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PSR

Consumer and SME research

britainthinks.com

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Objectives, methodology and key findings

Background

- The Payment Systems Regulator (PSR) launched in 2015 and has at its heart the mission of ensuring that the payments industry is focused on the interests and needs of its end users (including consumers, businesses and government)
- As such, the PSR commissioned BritainThinks to explore what general public and small and medium sized businesses consumers understand about the payments industry, their perceptions of payment systems and their needs as end-users



Business objectives



- Inform PSR's work and planning, including future work programmes, policy priorities, and ongoing development of the PSR's brand, key messaging, and vision
- Demonstrate PSR's transparency and commitment to understanding consumers
- Demonstrate that the PSR is acting as a thought leader in the regulator industry

Research objectives



Exploratory objectives

- Explore awareness, understanding and engagement with payments systems across different audiences
- Understand rationale and drivers behind consumers and SMEs using different payment methods
- Explore features of payments systems that are of greatest importance to consumers



Deep-dive objectives

- Test the PSR's desired outcomes with all audiences
- Explore specific issues outlined in the PSR's work programmes and policy priorities
- Explore commonalities and differences across different audiences

A note on terminology

Consumers

- General public consumers as well as SMEs

Mainstream consumers

- General public consumers recruited to be “not the first, but not the last to try new technology products”

The public

- General public consumers

Traditionalists

- General public consumers recruited to be “generally the last to try new technology products.”

SMEs

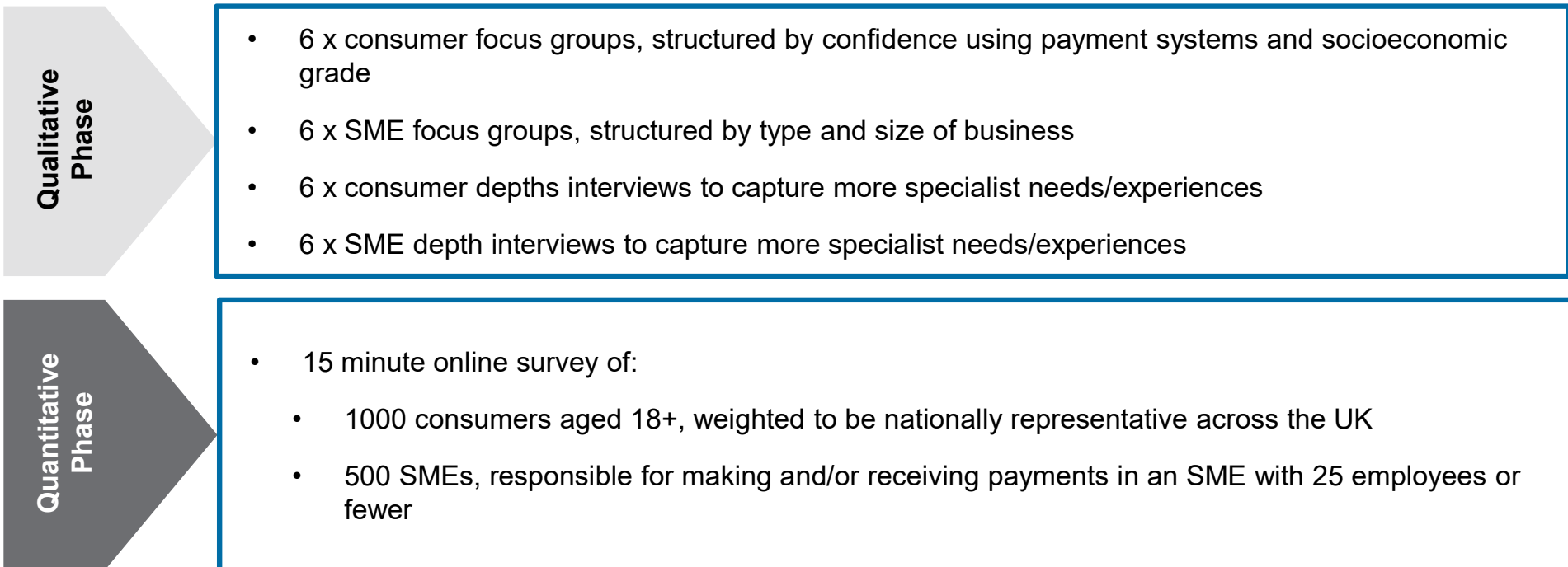
- Businesses with 25 employees or less

Early Adopters







- General public consumers recruited to be “among the first to try a new technology product”

Methodology

Following an extensive literature review phase, our research consisted of a qualitative phase with focus groups and depth interviews, followed by a 15 minute online survey of consumers as well as SMEs



Qualitative focus groups: sample breakdown

General Public			SMEs		
	Early adopters	<ul style="list-style-type: none">• 8 x AB consumers in London• 8 x C1C2 consumers in Sutton Coldfield		Professional sector	<ul style="list-style-type: none">• 6 x SME representatives, small-sized, in Nottingham• 6 x SME representatives, micro-sized, in Glasgow
	Mainstream consumers	<ul style="list-style-type: none">• 8 x C1C2 consumers in Cardiff• 8 x AB consumers in Cardiff		Retail Sector	<ul style="list-style-type: none">• 6 x SME representatives, micro-sized, in London• 6 x SME representatives, small-sized, in Glasgow
	Traditionalists	<ul style="list-style-type: none">• 8 x AB consumers in Nottingham• 8 x C1C2 consumers in Colne		Secondary sector	<ul style="list-style-type: none">• 6 x SME representatives, small-sized in Sutton Coldfield• 6 x SME representatives, micro-sized, in Colne

Qualitative depths: sample breakdown

General Public

- 1 x low income member of the general public
 - 1 x low income member of the general public
 - 1 x low income member of the general public who does not have a bank account
-
- 2 x members of the general public who have bought a house in last 6 months
-
- 1 x general public making regular international payments

SMEs

- 2 x SME representative with 0 employees
-
- 2 x SME representatives experienced payment failures
-
- 1 x SME representative making regular international payments

Quantitative survey: sample breakdown



General Public

- **Online fieldwork conducted between 25th-29th May 2017**
- **Survey conducted amongst 1026 British adults aged 18 years and older, and the data was weighted to be nationally representative**
- **Margin of error was +/- 3.1**



SMEs

- **Online fieldwork conducted between 31st May-6th June 2017**
- **Survey conducted amongst 507 SME representatives responsible for making and/or receiving payments in an SME with 25 employees or fewer**
- **Margin of error was +/- 4.38**

Executive summary – general public

- 1 Awareness of payments systems tends to be very low, and perceptions of payments systems are rooted in the way users access them (e.g. 'online bank transfers', rather than BACS).
- 2 With the exception of cheques, CHAPS and mobile payments, a majority of the general public use each type of payment at least monthly.
- 3 There are generally very high levels of satisfaction in payments systems. Members of the public find it difficult to identify any unmet needs.
- 4 Most consumers feel that they have enough choice on payments, but are also rarely able to pinpoint when they have made a conscious choice.
- 5 The public feel security is paramount. However, they overwhelmingly feel payments *are* safe. As such, decisions are likely driven by familiarity and convenience. Cost rarely features (other than fee-charging ATMs)
- 6 Concerns are few and far between when consumers initially think about payments. But when we specifically explored concerns, fraud, payments failure, ease of spending and charges emerged as concerns.

Executive summary – SMEs

1

Awareness of payments systems is higher among SMEs than the general public, and there tends to be greater understanding of the differences between systems in terms of factors such as speed and cost.

2

SMEs are less likely than the public to use cash, but more likely to report using cheques and CHAPs.

3

SMEs report being happy with payments systems, and have few top-of-mind concerns.

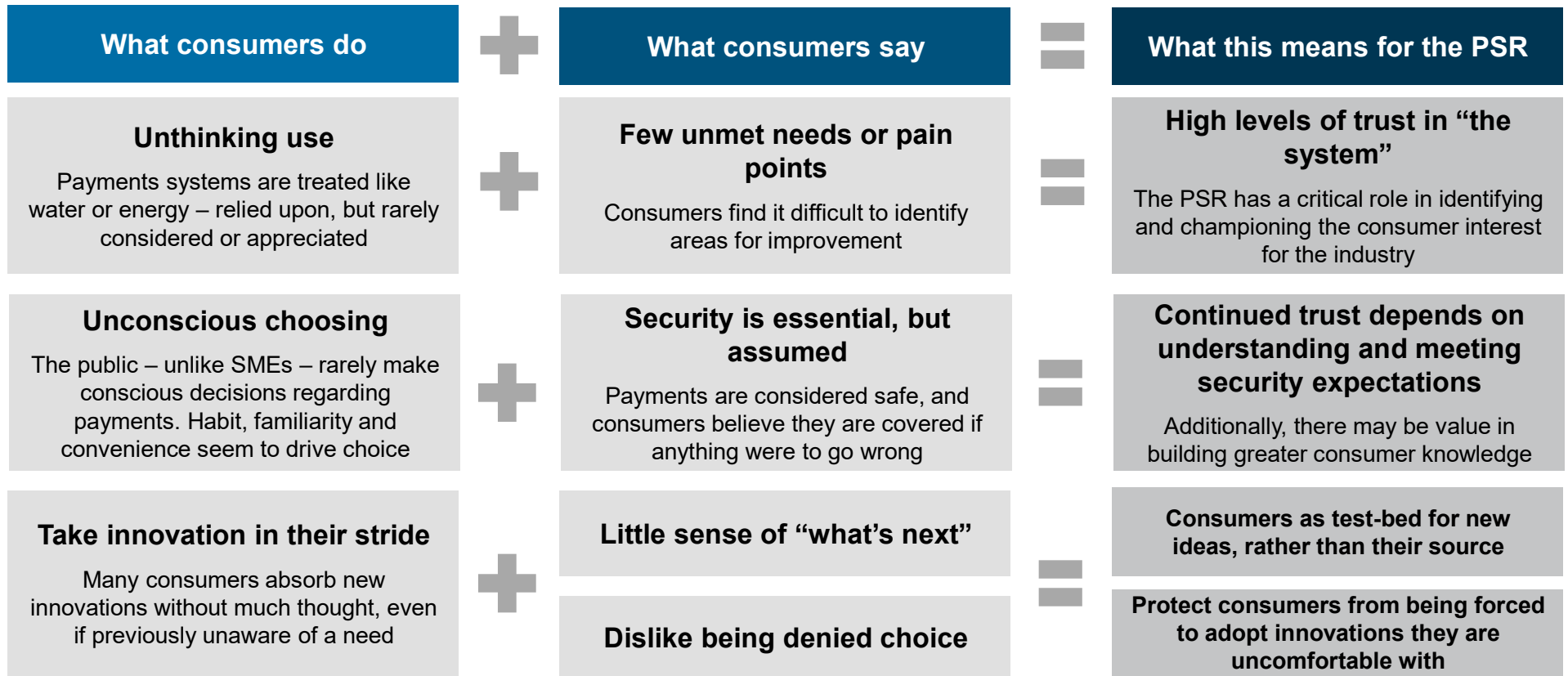
4

SMEs tend to make conscious decisions between different payments types – often rooted in very functional considerations such as reliability, speed and cost.

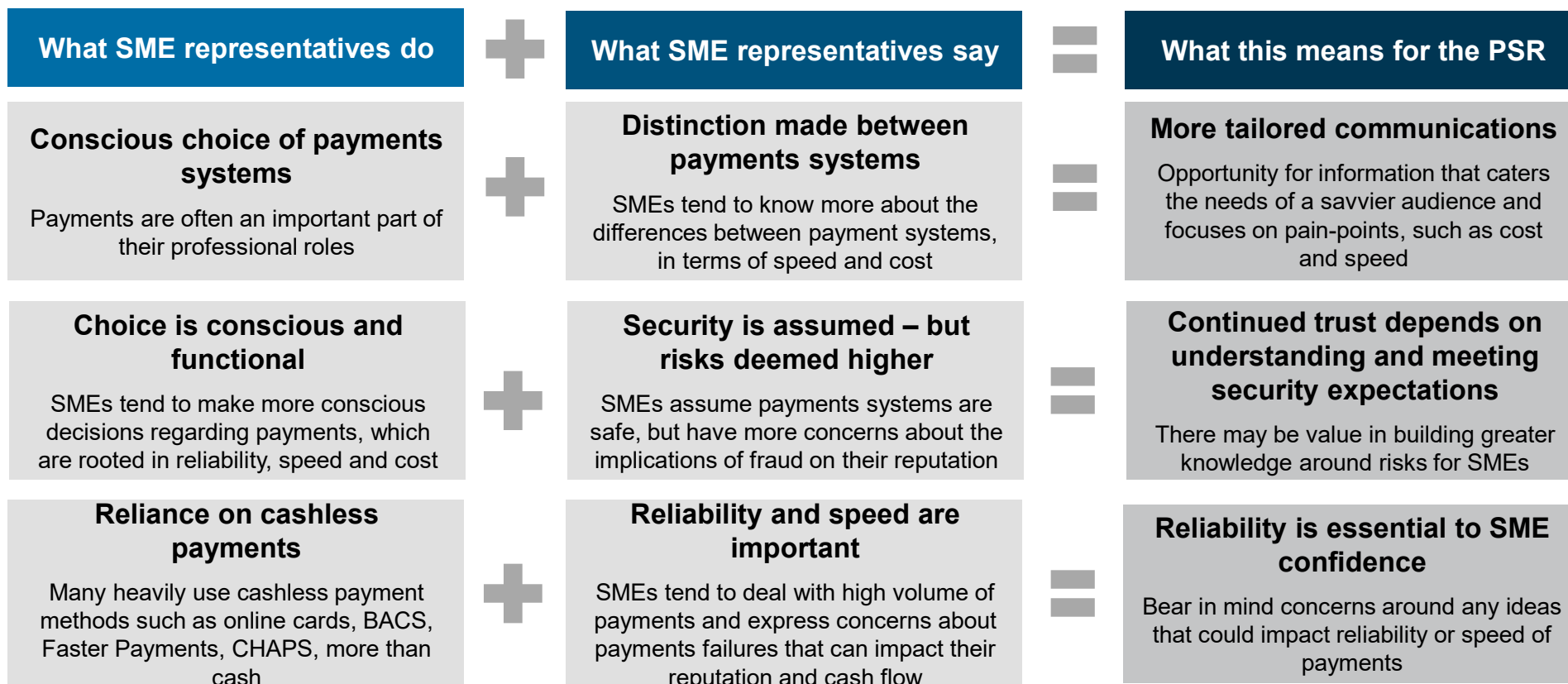
5

Alongside fraud, payments failure is a key concern for SMEs – who worry about the knock-on reputational and cash flow implications.

Implications for PSR – general public



Implications for PSR - SMEs



Potential changes to payments systems

We tested three potential changes to payments systems in this research – the strategic implications for the PSR are outlined below:



Name-checking

1. If this change is being implemented, it will be essential to bear in mind concerns about the potential for spelling errors, etc. and ensure that changes to the system do not threaten the simplicity and speed of the current process.
2. In communications about the change, consumers' concerns will need to be addressed.



Request to Pay

1. The PSR should bear in mind that not all consumers want this service – building in a degree of optionality, particularly in relation to the type of transaction included (i.e. value) will be important.
2. Communications should bear in mind that not all consumers will see this as a new innovation - many feel that their banks already provide this service.



