

Toynbee Hall Response to the Payments Strategy Forum – Being Responsive to User Needs Draft Strategy Consultation



Introduction

Toynbee Hall seek to represent the voice of those at risk of financial exclusion within the development of this Payments Strategy. We share here our aspirations for the Strategy's success in increasing the positive impact payments can make in tackling poverty and increasing financial resilience for individuals and communities.

About Toynbee Hall

We work on the frontline in the struggle against poverty. Based in the East End of London we give some of the UK's most deprived communities a voice, providing access to free advice and support and working together to tackle social injustice. We have been national leaders in the field of financial inclusion for over 15 years, working directly with excluded individuals and communities, as well as with intermediary organisations, ranging from support agencies to government to financial services providers and regulators. We analyse the systemic and individual factors causing exclusion and work with policy-makers and practitioners to develop and implement effective, sustainable and scalable solutions which support better financial health for individuals and their communities.

Our support for the Payments Strategy Vision

Our frontline financial health and inclusion work, as well as our advocacy, research, policy and good practice design experience and expertise, give us a deep understanding of how payments enable or block the efficient and positive flow of money through communities and the lives of their residents, workforces and visitors. Where money is the recognised store of value, payments can either protect or undermine that value as money moves between two parties in an exchange. We see all too often how unresponsive, outdated and inefficient payment services have a "leaky pipe" effect on that value for individual and corporate users alike, undermining financial health for those affected. We therefore fully support the Payments Strategy Forum's vision of a state-of-the-art payments system which is versatile and responsive to user needs, secure and resilient, and efficient. The potential of this vision to contribute to reducing the effect of poverty and financial hardship cannot be underestimated.

Responses to Specific Questions

We are supportive of the entire Strategy, and have had – and taken up - significant opportunity to feed in our expertise and views throughout the development of the Strategy. We therefore confine our detailed responses here to those questions which directly affect our client group of those living in poverty and/or at risk of financial hardship or exclusion.

Questions 1-4 (Section 5): Capturing and articulating the needs of End Users; Financial Capability Principles; Benefits, Risks and Alternative Solutions

We agree that the payments needs of those at risk of financial exclusion are generally well captured and articulated. In our frontline work with individuals¹ and our research² into barriers to and experiences of financial inclusion and health³, we have consistently identified that existing payment mechanisms provide insufficient transparency, flexibility and control for a range of consumers, particularly those on low, fluctuating or unpredictable incomes, as well as those experiencing income or expenditure shocks. We believe that the combination of solutions proposed in the Strategy have the potential to design out the severely negative impact experienced by users of existing payments. In particular:

Request to Pay: We judge this functionality will enable service providers to offer more flexibility to customers (individual and corporate) who are managing complex income flows, thus:

- increasing confidence amongst this client group to use electronic payments, helping them to move away from cash or cheques⁴
- reducing the financial services costs (fees and charges for missed payments or higher processing costs) to this client group arising when rigid recurring payments are unable to cope with fluctuating income and expenditure flows
- potentially reducing over time the unit cost of utilities to this client group due to moving away from cash/cheque to cheaper electronic payments
- generating savings for providers of utilities and other essential or statutory services, as well as businesses, through reducing unexpected and unexplained missed payments and facilitating effective dialogue between payer and payee.

Assurance Data: We believe this will primarily help to increase confidence among those users who distrust electronic payments. Combined with improved financial crime prevention mechanisms and customer education programmes, we would expect to see the number of consumers refusing to use electronic payments due to fear of fraud and misdirected payments fall over time, thus reducing supplier costs and reducing the impact of the Poverty Premium.

Enhanced Data: Whilst this appears primarily of benefit to corporate (including government) users, we see definite value in service providers being able to process payments in context, thus reducing unidentified payments and thus the amount of time and resource consumers, SMEs and corporates all need to spend on chasing and reconciling payments. Enhanced data will also be invaluable in identifying customers in vulnerable

¹ The Money Mentors Programme, Toynbee Hall, 2015, <http://www.toynbeehall.org.uk/data/files/Reports/MoneyMentorsSROIreport-AmmendedJune2015.pdf>

² The Poverty Premium in Tower Hamlets, 2014, http://www.toynbeehall.org.uk/data/files/Reports/The_Poverty_Premium_Report.pdf

³ The electronic payment needs of people on low incomes, Toynbee Hall and Policis, 2011

⁴ Moving Money 2025, Vovalink 2015 <http://financialhealthexchange.org.uk/resource/moving-money-2015/>

circumstances and thus improving the ability of suppliers to provide early support and improve the prevention of financial difficulty and fraud.

