 March 2016, the Government announced its intention to replace the Money Advice Service with a new money guidance and financial capability organisation, which is not expected to take over before April 2018.
- 1.5. Our remit is limited to members of the public and as such this response focuses on the needs of individual consumers rather than end users more generally. We are happy for our response to be published and referred to in the final strategy document.

2. Executive summary

- 2.1. We agree with the end-user needs identified and strongly support the principles proposed. They are necessary to ensure that future evolution in the payment systems take account of consumers' needs.
- 2.2. Levels of financial capability in the UK are low and there is a role for consumer education to improve financial capability.¹ However, it is unlikely that education alone will address the detriments identified. Payment systems themselves need to be responsive to consumers' needs.
- 2.3. To maximise the impact of the principles we suggest they are re-positioned as existing to ensure the development of an inclusive payment system that can better serve all consumers.
- 2.4. The Money Advice Service has existing tools and structures that will assist the industry to implement the principles and we would be happy to engage with and support individual providers. The requirements in the draft principles to document and publish analysis of expected and actual impacts on end users should allow stakeholders to hold companies to account. If firms fail to implement the principles we would support the regulator taking action that would require their adoption.
- 2.5. We consider the new payment facilities proposed in the draft strategy have the potential to provide a more inclusive payment system that enables financially capable behaviour. In addition to the work proposed in the Draft Strategy, we encourage the Forum to engage with industry projects looking at third-party access to banking (eg, for carers) to identify if there are any actions that should be progressed through the final Strategy.
- 2.6. We agree that the industry needs to collaborate with others to fight crime and engender trust in payments. It is important that the approach taken to customer awareness and education reflects that outlined in the draft principles. It should go beyond simply seeking to raise awareness to target all of the factors that affect

¹ Financial Capability Strategy for the UK (2015), p.9.

somebody's financial capability. It should also encourage the evaluation of impact so that investment can be directed towards approaches shown to be most effective.

3. Response

End-user needs and financial capability principles

Question 1: Do you agree we have properly captured and articulated the needs of End Users? If not, what needs are missing?

- 3.1. We agree with the end-user needs identified. There is a need to ensure payment systems enable financially capable consumers. There are three key components of financial capability that need to be affected to achieve this:
- **Opportunity to participate:** As identified in the Draft Strategy, payments must respond to end-user needs, be easy to use and accessible. They also need to offer transparency, control and assurance.
 - **Knowledge and ability:** There will remain a need for education and awareness raising. Consumers new to using electronic payments, including young consumers and consumers who have previously been excluded, or using emerging payments for the first time would benefit from access to guidance that helps them understand how to make a payment and gives them the confidence needed to use the system for the first time. There is also a need for education and awareness around fraud.
 - **Motivation:** We need to build trust and confidence in payment systems so that consumers will use them. Developing payment systems that are easy to use, transparent and that meet consumers' needs should positively impact motivation but we expect there will remain a need for activity to build trust and encourage use for the first time.

Question 2a: Do you agree with the financial capability principles?

- 3.2. We strongly support the principles. They are necessary to ensure that future evolution in the payment systems take account of consumers' needs.
- 3.3. We welcome that the principles highlight the importance of understanding users' financial capability and the role of payments in supporting financially capable behaviour. It is now commonly understood that financial capability requires not only knowledge and ability but also the motivation and opportunity to participate. All of these factors need to be considered if the payments strategy is to address the detriments faced by end users.
- 3.4. Levels of financial capability in the UK are low and there is a role for consumer education to improve financial capability.² Consumers new to using electronic payments, including young consumers and consumers who have previously been excluded, or who are using emerging payments for the first time, would benefit from access to guidance that helps them understand how to make a payment and gives them the confidence needed to use the system for the first time.
- 3.5. However, it is unlikely that education alone will address the detriments identified. Payment systems themselves need to be responsive to consumers' needs. They should provide the opportunity for consumers to manage their money effectively. They should be easy to understand and to use, minimising the need for guidance.

² Financial Capability Strategy for the UK (2015), p.9.

- 3.6. To design responsive payment systems, providers need to understand the diversity of consumers' situations and their financial capability. We expect that designing responsive payment systems will result in increased use of payment systems and a more financially capable UK. As well as understanding consumers' financial capability it is important to understand how emerging payments impact consumers' money management. This should be considered as payments are being developed and evaluated when they are trialled with consumers.
- 3.7. We agree that requiring providers to consider the diversity in consumers' situations and experience when designing and delivering products should ensure the industry considers the needs of consumers in vulnerable situations. However, we consider the scope and potential impact of the principles to be much broader than this. By reflecting the needs of a diverse range of consumers and designing for the least capable, payments will better serve and improve the financial capability of all consumers, not just those in vulnerable situations. We suggest that the principles are repositioned as existing to ensure the development of an inclusive payment system that can better serve all consumers.
- 3.8. The Money Advice Service would be happy to engage with individual providers to support them in implementing the principles.

Question 2b: How should these principles be implemented?

- 3.9. The Money Advice Service and the Financial Capability Strategy for the UK have existing tools and structures that will assist the industry to implement the principles.

- **Support to understand user needs.** As the statutory body for financial capability we have a deep understanding of the financial capability landscape and evidence base. MAS co-ordinates the Financial Capability Strategy which connects and shares insight and evidence between organisations from across sectors to address low levels of financial capability in the UK.

We are in the process of developing the Financial Capability Strategy 'Evidence Hub' to collate a wider range of evidence. The industry can use the evidence we collate through the Financial Capability Strategy to understand user needs and identify gaps in the evidence base that need to be filled.