Smart ATMs

1. Smart ATMs need to be designed particularly bearing in mind the needs of those who are not regular online bankers, as these are likely to be the people using them most frequently.
2. The location of Smart ATMs is very important – ensuring that these are situated in places where people feel comfortable will be crucial to them being used widely.

2

Awareness of payments systems

Awareness of payments systems – section overview

- 1** Awareness of payments systems tends to be very low
- 2** Perceptions of payments systems are rooted in people's experiences and familiarity with them
- 3** It can be difficult for the public to distinguish between different payments systems – particularly when they have indirect or infrequent experiences with them
- 4** Awareness levels tend to be higher amongst SME audiences, who have more experience with different payments systems, and are more able to distinguish between them

Awareness of payments systems tends to be extremely low

- Payments systems are rarely front-of-mind for consumers
- When they are asked to think about payments, many find this an extremely complex topic
- In most cases, people do not feel that they engage with payments systems directly – they have indirect experiences via their banks
- In the first instance, payments tend to be viewed as part of the services offered by banks
- Payments systems are therefore instinctively linked to the banking system and rarely acknowledged as distinct entities

"It's part of the bank."
C1C2 Traditionalist, Colne

"I didn't realise how often I used contactless, it seems to be most of the time for me."
AB Mainstream Consumer, Cardiff

"That one I've never heard of, and that one I've also never heard of."
Secondary, Micro, Colne

The public view payments systems through the particular means via which they access them

- **Understanding of payments systems is rooted in the ways via which the public comes into contact with them**
 - For example, the public tend to talk about “online bank transfers” rather than being aware of or distinguishing between Faster Payments and BACS
 - Similarly, the public views chip and pin payments as distinct from contactless card payments
- **In addition, knowledge of individual payments systems amongst the public is generally patchy**
- **As a result, some find it difficult to distinguish between some types of payments systems and to articulate their differences**

“I only really use chip and pin for things like shopping.”
International Payment Consumer
Depth, Nottingham

“I was surprised about the information presented on BACS because I thought BACS was instant transfer.”
AB Mainstream Consumer, Cardiff

Ability to differentiate between payments systems is driven by familiarity and direct experience




- **Easier to pinpoint differences between payment methods that are more front-of-mind**
 - Such as differentiating between credit and debit cards, contactless and chip and pin

- **Harder for the public to distinguish between payments systems that they come across infrequently or indirectly**
 - E.g. BACS and Faster Payments seen as 'online bank transfers'
 - CHAPS rarely recognised – even in cases where consumers have used it
 - Few recognise the Cheque and Credit Clearing Company, even when regularly using cheques

"BACS and Faster Payments are just online transfers I guess. Maybe BACS is more for individuals and Faster Payments for businesses?"
AB Early Adopter, London

"The only one I don't recognise is the CHAPS."
C1C2 Traditionalist, Colne

Early adopters tend to be savvier, and are more familiar with innovative payment systems and terminology

 Traditionalists	 Mainstream consumers	 Early adopters
<ul style="list-style-type: none">• Lower awareness of different payments systems in general and confusion around their features and differences <p><i>“I avoid it like the plague, I’ve probably used it once or twice and all my cards have contactless, but I just don’t like the idea of not signing in or not putting your pin.”</i> AB Traditionalist, Nottingham</p>	<ul style="list-style-type: none">• Higher awareness of mainstream consumer-facing payment methods – such as contactless & Chip and Pin• Lower awareness of other terms and confusion around different online payment systems <p><i>“[When looking at numerous payments systems logos] I’ve got a lot of trust in these logos and I feel quite comfortable dealing with such logos, so that’s my view on it.”</i> AB Mainstream Consumer, Cardiff</p>	<ul style="list-style-type: none">• Greater awareness and usage of innovative payment methods – such as ApplePay and contactless• More familiar with terms like BACS and Faster Payments <p><i>“You don’t really need a credit card anymore, with Apple Pay and Ping for example.”</i> AB Early Adopter, London</p>



SME representatives tend to have higher awareness levels



Spend much more time making payments than members of the public

As part of their role, come into contact with a number of different payments systems and are often required to have some awareness of their features (e.g. how long it takes for the payment to clear)

Therefore tend to be able to distinguish between payments systems and have a clearer account of their differences

Larger SMEs tend to have greater experience with a range of payments systems and therefore higher awareness levels

SMEs with zero employees

- Tend to have lower awareness levels and to behave more like consumers – they sometimes operate from their personal account, rather than a business account

"I don't need a professional account. I use my personal bank account and my credit card to manage finances and buy supplies for my business."
SME with 0 employees, Glasgow

Micro (1-10 employees)

- Tend to have lower awareness levels of the different payments systems
- They often stick with the payments systems they are most comfortable and familiar with

"The ones we use we find easy to use and the ones we don't use we don't use them probably because we're perfectly happy with what we've got."
Secondary, Micro, Colne

Small (11-25 employees)

- SMEs in small/medium-sized businesses often use different types of payments systems
- SMEs that have a larger number of employees tend to have better process and systems in place – and as such, better awareness

"It's not really modern [using cheques] and the type of industry that we're in we need to be modern and I think that would put people off if we used that kind of method."
Retail, Small, Glasgow

SME representatives in the secondary and retail sector are less likely to be familiar with a range of payment systems



Professional SMEs

- SMEs in this sector are often required to manage finances or carry out high value payments on behalf of their clients
- As a result they are more knowledgeable and familiar with a range of payments systems

"We use faster payments for wages, cheques for cleaners, debit cards for meals out or flowers for presents, and depending on the suppliers it's BACS or cheques."

Professional, Small, Nottingham



Retail SMEs

- Retail SMEs' knowledge of payments systems is linked to the needs of their businesses
- This can result in limited awareness of and experience with payments systems that are not consumer-facing or not required for their business

"I didn't actually realise CHAPS were for such high payments."

Retail, Micro, London



Secondary SMEs

- Similarly to retail sector SMEs, secondary SMEs tend to be more familiar with payments systems that are suitable for their business needs (i.e. on-the-go transactions), and have less experience with payments systems that are not required for payments related to their business

"I don't use [BACS] anymore but when I did you had to send things through at a certain time and if you're an hour early or late they used to ring you."

Secondary, Micro, Colne

3

Usage of payments systems

Usage of payments systems – section overview

1

SMEs are less likely than the public to say they use cash, but more likely to use cheques and CHAPs

2

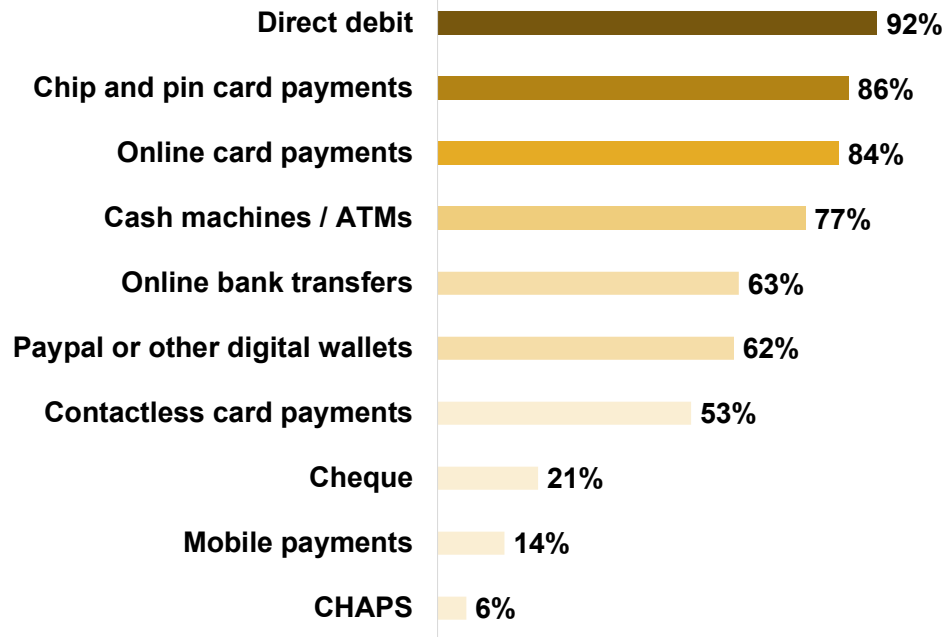
With use of cash on the decline, many members of the public feel that card payments are more important to them than cash as a means of payment – although they still withdraw cash relatively regularly

3

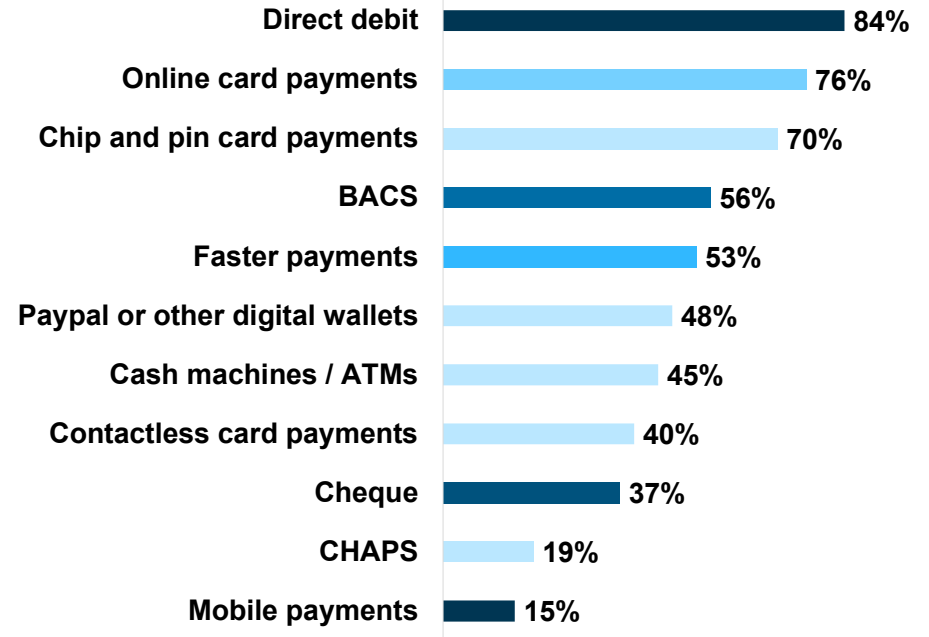
Cash is less important than card for most SMEs

SMEs are less likely than the public to say they use cash, but more likely to use cheques and CHAPs

Reported usage among general public
 - Showing % using each at least monthly



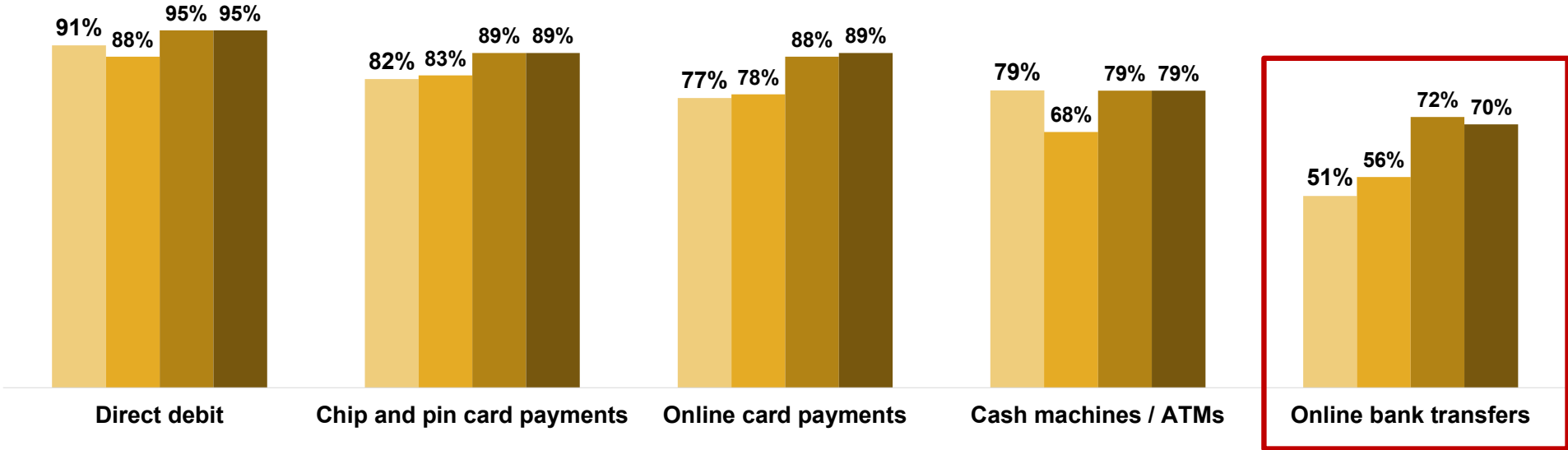
Reported usage among SMEs
 - Showing % using each at least monthly



Reported use of online bank transfers is significantly higher among higher social grades

Reported usage among general public
- Showing % using each at least monthly

DE C2 C1 AB

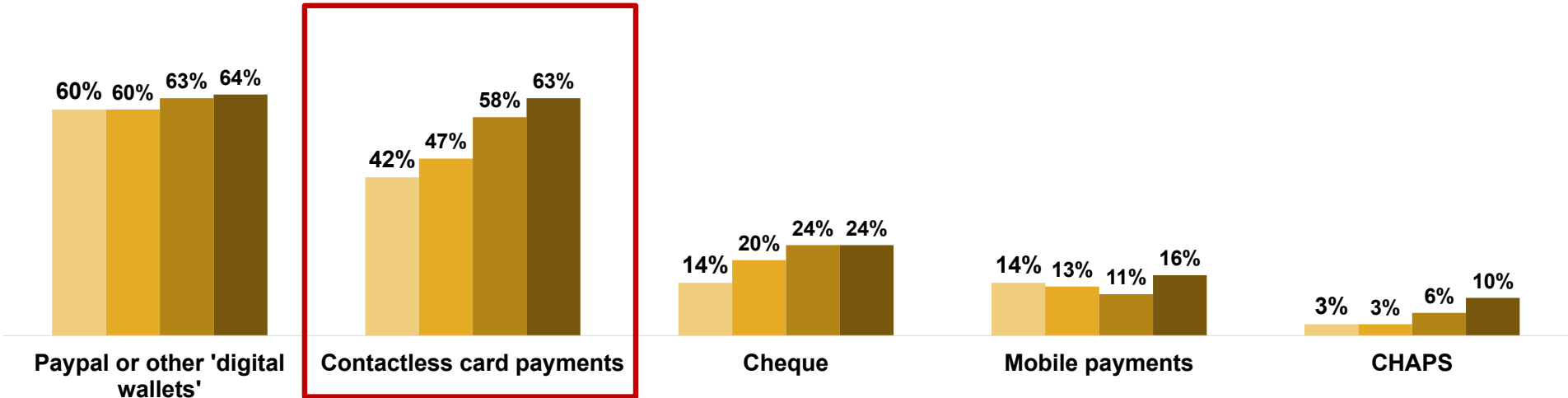


BritainThinks
Q4. Roughly how often, if at all, do you tend to make payments using each of the following payments types?
Base: All respondents, General public: 1026

Similarly, contactless card use is reported more frequently among higher social grades