Financial Capability Principles: We fully support the financial capability principles, with the following observations:

- The Financial Capability principles currently sit at the back of the Strategy document as the final annex, and could thus be misread as an irrelevant set of high-minded notions. However we believe that these principles underpin both the spirit and success of the entire Strategy. Too often financial inclusion and financial crime programmes focus on redesigning the excluded or defrauded customer, rather than seeking to design out the potential for financial detriment. By developing and committing to implement these financial capability principles, the UK's payments industry would be world-leading in using human-led design to tackle exclusion and hardship.
- This matters for two reasons: firstly, payments are increasingly a utility with a direct impact on the financial health and resilience of all users, and payments providers thus must take this responsibility seriously; and secondly, all the detriments addressed by the PSF have been previously identified but left unanswered. If we wish to avoid having to reconvene the PSF to redo its work in the future, placing human-centred design at the heart of all future payments innovation is essential.
- We note that for those firms already using human-led design within the payments arena, there is an advantage to retaining a competitive approach to this aspect of payments delivery. However, whilst we firmly believe that making payments inclusive and intuitive should be the standard to which all players in the industry willingly subscribe, we are not yet fully convinced that all participants will in fact understand their full potential for positive impact or put them into practice in a meaningful way. We therefore judge that the implementation of the principles will need to be overseen, ideally by a regulator, in order to ensure that they are being applied to the development of new payment systems. We would be willing to support the further development of an oversight framework and approach.

Delivery Sequencing:

We note the tension between delivering the longer-term vision of a SPP with the need to deliver quick wins for end users, including for consumers. Of the EUN solutions, we would prioritise the delivery of Request to Pay functionality to address the requirement for flexible payments. We see this as requiring a specific Working Group, comprising of representatives from payments, national and local government, utilities, financial capability experts and consumer voices, to design and deliver an interim RtP product working on existing rails, accompanied by an effective consumer and business education programme. We judge that this single recommendation, well designed and implemented, could make the single biggest immediate difference to the role of payments in increasing financial inclusion and reducing the impact of the Poverty Premium.

Other issues for consumers at risk of financial exclusion not addressed within the Strategy include:

- Access to cash⁵ – whilst electronic payments fail to provide the levels of transparency and control those on tight margins require, cash will continue to be the preference for many consumers. So we must continue to ensure reliable and free access to cash withdrawals, particularly in areas of multiple deprivation. Whilst the LINK Financial Inclusion programme continues to increase access to free-to-use ATMs, it was appropriate that the PSF did not attempt to address this issue. However we would encourage (and support) the industry, through LINK's leadership, to continue to improve access to free-to-use ATMs.
- Poorly designed or implemented products which confuse consumers and lead to detriment e.g. Continuous Payment Authorities. We therefore fully support the financial capability principles. Challenge will be for the industry to decide whether inclusive design sits solely within the competitive space, or whether there is a role for oversight to ensure all financial products and services adhere to these principles. We would support the latter, not least to ensure that the UK Payments industry is world class and at the forefront of inclusion. Oversight could sit within the regulator or with the new implementation body. User testing and input from specialist agencies (financial health and expert support agencies) should be built into the oversight process. Products and services which fail to meet the standards should be subject to scrutiny, with the ultimate sanction of the product having to be withdrawn from the market if it cannot be improved to meet the principles.

Question 5 (Section 6): Customer awareness and education: We fully support investment in national education campaigns to increase awareness of the types of risks to consumers' financial health raised here. We suggest that, regardless of who delivers these activities, they should be designed and delivered in close consultation with the Money Advice Service (and its successor) and the financial health sector (such as Toynbee Hall and other experts in the field of financial health) to ensure close alignment with the UK Financial Capability Strategy, and to leverage the impact required from limited resources. Such programmes should also be based on the Financial Capability principles to ensure a joined up approach.

Question 6 (Section 6): Guidelines for identity verification, authentication and risk assessment: We fully support the ambition to improve approaches to identity verification and authentication, as identity is often the highest hurdle for the excluded when trying to gain access to essential financial services. The risk of standardisation is that people with unusual circumstances – and thus non-standard identity papers – still find themselves excluded due to not being “mainstream”. We therefore urge the PSF to ensure that this work recognises the need to include non-standard case studies within the design and user testing scenarios to ensure these proposals increase, rather than unintentionally reducing, inclusion.

Question 8 (Section 6): Financial crime intelligence and a Central KYC Utility: We are cautiously supportive of these proposals, as we believe that better identification of genuinely fraudulent and/or criminal activity should lead to a reduction in “false positives” and thus greater inclusion for

⁵ How far is too far? Is there low Income Consumer Detriment from Gaps in Free-to-use ATM Provision?, 2015, Toynbee Hall, Collaborate Research, Sliced Bread Consulting

customers with lower documentation and credit histories. However, we know from past experience that centralised and shared data can also reinforce “false positives” where human error occurs or goes unnoticed/unchallenged (e.g. a homeless client who was refused a basic bank account due to the hostel address having a fraud marker, thus losing both a job offer and the opportunity to afford a long-term hostel place; two fraud markers were actually required for a shared address, but the bank staff were incorrectly advised by their fraud team. Following our intervention, the bank subsequently opened the account and paid compensation.) We therefore urge the PSF to ensure these risks are appropriately explored and prevented.