- **Opportunities to engage the financial capability sector.** The community and structures that exist through the Financial Capability Strategy can help the industry reach and build relationships with organisations that represent the diversity of users' needs.
- **Evaluation support:** The focus of the Financial Capability Strategy is on understanding what works to improve financial capability and we have developed a suite of tools to assist organisations to evaluate the impact of what they do. These tools are available on the UK Strategy website – www.fincap.org.uk and the Money Advice Service can provide support to organisations using them.³ They include:
 - **IMPACT principles** which set out a high-level approach to evidence and evaluation that the Financial Capability Strategy wants to embed in all organisations at every level. The principles have been developed to encourage organisations across sectors to give a public commitment to building the evidence base and ensuring that robust evidence is at the heart of everything they do. They ask organisations to adopt the approaches promoted in the Evaluation Toolkit (including alignment with the Financial Capability Outcomes Frameworks) and to share the results of their evaluation on the Financial Capability Evidence Hub.
 - **An Evaluation Toolkit which includes Financial Capability Outcomes Frameworks.** This toolkit assists organisations in evaluating the impact of what they do on financial capability outcomes. Using the toolkit and outcomes frameworks allows for proportionate evaluation as well as consistency in the

³ See http://www.fincap.org.uk/understanding_what_works

way the sector measures its impact.

Question 2c: How should their implementation be overseen and how should the industry be held to account?

- 3.10. We agree it is appropriate to give the industry the opportunity to adopt these principles voluntarily. The Money Advice Service and the Financial Capability Strategy could work with the body overseeing implementation of the overall strategy and with the PSR to oversee initial implementation of the principles.
- 3.11. We consider the requirements in the draft principles to document and publish analysis of expected and actual impacts on end users important to the implementation of the principles as this will allow stakeholders, including consumer groups and the regulator, to hold firms to account.
- 3.12. If firms fail to implement the principles we would support the regulator taking action that would require their adoption. This could be, for example, through a requirement similar to the Payment Systems Regulator's 'General direction 2'⁴ that requires providers to disclose how they have considered end-user needs, including details of how they have consulted relevant stakeholders, and their assessment of impact on people's ability to manage their money.

Greater control, assurance and enhanced data capability

Question 3a: What benefits would you expect to accrue from these facilities (not necessarily just financial)?

- 3.13. We consider the facilities proposed in the Draft Strategy have the potential to provide a more inclusive payment system that enables financially capable behaviour.
- 3.14. We know that current electronic payment facilities do not meet the needs of all consumers. For example 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 universally 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.
- 3.15. We agree that the proposals to give consumers greater data assurance should reduce the likelihood of misdirected payments. They should also improve users' confidence in using electronic payments. We hope that this functionality can also be used to help protect consumers from fraud.

Question 3e: Is there anything else that the Forum should address that has not been considered?

- 3.16. Payment systems need to innovate to ensure they are as accessible as possible. They also need to develop to allow easy, flexible, yet secure access for carers.
- 3.17. Consumers' ability to manage their money can be hampered by declining health or disability due to limited ease and accessibility of products and services, including payments. As health declines consumers tend to find ways to cope and maintain independence but this can involve taking serious risks, for example writing down their pin to aid memory or giving it to a friend or family member. Many are not aware that such behaviour impacts their ability to get a refund if they are the victim of fraud or crime.⁵

⁴ psr.org.uk/how-psr-regulates/regulatory-framework-and-approach/general-directions

⁵ Evidence from Age UK shows that almost one-fifth of consumers aged 65+ use others to withdraw cash for them and disclosure of pins is common. Age UK (2011), 'The Way We Pay – Payment systems and financial inclusion'.

3.18. There are a number of industry projects currently looking at third-party access, including the FCA's Ageing Population project and a BBA working party. We would encourage the Forum to engage with these projects to identify if there are actions that should be progressed through the Strategy.

Improving trust in payments

Question 5: Do you agree with our proposal regarding customer awareness and education? If not, please provide evidence to support your response.

3.19. We agree that the industry needs to collaborate with others to fight crime and engender trust in payments. It is important that the approach taken to customer awareness and education reflects that outlined in the draft principles. It should:

- **Go beyond simply seeking to raise awareness to target all of the factors that affect somebody's financial capability.** Addressing confidence and motivation will be key to raising capability to identify, avoid and report scams. For some users we need to address over-confidence – for example, a perception that 'it won't happen to me'; for others, we need to arm them with the information they need to be confident in their ability to use payments without falling victim to a scam. We also need to remove the stigma many feel around scams so that crimes are reported and awareness is raised.
- **Encourage the evaluation of impact so that investment can be directed at approaches shown to be most effective.** There is a plethora of organisations and campaigns seeking to educate consumers about scams. However, analysis conducted for the Financial Capability Strategy shows that due to a lack of investment in robust evaluation we have very little understanding of what approaches achieve the biggest positive impact on people's behaviour – and, crucially, to understand not just 'what works' but also why, where and for whom. By investing in evaluation of existing initiatives and innovative new pilots, the sector can build an evidence base that will allow organisations that fund financial capability initiatives, including fraud awareness, to maximise their impact by investing in approaches that are proven to work. As discussed above, the Money Advice Service can provide support with designing an approach to evaluate impact.

Question 5b: Do you agree the delivery of these activities should be through an industry trade body? If so, which one would be most appropriate to take the lead role?

3.20. We agree there is a need for co-ordination and sharing of effectiveness. It is important that any lead organisation not only co-ordinates industry projects but also joins up activity and shares learning with the wider financial capability sector.

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