Reported usage among general public
- Showing % using each at least monthly

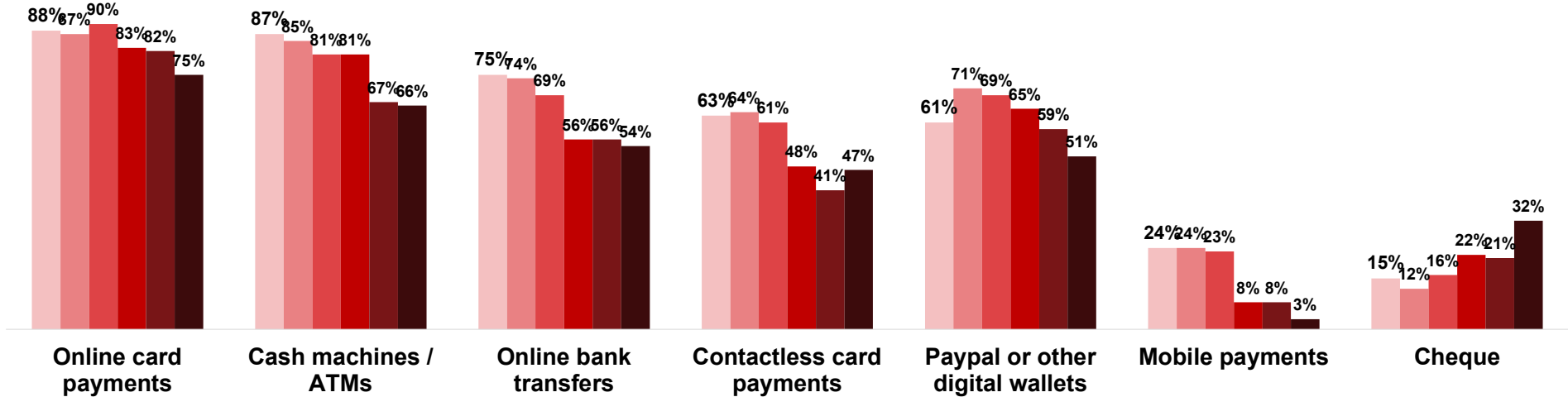
■ DE ■ C2 ■ C1 ■ AB



Age is also a key driver of differences in behaviour

- Use of online card payments, cash machines, online bank transfers, contactless card payments and mobile payments is higher among younger age groups
- Paypal use is highest among the middle aged – particularly popular among those aged 25-54.
- Perhaps unsurprisingly, cheque use is higher among older age groups.

**Reported usage among general public
- Showing % using each at least monthly**
 ■ 18-24 ■ 25-34 ■ 35-44 ■ 45-54 ■ 55-64 ■ 65+



BritainThinks
 Q4. Roughly how often, if at all, do you tend to make payments using each of the following payments types?
 Base: All respondents. General public: 1026

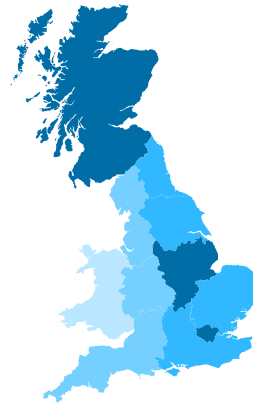
Regionally, there tends to be higher use of some new payments technologies in the South East, London and Scotland

Note: small sample sizes in some of these regions mean that trends should be treated as indicative rather than definitive

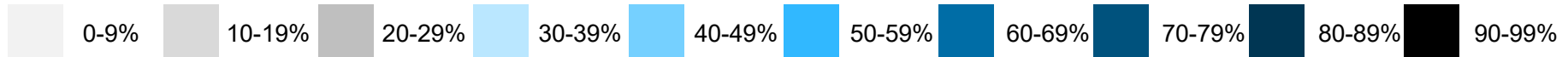
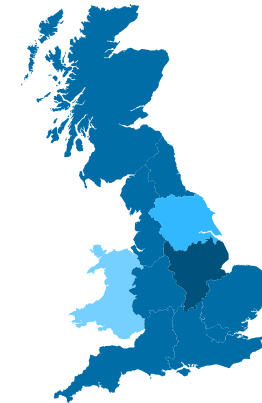
Reported use of mobile payments
Monthly or more frequently



Reported use of contactless cards
Monthly or more frequently

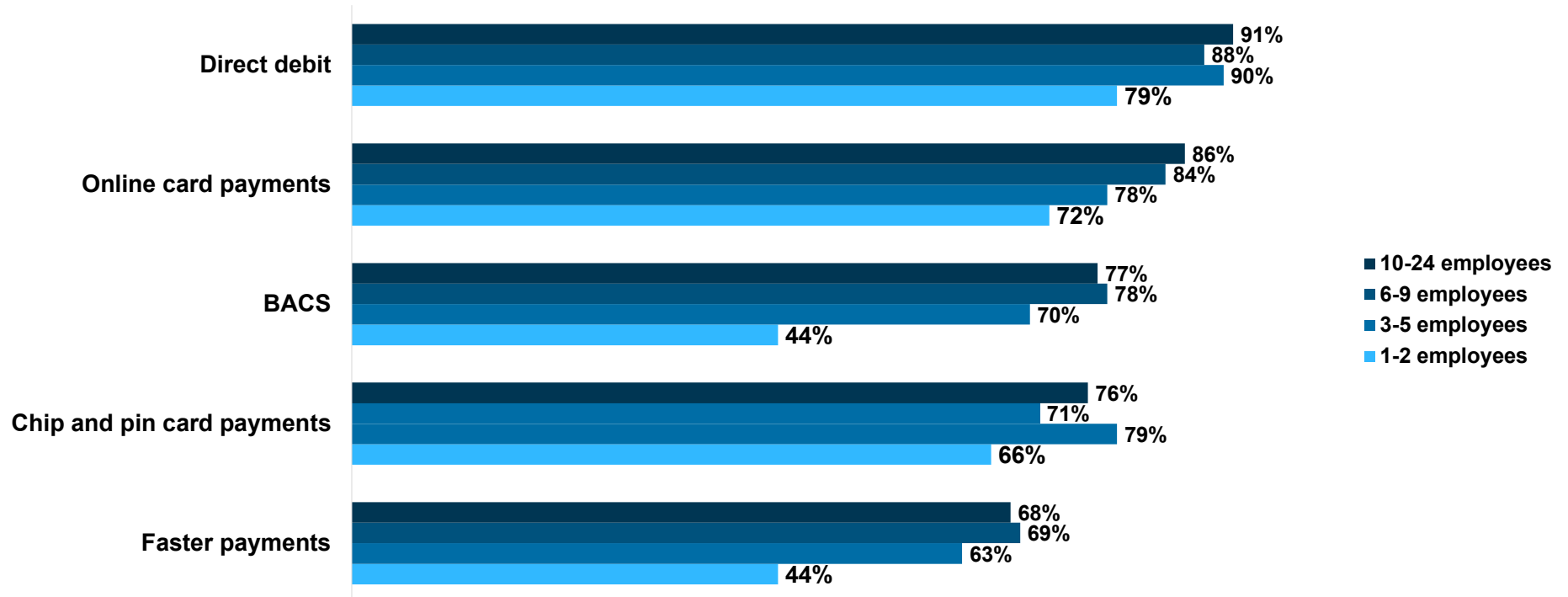


Reported use of online bank transfers
Monthly or more frequently



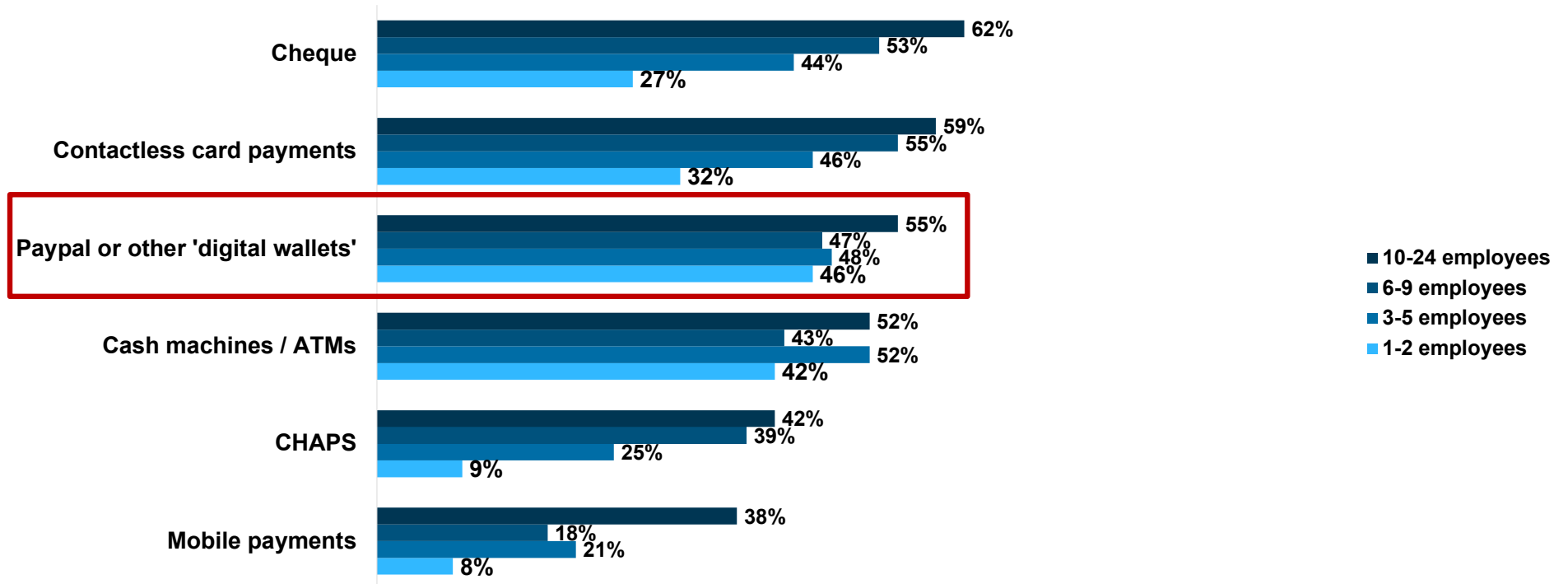
Micro-businesses report being far less likely to use Faster Payments and BACS

Reported usage among SMEs
- Showing % using each at least monthly



Micro-businesses are less likely to use cheques, contactless, CHAPS and mobile payments frequently. PayPal use doesn't vary much

Reported usage among SMEs
- Showing % using each at least monthly



Many feel that card payments are more important to them than cash as means of payment

“Debit or credit cards are more important to me than cash as a means of making payments”

54% vs **22%**

“Cash is more important to me than debit or credit cards as a means of making payments”

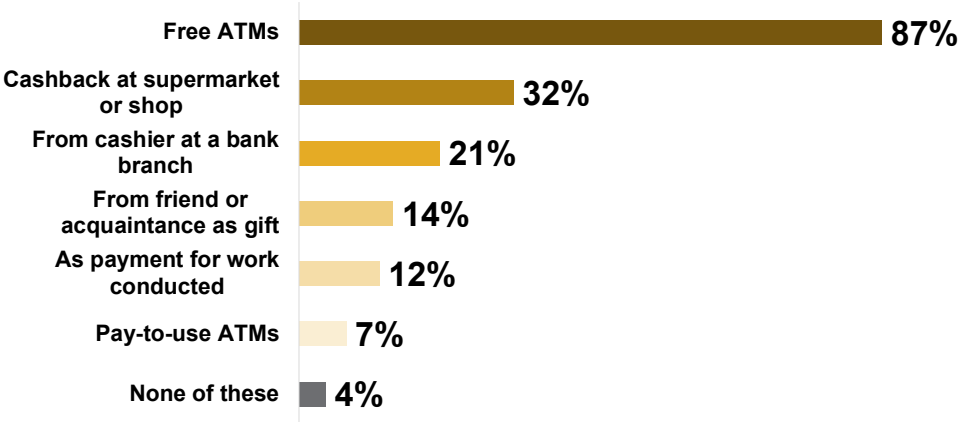
- Card payment methods are perceived as an important innovation that has had a positive impact in consumers' lives
 - “Speed” and “convenience” are the main features that are intuitively associated with card payment use
 - Even traditionalist consumers tend to use debit or credit cards for certain face to face purchases

“Debit cards have made a big difference: it's made things a lot easier, you don't need to plan to have cash on you, don't need to mess about. It saves time.”
International Payment Consumer,
Nottingham

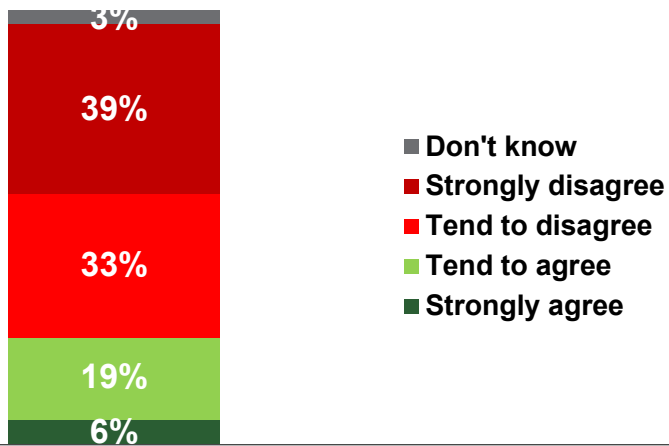
Nonetheless, a majority of general public have used ATMs to get cash out in the last three months

- The public still use cash regularly – nearly nine in ten (87%) have used a free ATM in the last three months, with half (46%) saying they use a free ATM at least weekly
- They also have strong views on access to ATMs, with two in five strongly disagreeing with the statement “It wouldn’t matter to me at all if there were no ATMs in my neighbourhood”.

Use of cash – reported usage in last 3 months - General public



“It wouldn’t matter to me at all if there were no ATMs in my neighbourhood”

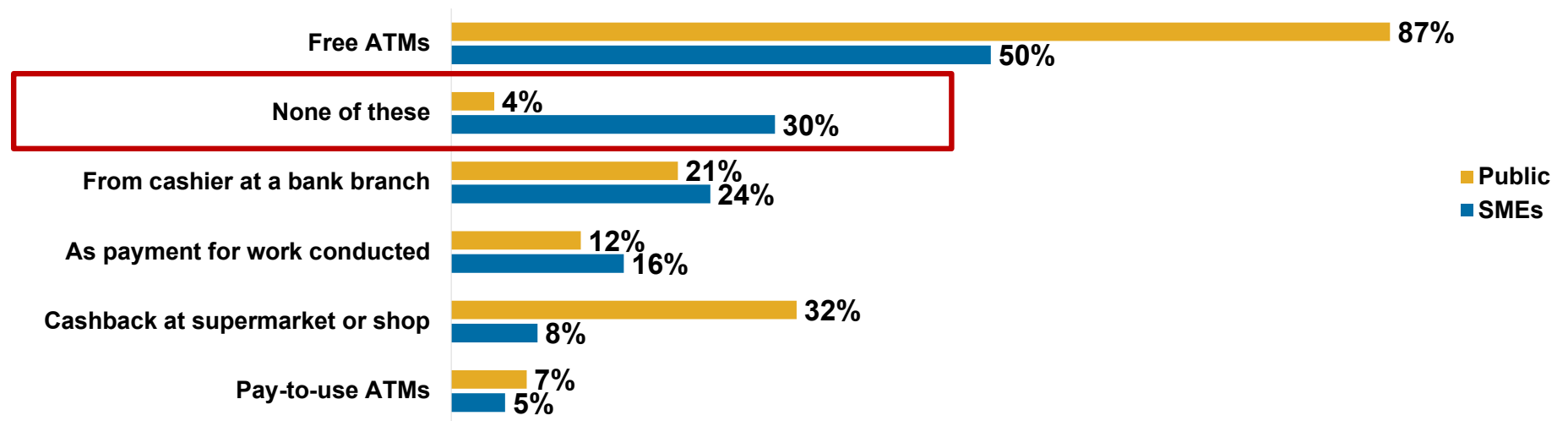


- Don't know
- Strongly disagree
- Tend to disagree
- Tend to agree
- Strongly agree

SMEs use cash significantly less than the general public

- SMEs are far more likely than the general public to report not having used cash at all in the last 3 months – three in ten (30%) say this, compared to just one in twenty-five (4%) among the general public.
- Indeed, a majority of SMEs (64%) say that debit and credit card payments are more important for their professional role than cash.

Use of cash – reported usage in last 3 months



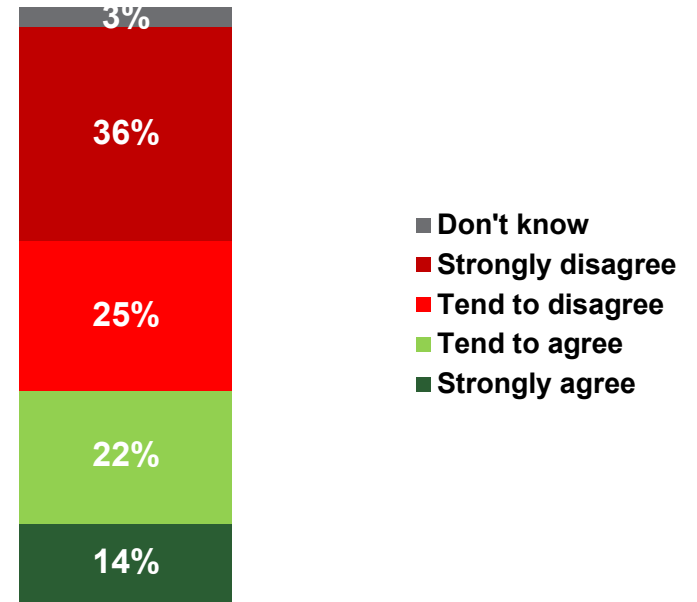
Cash is less important than card for most SMEs

- Only a third of SMEs (36%) agree that cash is very important to the way that their company operates – with only one in seven (14%) strongly agreeing with this.
- Indeed, around two thirds of SMEs (64%) agree that debit and credit card payments are more important to them than cash
- However, cash is more important to those in the secondary and retail sectors – around half (46% and 45% respectively) say that cash is very important to the way their company operates, compared to fewer than three in ten in the professional sector (28%).

64%

of SMEs agree that debit and credit card payments are more important for their professional role than cash

“Cash is very important to the way my company operates”



4

Satisfaction and confidence with payments systems

Satisfaction and confidence with payments systems – section overview

1

Overall, people are broadly satisfied with how payments systems work and the amount of choice available

2

Confidence with different payments systems is consistently high across the general public and SME audiences - and confidence levels tend to be related to usage

3

Unless issues arise, there is low interest and engagement with how payments systems work, and as such, most people are not aware of paying for using them

There is broad satisfaction with how payments systems work and the amount of choice available

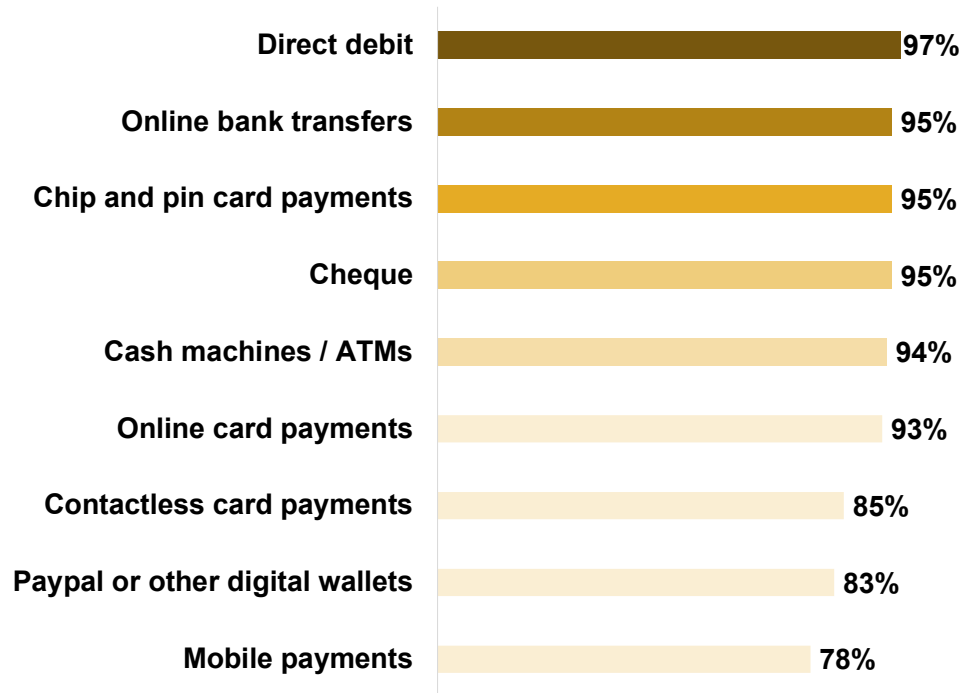
93% of consumers and SMEs think that payments systems in the UK work well at the moment

- **71% of general public have not encountered problems** with payment systems in the last 2 years, either personally or through someone they know
- **One in nine (11%) have personally experienced problems** with payment systems
- **A further one in five (19%) have heard of other people experiencing problems** with payment systems.

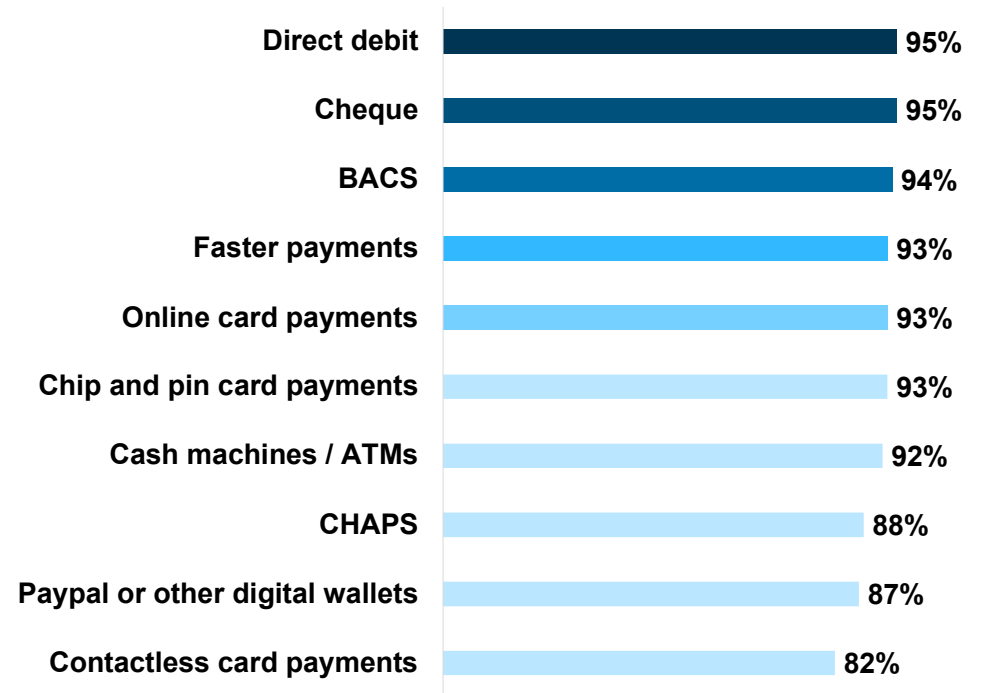
- **62% of SMEs have not encountered problems with payment systems** in their professional lives in the last 2 years, either personally or through someone they know
- **One fifth (18%) have personally experienced problems** with payment systems in their professional lives
- **A further quarter (26%) have heard of other people experiencing problems** with payment systems.

Both public and SMEs feel confident when using payments systems

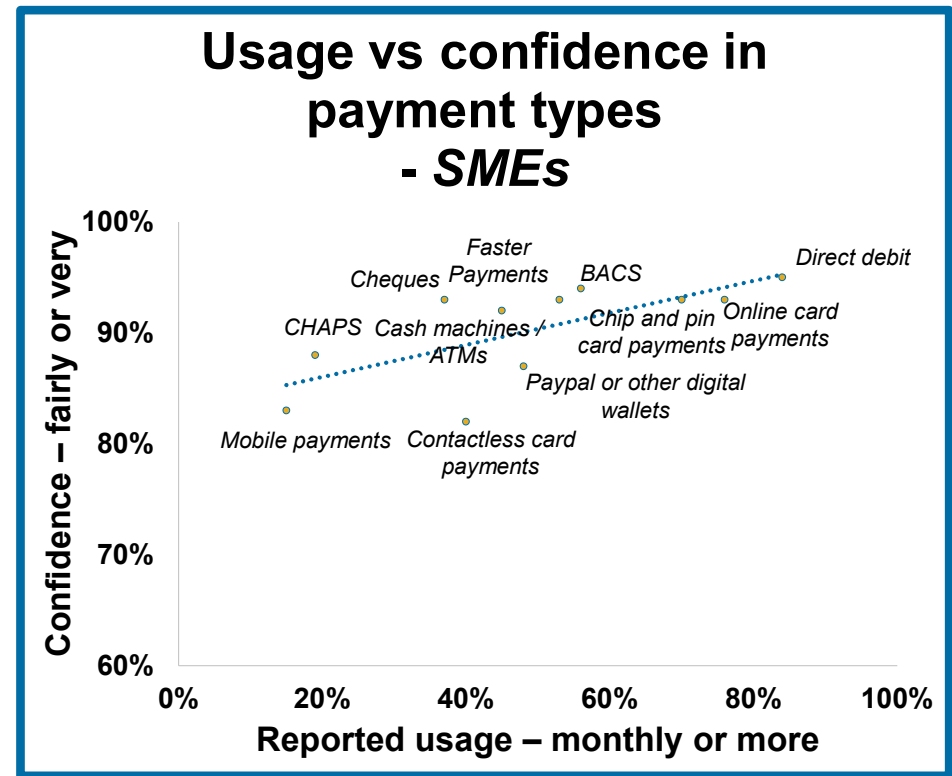
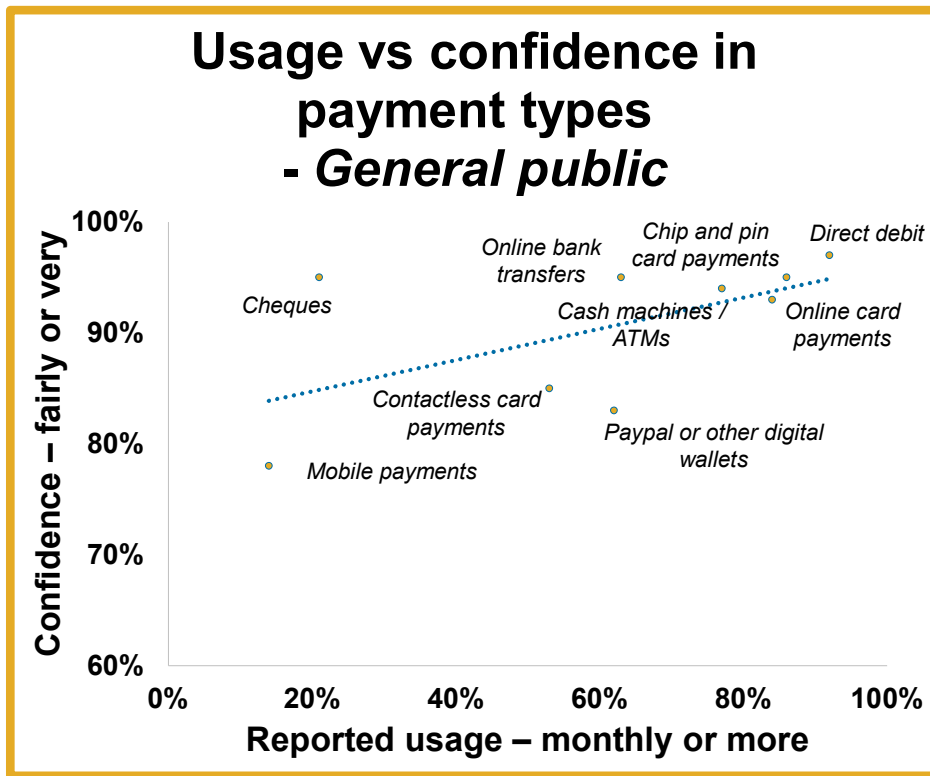
Confidence among general public
- Showing % saying very or fairly confident



Confidence among SMEs
- Showing % saying very or fairly confident



And confidence increases with usage for both SMEs and the public



BritainThinks

Q. In general, how confident or otherwise would you say that you are about using each of the following payments types?

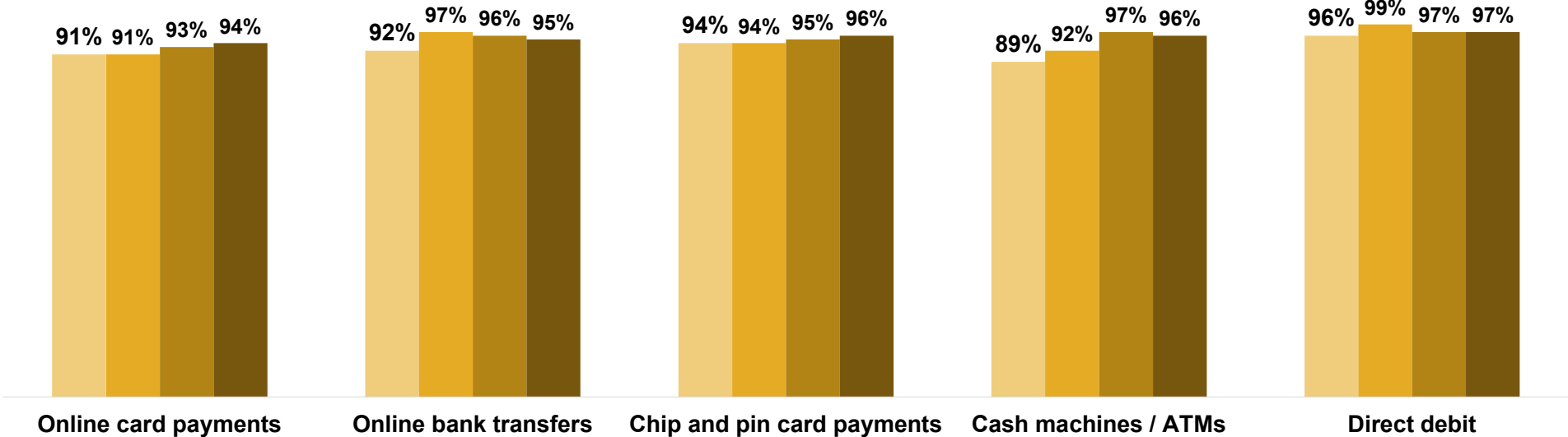
Base: All respondents using each payment type. General public: 183-961, SMEs: 138-447

Q: Roughly how often, if at all, do you tend to make payments using each of the following payments types [in your professional role]? Base: All respondents. General public: 1026, SMEs: 507

Levels of confidence with most payment types are consistently high across demographic groups

Confidence in payment types (top 5)
- Public by social grade

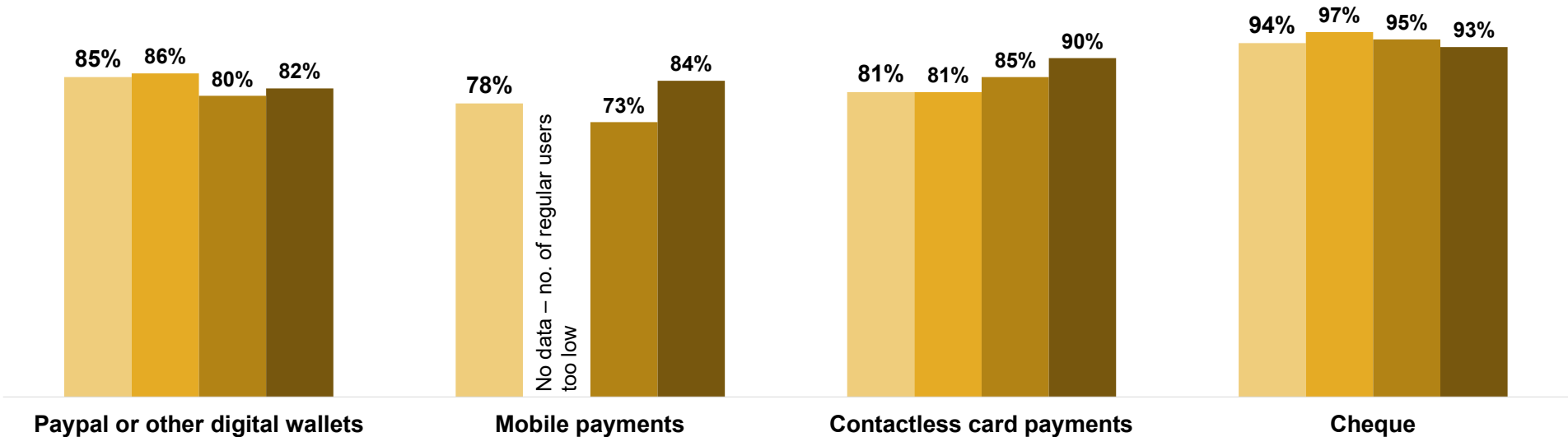
DE C2 C1 AB



Although confidence in contactless cards and mobile payments is slightly lower among lower social grades

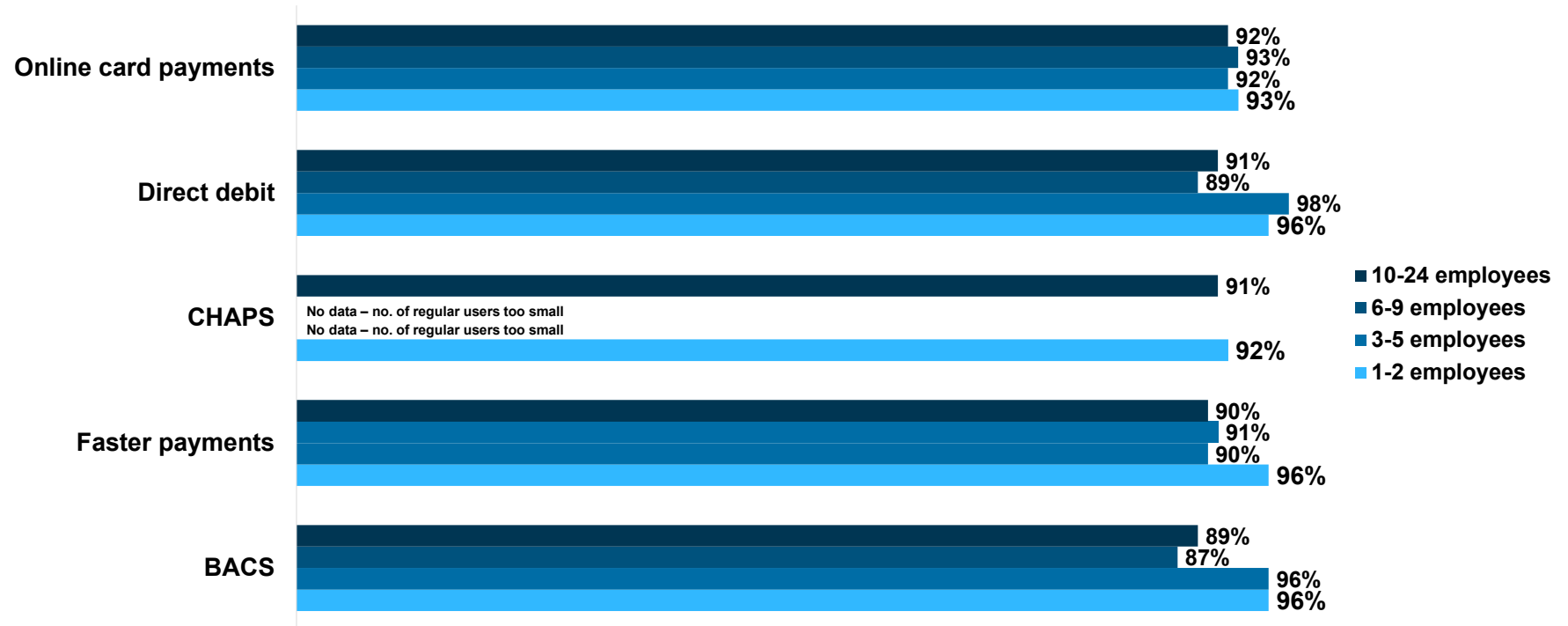
Confidence in payment types (bottom 4)
- Public by social grade

DE C2 C1 AB



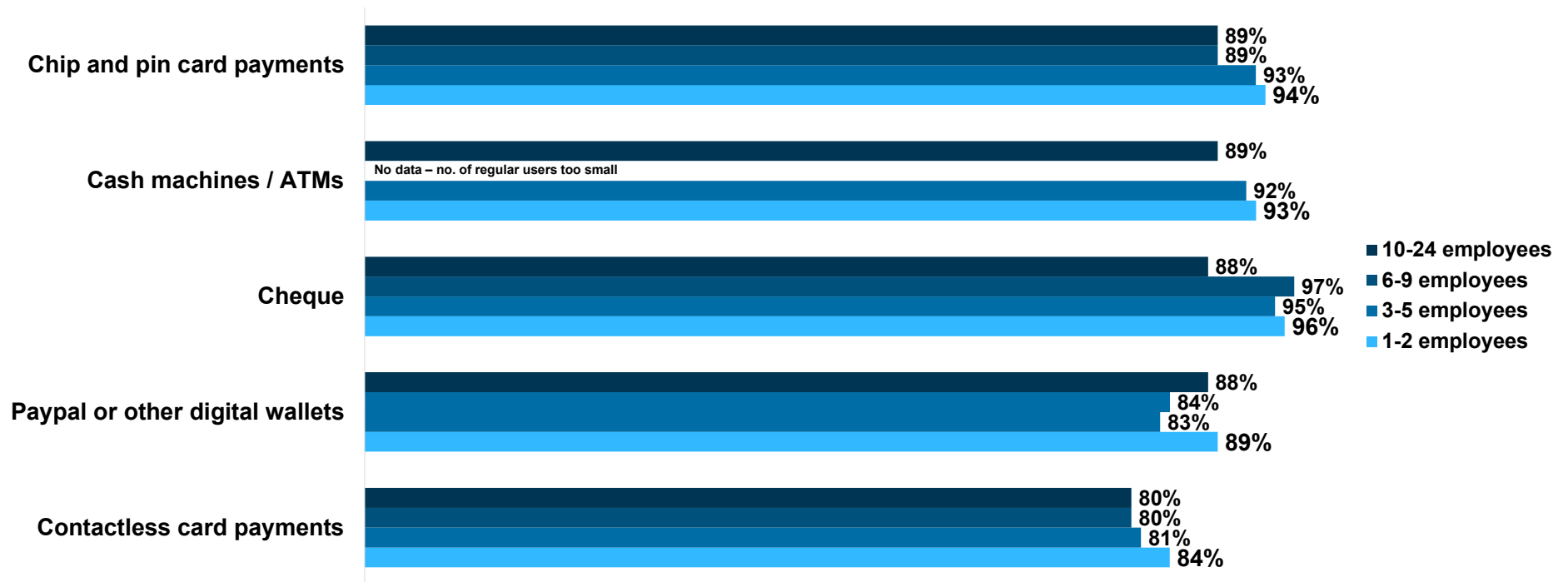
Confidence is also consistently high across different sized SME businesses

Confidence in payment types
- *SMES by size of business*



There are few significant differences in confidence across business of different sizes

Confidence in payment types
- *SMES by size of business*



Unless issues arise, there is low engagement with the operational side of payments systems

Across general public and SMEs, there is low interest in finding out how the systems operate

- This is due to overall satisfaction with payments systems services, as well as the perceived complexity of the payments world
- As such, there is limited need to engage with this kind of information, as long as the systems are meeting customer expectations

However, when things go wrong, engagement and awareness levels can increase

- Particularly when people are left to deal with the issues themselves (e.g. when they experience payment failure)
- The impact of issues that individuals have encountered or heard about is lasting

"I feel fine, I feel quite confident paying [by BACS] I think, maybe just because I've been doing it for so long and I've not really had any security issues with it, you know."

Retail, Small, Glasgow

"[Payments Systems] are straightforward – it's not often they create a problem [..]" "You have got a reference as to whether that transaction has gone through. You know – you can check that it did get paid."

Secondary, Small, Sutton Coldfield

Most general public participants don't know how the payments systems infrastructure is paid for

Across audiences, there is extremely low awareness of paying for payments systems – most don't think they have or struggle to recall paying for any payments systems

- When prompted, there is an assumption that, as with all other services, there must be some charges associated with payments systems – however, this is not a top-of-mind thought or concern
 - At this point, some recall charges on credit card transactions – but the idea that these help to pay for the payments infrastructure is not necessarily front-of-mind
- There is slightly higher awareness of charges amongst SME representatives
 - Particularly amongst those who regularly process international or high value payments for their business

This lack of awareness in relation to incurred service costs is inextricably linked to the public's overall low awareness and engagement with the subject

"Yeah, I hadn't appreciated it was like separate to the banks, so who would pay for that?"

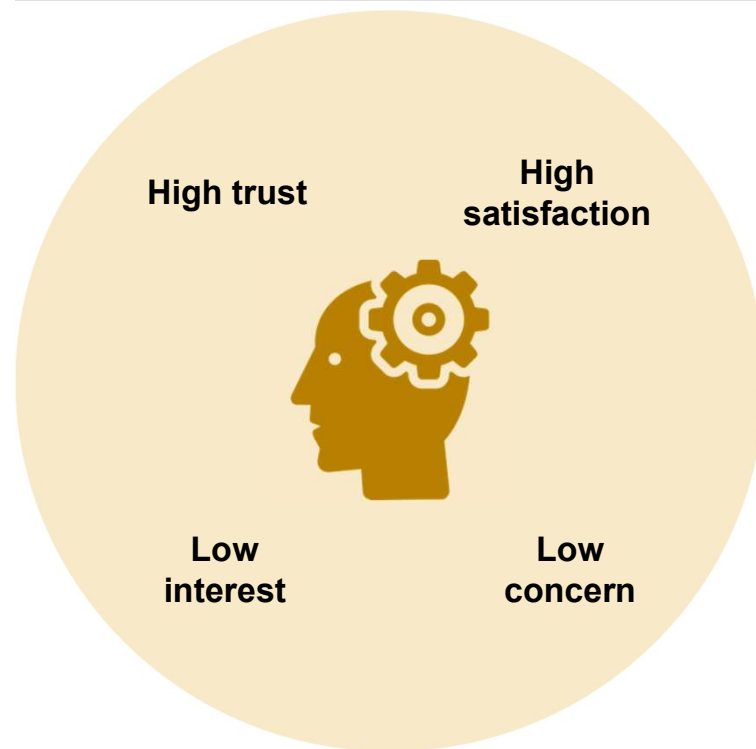
C1C2 Mainstream, Cardiff

"I'm sure when I used CHAPS I got charged £50, I am sure that's standard?"

Professional, Micro, Glasgow

Consumer mindset – implications for PSR

The Consumer Mindset



- The implicit reliance on a “higher power” to be looking after the payments system places a significant responsibility on the PSR to be effectively taking account of consumers’ interests in decision-making – highlighting the importance of the PSR’s strategic objective on this front.
- The lack of engagement with payments - most of the people that we spoke to had never thought about payments in any detail before – and the reliance on the system mean that there are significant risks of consumers feeling “let down” in the future by a high-profile crisis or issue, despite not necessarily having widely flagged this as a concern in advance.
- It will be crucial to understand consumers’ conscious and subconscious attitudes regarding payments through monitoring both behavioural data and opinion research, as well as engaging effectively with consumer groups.

5

Choice in payments systems

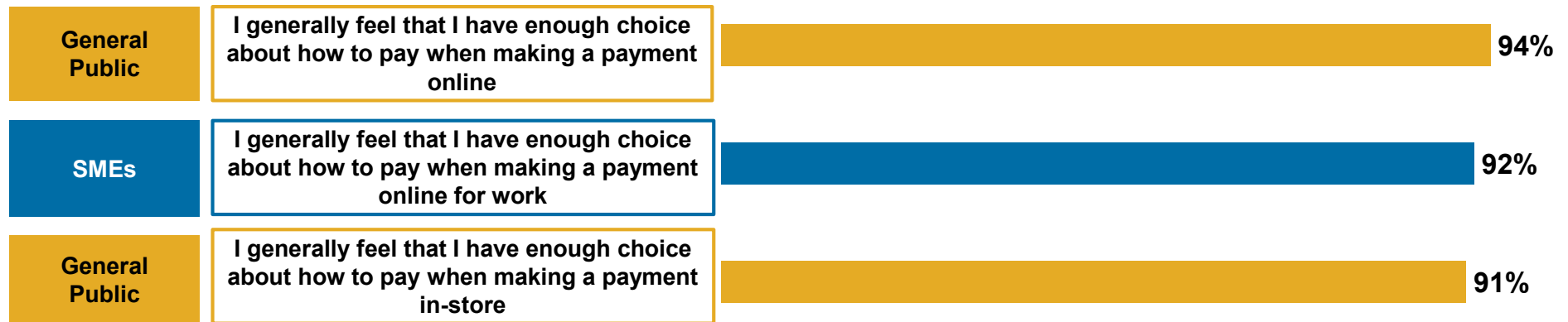
Choice in payments systems – section overview

- 1** Broadly, there is satisfaction with the amount of choice available in payments systems, and people struggle to suggest improvements
- 2** However, choice can sometimes feel driven by the industry, as people are often not aware of having a choice and rarely make conscious choices between payments systems
- 3** When asked about how they choose between payments systems, people say that security is the main driver behind their choices
- 4** However, across audiences there is an assumption that payments systems are secure. As such, choice is often driven by factors such as familiarity and confidence for the general public, and by reliability, speed and cost for SMEs

There is broad satisfaction with the amount of choice available

Generally, consumers say that they are happy with the choice that they have – when prompted, they struggle to come up with suggestions on things that are missing or could be improved.

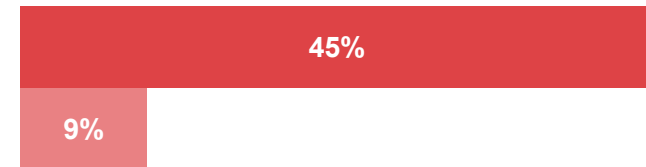
Perceptions of choice in payments



However, consumers are often not aware of a choice and sometimes feel “herded” by industry

- Qualitatively, many consumers are unaware of making choices about payments on a regular basis.
- And choices are sometimes seen as driven by the industry / their banks rather than something customers feel they have asked for – e.g. contactless cards
- This can result in some audiences facing challenges, feeling excluded or overwhelmed

I do not want the contactless card that my bank has given me



- Not confident about using contactless payments
- Confident about using contactless payments

People rarely make conscious and rational choices between payments systems

Traditionalists don't feel comfortable with the level of choice and prefer to stick to what they are used to



Traditionalists

- Traditionalists often struggle to keep up with choice available
- Often they don't feel comfortable with change, as they are quite set in their ways and prefer to use payments methods they are more familiar with (i.e. cash, cheques)

"I like the old money! I'm old fashioned."
C1C2
Traditionalist
Colne

"What I don't like is no one's had a choice about this. It's just been forced on us."
C1C2 Traditionalist
Colne



Mainstream consumers

- Mainstream consumers are open to trying new things and to doing things differently - as long as they are reassured about the benefits of doing so
- They are happy with the amount choice available – even though are not always clear on the features of different payments systems

"I like the idea of contactless in principle in terms of it being so easy, queues now just move so quickly because it's contactless, bish, bash, bosh, done."
C1C2 Mainstream Consumer, Cardiff



Early adopters

- Early adopters tend to seek out the latest innovations and are on the look out for ways of doing things faster and easier
- They are also eager to try out new things, which results in higher awareness levels of available choice and slightly more conscious choice of payments systems that meet their needs

"I pay friends online and transfer money. It's easy to do these days, it's basically an everyday thing. And I like contactless, it's so easy and it stops people from stealing your pin number."
C1C1 Early Adopter, Sutton Coldfield

There is a sense of exclusion for people who live in rural parts of the country



Rural audiences

- People who live in rural locations can feel excluded from the technological advances and the level of choice available in more urban parts of the country – such as ApplePay
- In some cases, there aren't many opportunities to take full advantage of the choices available – (e.g. smaller number of bank branches, or smaller-sized businesses that accept cash only, and occasionally chip and pin)

“Nowadays they presume everybody's got a bank account, everybody's on a computer.”
C1C2 Traditionalist, Colne



Lower income groups

- People in this audience often struggle to manage their finances using methods like direct debits and standing orders – and are vulnerable to unexpected charges and overdrafts
- Their limited budget is often easier to manage in cash, as they feel more in control of how much they are spending – as opposed to when they use cashless payments systems

“Having a bank account, I ended up in overdrafts and couldn't pay debts back so it's better how it is now. It's too easy to get in debt with a bank account, I feel more in control with cash.”
Low Income, No bank account, Colne

SMEs are broadly satisfied with the choice of payments systems



SMEs

- SMEs tend to feel satisfied with the amount of choice available to them
- They tend to have slightly higher awareness levels than the general public, and as such, they are more able to distinguish between different payments systems and choose those that best meet their business needs

“With BACS, it easier to keep track of what you’ve got and what you’ve spent.”
Secondary, Small, Sutton Coldfield

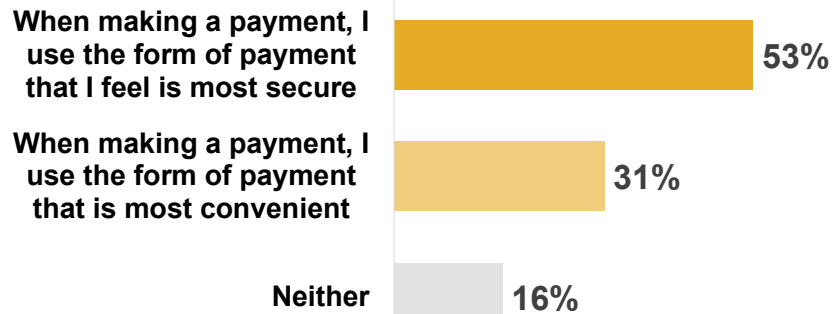
“I think they [payments systems] are good as it is. There's so much choice. I mean there's so much choice to use. I don't see how they can improve it any more. It's quick, easy, a few clicks, that's you.”
Professional, Micro, Glasgow

When specifically asked how they choose, consumers tell us that security is what drives their choices

Over half of the participants in both of our polls say that security is the main driver behind their choice between payment methods

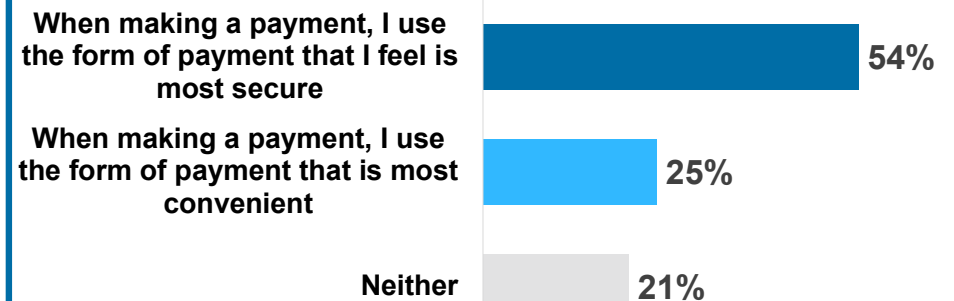
General public

Proportion saying each option best applies to them: General Public

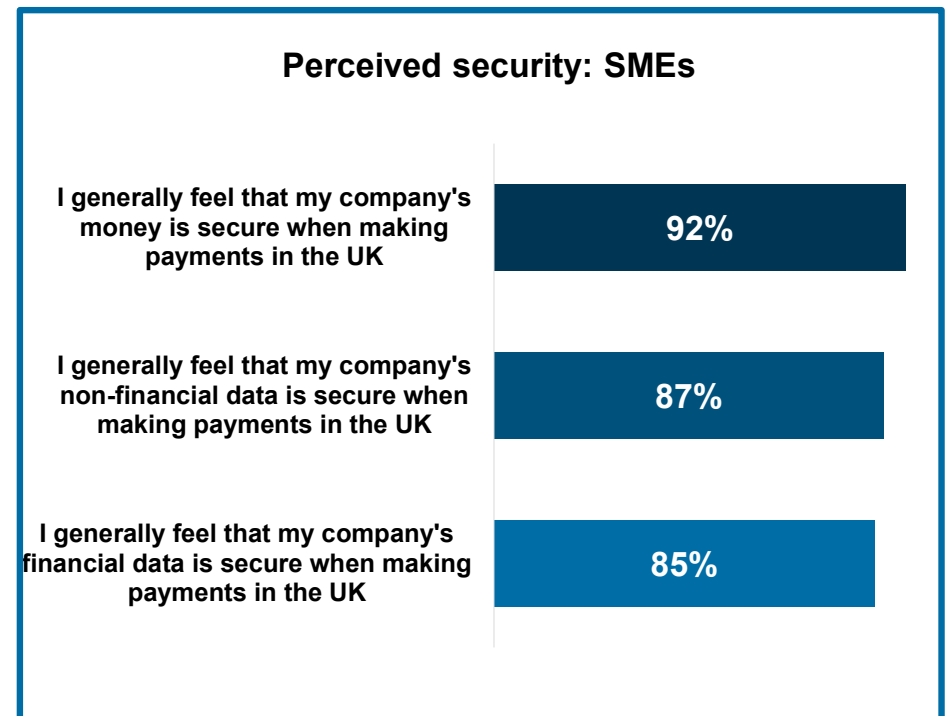
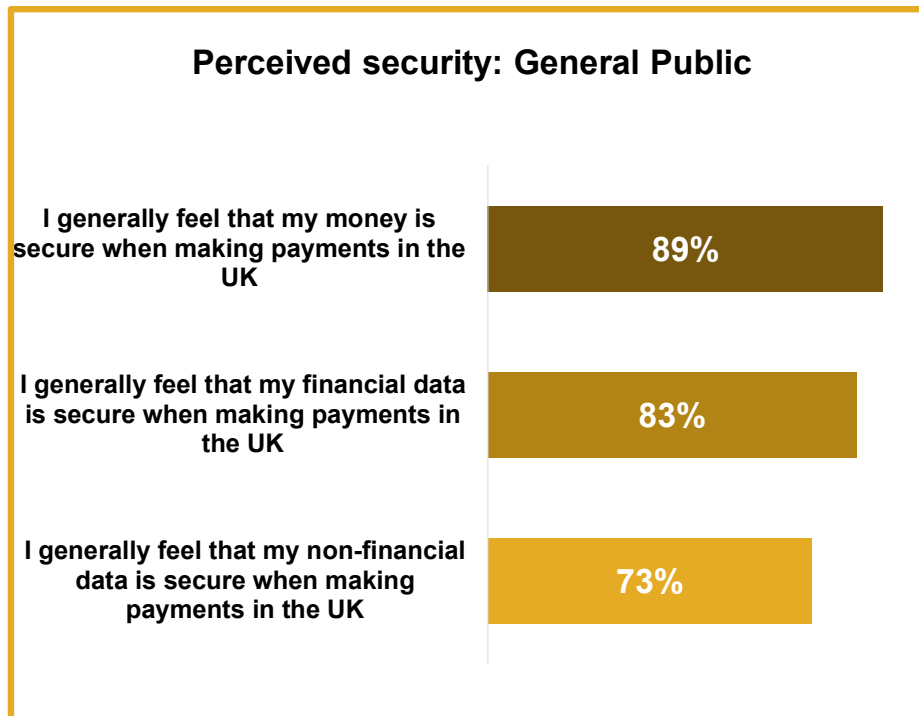


SMEs

Proportion saying each option best applies to them: SMEs



Most people think that payments systems are currently safe



Qualitatively, that safety is based on two considerations: perceived security of the infrastructure and the assumption that issues are easily resolved

Perception that infrastructure is secure

- People are not overly concerned about security in their daily transactions, as there is a perception that the systems must be secure and reliable

"I kind of think they're all pretty secure. I mean I know that you hear all the time when people get money taken out of their bank account, touch wood it's never happened to me, you know, so I don't feel unconfident when I'm using any of them."

Retail, Small, Glasgow

Assumption of easy resolution

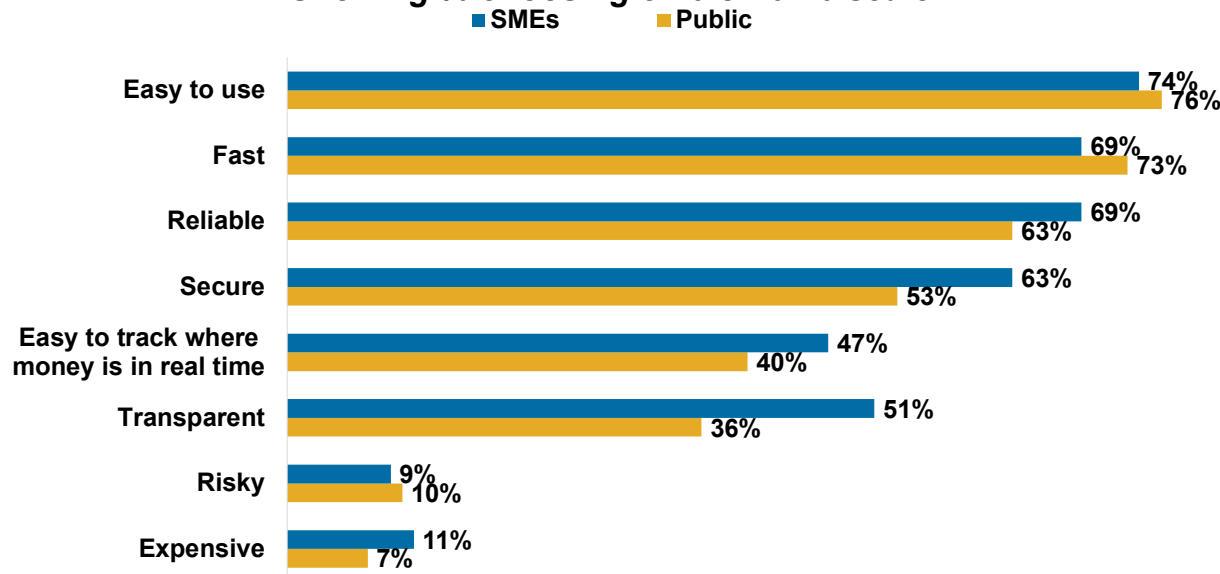
- This is reinforced by the notion that banks would resolve any issues, including those related to money loss - even in cases where the individual is responsible for the situation

"Most things are secure, if your card gets stolen, it gets reported and you get your money back."

C1C2 Early Adopter, Sutton Coldfield

Even though people said that security matters most to them, “easy to use”, “fast” and “reliable” are the words most strongly associated to payment systems

Associations with payments systems
- Showing % choosing 8-10 on 0-10 scale



- “Easy to use”, “fast” and “reliable” are more top-of-mind for people when thinking about payment systems, indicating these are benefits they associate payment systems with
- This reflects our findings from the qualitative phase, where people said security was the most important factor but in reality they tend to use payment systems that are quick and convenient more

And in the qualitative research, consumers are basing this on other factors – to the extent that they “decide” at all

For the general public, these often boil down to emotional considerations:

Familiarity

- In general, familiarity is crucial to determining what falls into the consumer decision set
- Early Adopters are generally more open to using payments methods they are not familiar with (e.g. ApplePay)
- Whilst Traditionalists are more likely to stick with what they are more familiar with (e.g. cash, chip and pin)

“If I get the opportunity I would prefer to pay by cheques. I would rather pay by cheque than by cash, because you’ve got an audit trail so you can go back and look if anything goes wrong. You’ve got some evidence there.”
AB Traditionalist, Nottingham

Confidence

- Familiarity breeds confidence – mainstream consumers tend to be a lot more confident with the payments methods that they come into contact with in their daily lives (i.e. contactless, chip and pin)

“I’m fine with contactless payments, I am relaxed every time I make a payment but they are only very small payments so that might be part of it.”
AB Mainstream Consumer, Cardiff

Whereas the qualitative research showed that for SMEs, there is often more of a conscious decision-making process

For SMEs, decisions are based on functional considerations:

Reliability

- SMEs are reliant on payments going through successfully in order to keep to their deadlines
- Protecting their reputation as reliable businesses or good payers is often very important for SMEs in the professional and services sector, as they are handling sensitive client data and need to successfully carry out transactions on their behalf

“You want something that’s quick, easy, you don’t want to be faffing about and trying to get or even sending payments or waiting payments to come in, you want it just to be straightforward.”
Professional, Micro, Glasgow

Speed

- Speed is also extremely important for SME audiences, as ensuring speed of payments is crucial to the smooth operation of their business (e.g. construction business paying suppliers)



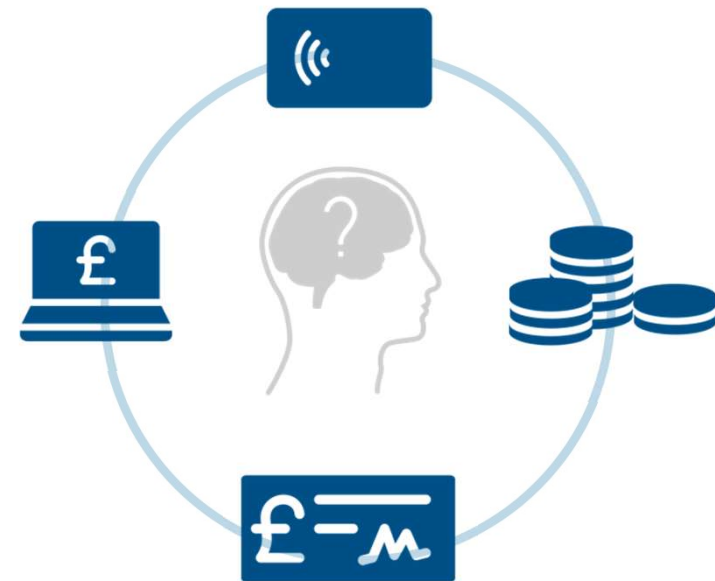
Cost

- Many SMEs are aware of the relative costs of making payments via different means and base decisions on this basis

“Cash is a pain in the arse – banks charge you a fortune to pay it in, and charge you a fortune to take it out.”
Secondary, Small, Sutton Coldfield

Security – implications for the PSR

- Consumers consistently say that they are happy with the choice available to them in terms of payments systems, but can also rarely pinpoint having made many decisions in terms of payments – many tend to “go with the flow”.
- And while they say that security is important to their payments behaviour and choices, they also do not differentiate between payments types in terms of perceived security (they assume all are very secure, and that it would be easy to recoup money). This means that decisions are made on other factors – such as convenience and familiarity.
- Given very high expectations, security across the industry should be a priority for the PSR. At the same time, there is a need to manage expectations about the ease of recouping money and potentially encourage behaviour change regarding security practices in individual financial behaviour.



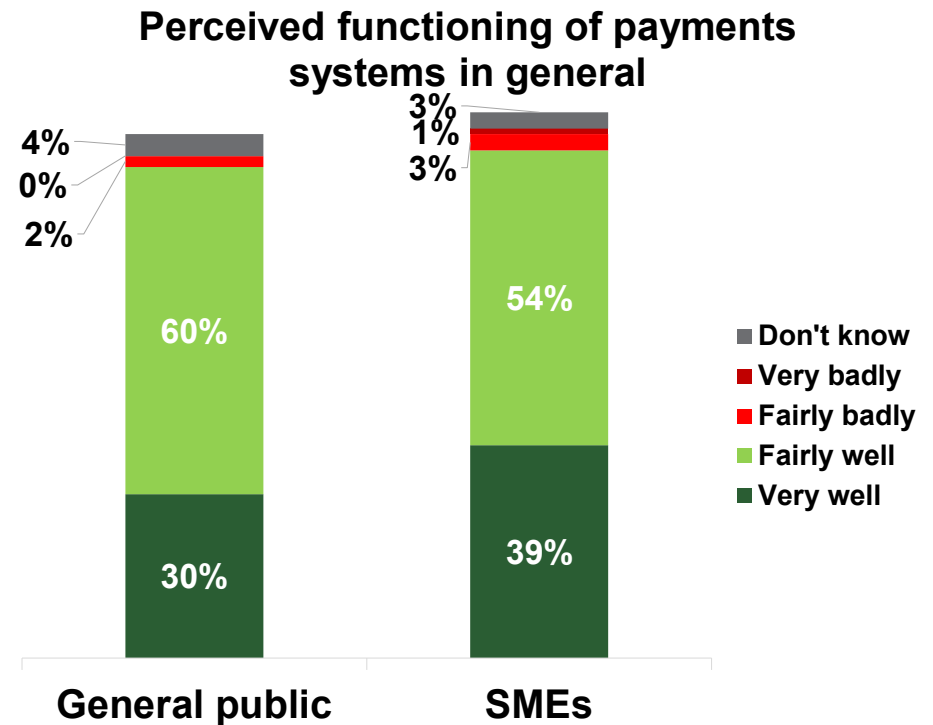
6 Concerns about payment systems

Concerns about payments systems – section overview

- 1** Both the public and SMEs are generally happy with how the payments systems work and raise few unprompted concerns
- 2** When prompted, people identify fraud as their top of mind concern, followed by payments failure (particularly for SMEs) and ease of spending
- 3** Across general public and SME audiences, there is low concern about charges related to payments systems
- 4** However, charges related to ATMs cause outrage, with people feeling that incurring costs to access their money is unacceptable

Overall impressions of functioning of payments systems are positive

- In general, most consumers are happy with the way that payments systems currently work and raise few unprompted concerns.
- Indeed, the proportion of the public and SMEs who think that payments systems are working “very badly” is extremely low (0% and 1% respectively)
- The following slides summarise consumers’ views when we discuss specific issues in relation to payments systems in detail.



Although consumers are broadly satisfied with payment systems, they were also able to identify some concerns in focus groups

- **There are limited concerns with regards to the services provided by payments systems – this is linked to the assumption that systems “must be safe”**
- **Concerns as well as levels of concern differ by audience but are generally linked to consumers’ levels of knowledge and awareness of payment systems**
 - Habit and familiarity with payment systems is important to some – therefore newer, less known, payment systems often trigger higher levels of concern (e.g. Apple Pay, contactless)
 - Overall, concerns are focused on the consequence of losing money – either because of fraud or payment failures
- **For SMEs, concerns are linked to their reputation and the impact that issues could have on their business**
 - The idea of “losing money” is also an issue, but less so than for the general public – they are more concerned about losing customers or suppliers

“They're just familiar looking logos (Visa and MasterCard) that you see everywhere, that big companies, big supermarkets use (...) so I kind of have a bit of trust with them. If something new was to turn up I might feel a bit edgy using it at first.”
C1C2 Mainstream, Cardiff

“When there are payments that need to be made it's your reputation as a business. If something unexpected comes up and you need to pay for it, you know, you've got to be seen to be right.”
Retail, Small, Glasgow

Concerns are primarily related to fraud and payment failures

Among the public, “traditionalists” tend to be more concerned about payments systems – often due to lower familiarity

- **Traditionalists are consistent in raising concerns about security of payment systems**
 - They mostly feel uncomfortable using electronic payment systems, such as faster payments or even debit cards for online purchases
- **Physical contact in bank branches and “traditional” payment methods such as cash and cheques, are really important to this audience**
 - This leads to another concern related to the fact that bank branches seem to be closing down in more rural parts of the country
- **In addition, traditionalists from rural areas and of lower SEGs demonstrate higher levels of concern than urban higher SEGs traditionalists**
 - This seems to be partly because they feel more alienated and isolated from technological advances, and therefore less in control

“I just don’t understand how the money is going to go from my account to the airline through the website – I let my husband deal with it.”

C1C2 Traditionalist, Colne

“What matters to me, is the human touch. I do really enjoy the conversation with the person that’s going to be serving me, rather than a cold machine that has no responses.”

C1C2 Traditionalist, Colne

Among SMEs, professional sector decision-makers are often particularly concerned about payments systems



Professional sector

- Professional sector SMEs are particularly concerned about issues with payment systems as these can have a negative impact on their reputation



Retail sector

- SMEs in the retail sector rely heavily on payment systems, and electronic payment systems in particular, to purchase supplies – as such, a payment failure would impact stock availability, relationships with suppliers and ultimately customer service



Secondary sector

- This tends to be less of a concern for secondary SMEs who rely more on cash for their daily transactions – nonetheless, issues with payments can also affect supplier relationships and work progress due to lack of supplies

The following slides outline the four key concerns that emerge about payments systems in a focus group setting

1. Fraud

2. Payments failure

3. Ease of spending

4. Charges

In general, fraud is the most top-of-mind concern about payments systems

- **Fraud is usually what people think about when “issues with payment systems” are considered**
 - For the general public audiences, fraud is intuitively linked with “losing money”
 - Whilst the main concern for SMEs is the reputational damage that a fraud incident could have on their business
- **Overall there are two types of fraud identified by consumers: online hacks and physical scams, which consumers have heard about from word of mouth or the media**
 - SME representatives tend to be more concerned about online hacks as they often make more payments online, whilst general public is concerned about both types of frauds

Online hacks

- Getting internet banking details hacked
- Buying item or service on a fraudulent website
- Falling for a phishing scam email

Physical scams

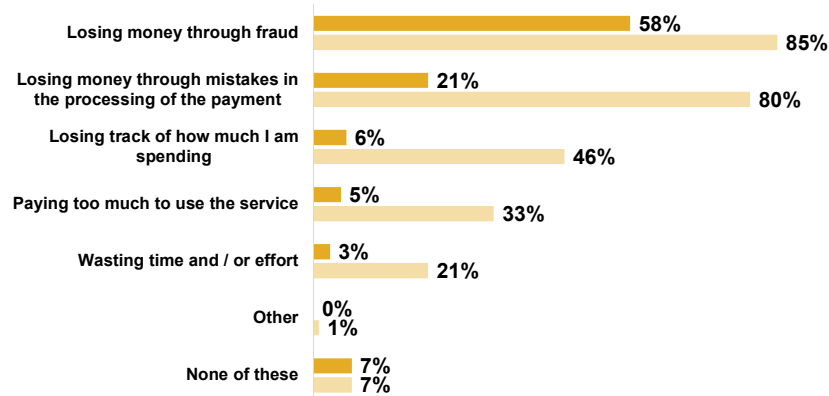
- Getting a card cloned after using an ATM
- Getting your card stolen
- With contactless or mobile pay specifically, some consumers had heard of news articles about people buying a contactless card reader and walking around close to people’s pockets and bags to connect to their phones or cards

As well as being top-of-mind, fraud is also their primary concern

“Losing money through fraud” is the top concern for over half of the general public, and for more than a third of SME representatives

Main concerns about payment systems: General public

■ 1st Concern ■ Top 3 Concerns



Main concerns about payment systems: SMEs

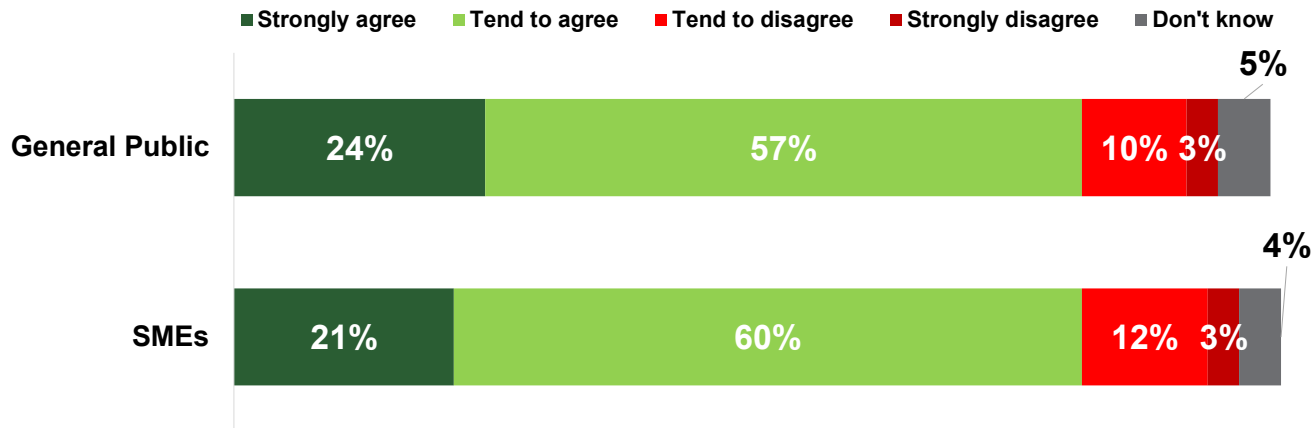
■ 1st Concern ■ Top 3 Concerns



However, there is often a fatalistic approach towards fraud...

In both surveys, four in five respondents (81%) agreed with the statement “financial fraud is a fact of modern life” – some members of the public suggest increasing cyber security as a solution to the high risk of fraud and cyber crime.

Financial fraud is a fact of modern life



“Cyber crime is constantly going up these days. I think it’s really important for payment systems to increase their cyber security.”

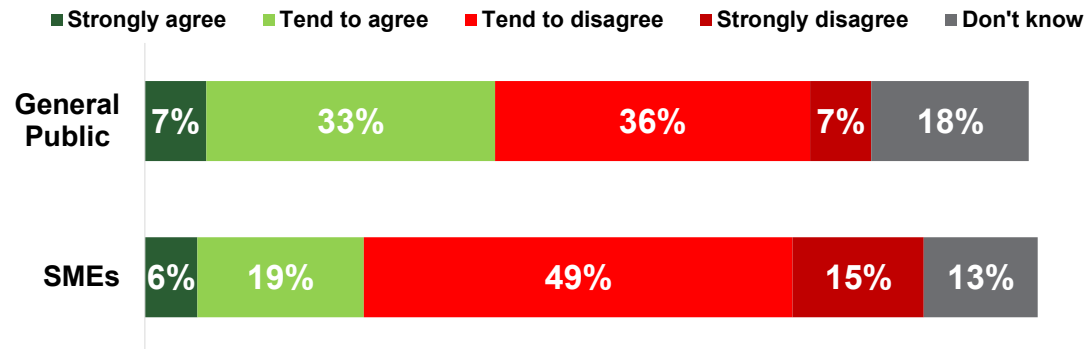
C1C2 Early Adopter, Sutton Coldfield

...which is more prevalent among the public than SMEs

SMEs are more likely to disagree that, if a fraudster wants their (or their company's) money, it is quite easy for them to get it. This may be driven by a belief that their businesses have greater protection in terms of cybersecurity.

Secondary sector SMEs tend to be more fatalistic than professional and retail sector SMEs – two in five (39%) agree that it is easy for a fraudster to get their money, compared to a quarter of retail and professional sector SMEs (28% and 21% respectively).

If a fraudster wants my money / my company's money, it is quite easy for them to get it



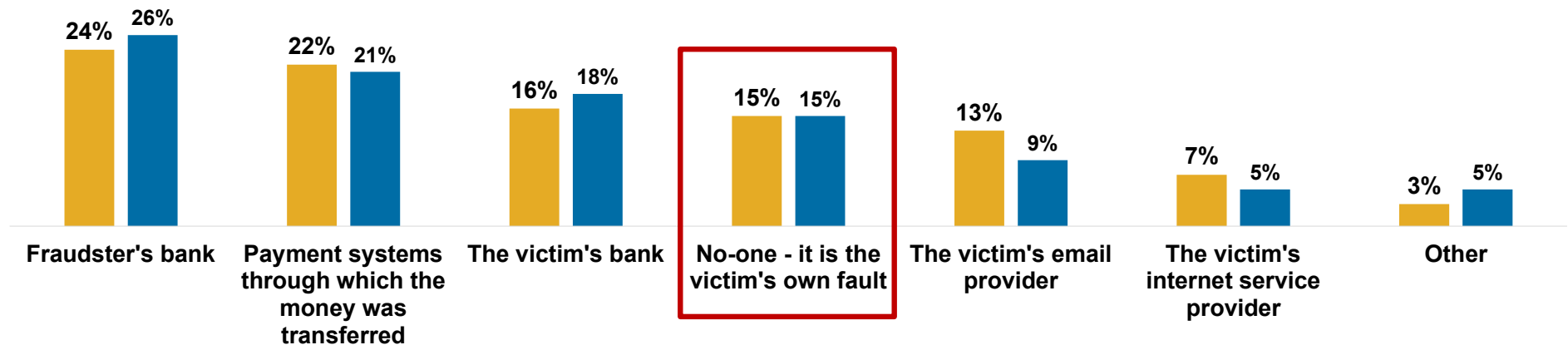
"I was confident the issue (payment failure) would be resolved; it was a business account with Barclays and they do work closely with their business accounts."
Retail, Payment Failure, London

Among both SMEs and the public, few see fraud as their problem

We tested reactions to a potential fraud scenario – attitudes regarding responsibility for getting the victim's money back are fairly consistent across demographic groups, as the graph below shows.

Perceived responsibility for ensuring victim gets money back in instance of fraud

■ Public ■ SMEs



Payments failure is also a concern, particularly for SMEs

25% of SME representatives said “losing money through mistakes in the processing of the payment” was their main concern and **73%** said it was in their top 3 concerns about payment systems

- **A number of consumers have experienced some sort of payments failure in the past**
 - Either with in-store payment failures (e.g. chip and pin), as well as bank transfers and online payments
- **Most people would resort to calling their banks for in-store or online payment failures scenarios, and there is an expectation that they would be able to resolve the situation**
 - However some would also contact the store, or for online payment failures a few mentioned contacting Paypal when they experienced issues
 - Only a few mentioned that they would get in touch with their card providers for card payment failures, and even fewer said that they would contact an ombudsman if they had trouble resolving the situation

Most people did not even consider the possibility of contacting the payment system directly – this is mainly because they are unaware of payment systems

Case studies: Experiences with payment failures



Payments failure: in-store

Low income consumer: experienced payment failure in store

- Went shopping and bought something small as a treat but it didn't show on her account when she checked soon after.
- She did not remember straight away making that payment and wrongly assumed she had not spent that money.
- *Created difficulties for consumer to keep track of her expenditures and diminished her ability to budget*



Payments failure: online

SME representative, retail sector: experienced payment failure with CHAPS international payment

- Payment to buy some stock – money went out of account but payee did not receive it. Called the bank, who said there was a problem but remained vague about it and said the money had now been withdrawn from payer's account and could not be retrieved. Money arrived to payee the next day.
- *Resulted in delays receiving the stock and anxiety not knowing where the money was being held*

Consumers also identify “ease of spending” as a concern

“Ease of spending” is a concern mainly for mainstream consumers and early adopters, as it is linked with cashless payment systems, and especially new technologies such as contactless or mobile payments

This concern also applies to online banking, as some consumers claim that their spending does not appear straight away on their account

In addition, this type of concern particularly affects lower income consumers, as they feel it can remove some of their ability to control their budgeting and finances

“I’m a bit of a control freak when it comes to looking after my money and therefore I’m not keen on being told I can spend what I want, because actually, no, I spend what I need to spend.”

C1C2 Traditionalist, Colne

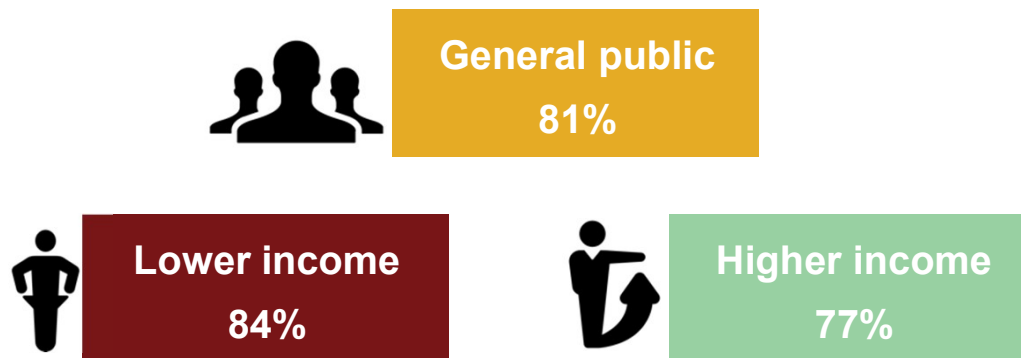
“When using chip and pin sometimes it doesn’t show on my account straight away – don’t like that because I forget I have made that payment.”

Low Income Consumer, Colne

There is widespread acceptance of the role that modern technology has played in this

This is a consistent feeling across audiences, and particularly for lower income audiences, who tend to feel more vulnerable to overspending, compared to higher income consumers who are less likely to feel this way

“Modern technology makes it too easy to spend money”



“With the contactless it’s just ‘Oh you’ve paid already’, you know, at certain times you just wave the card and it’s gone through. And I was actually going to put the card in the machine and the lady said it’s already taken it, so my personal view is that I feel a little more controlled in using the more traditional method of payment.”
C1C2 Mainstream Consumer, Cardiff

Q.2 The next question is about your general impressions of payments. To what extent, if at all, do you agree or disagree with each of the following statements? “Modern technology makes it too easy to spend money”. Base: All respondents. 1026

Among SMEs and the public, there is limited concern about charges related to payments systems

Even when people are made aware of the fact that there are costs associated with the use of different payments systems, they do not seem to have any objections or concerns

Charges are rarely acknowledged, and that is mostly when there is an obvious fee involved – but even in these cases, people struggle to remember how much they were asked to pay

In most cases, charges for payments systems are not queried and are taken as given – assumed to be necessary and ‘standard’

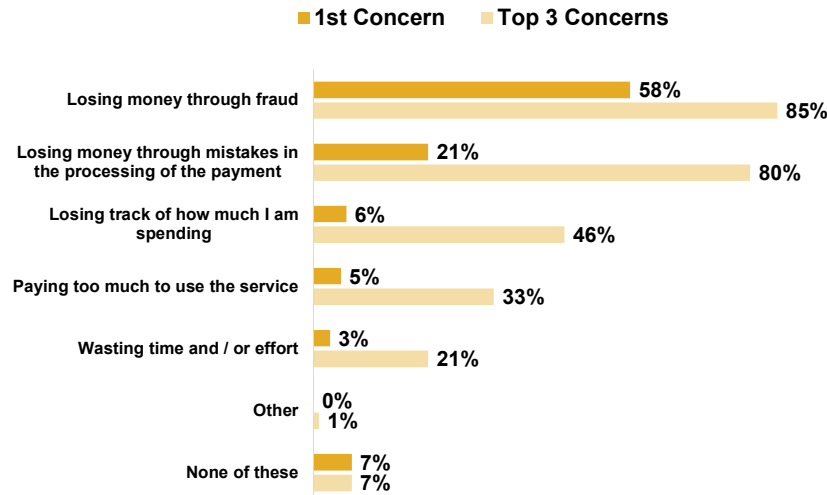
“Credit cards also charge I think. Do they not charge the vendor as well?”
C1C2 Traditionalist, Colne

“You just accept it [cost of CHAPS], it's always been there and that's just it. If you want to use that, it's not as if anybody's pulling the wool over your eyes.”
Retail, Small, Glasgow

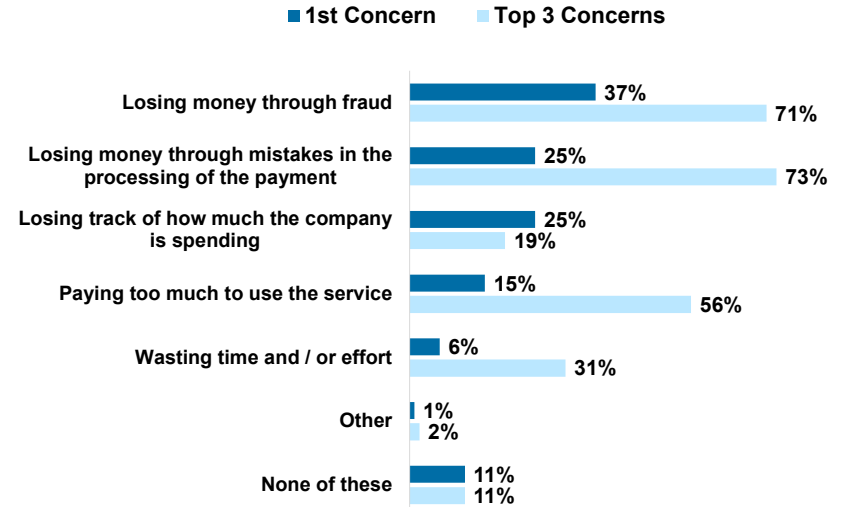
SME representatives are more likely than the general public to have major concerns about the cost of using payments

Compared to 5% of general public ranking it as their main concern and 46% as one of their top 3 concerns, SMEs are far more worried:

**Main concerns about payment systems:
General public**



**Main concerns about payment systems:
SMEs**



Despite generally limited concern about the charges related to payments systems, paid-for ATMs cause outrage

- **Paid-for ATMs receive strong pushback across all audiences**
 - It is felt that this service should be offered for free, and this perception is routed in the idea of ‘free banking’
- **People view paid-for ATMs as unacceptable, as incurring charges to access their money feels absurd**
 - Particularly when there are ATMs that offer the option of withdrawing cash for free
- **As such, people say that they avoid using paid-for ATMs as much as possible**
 - This is something that they only consider in moments of desperation, when no other options are available – such as a night out

“If I really needed money, if I was desperate, it wouldn’t stop me, but wouldn’t do it regularly as a matter of principle.”

AB Early Adopter, London

“I think the idea of having to pay to receive your own note doesn’t sit well.”

Professional, Small,
Nottingham

7 Potential changes to payments systems

Potential changes to payments systems – section overview

In the qualitative research, we tested attitudes towards three potential changes regarding payments systems - name-checking, Request to Pay and Smart ATMs. We also tested name-checking in the quantitative surveys.

1

Most general public and SME participants were surprised to find out that name checking is not already in place for certain payments. While many thought it should be introduced, SMEs had some concerns about the potential for payments to be rejected and about slower processing.

2

“Request to Pay” is generally seen as a positive idea, although not necessarily considered “new”. Some suggested that this should be optional, or only applied to certain types of payment.

3

Smart ATMs are seen as the least appealing idea, as most people feel that this is not an innovative or convenient idea. Many would be more comfortable using online banking or speaking to someone in branch

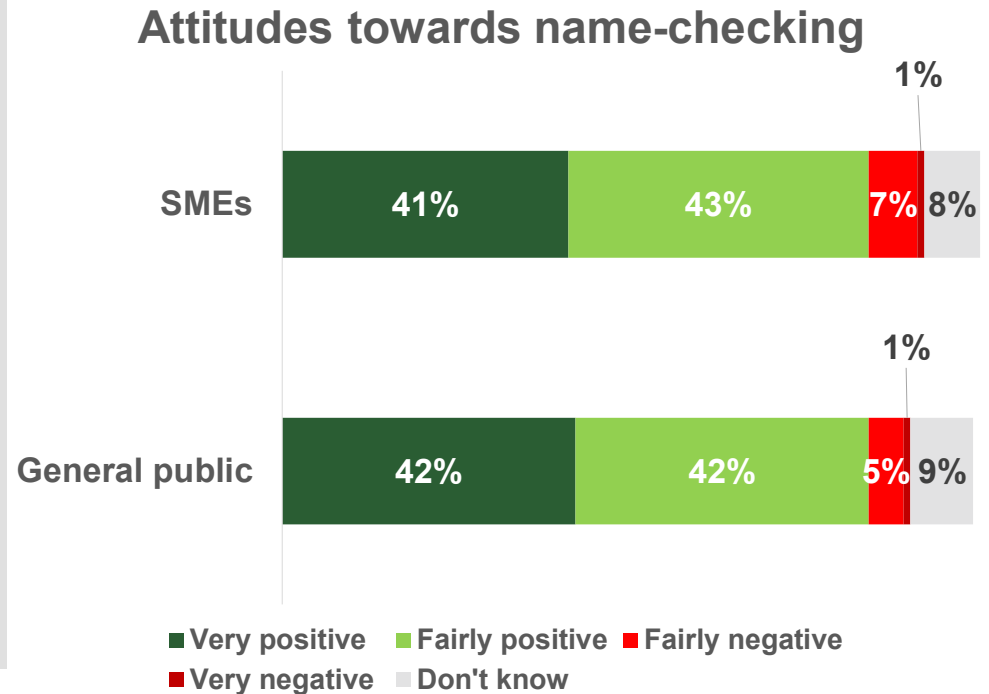
Initially, name-checking seems appealing to public as well as SMEs

Across the research, most participants were under impression that name-checking is already in place, and were surprised to find out this is not the case.

When first presented with the idea, most felt that this a very positive innovation and thought it should be prioritised.

When explained, more than four-fifths of the general public (84%) view name-checking positively. Just one in twenty (6%) say that they think it would represent a negative change, with only 1% saying that they think it would be “very negative”.

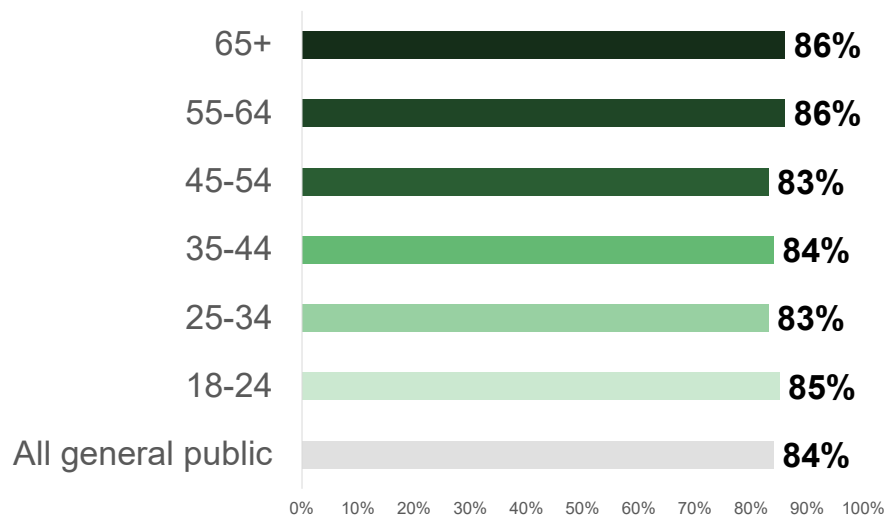
Attitudes among SMEs are very similar.



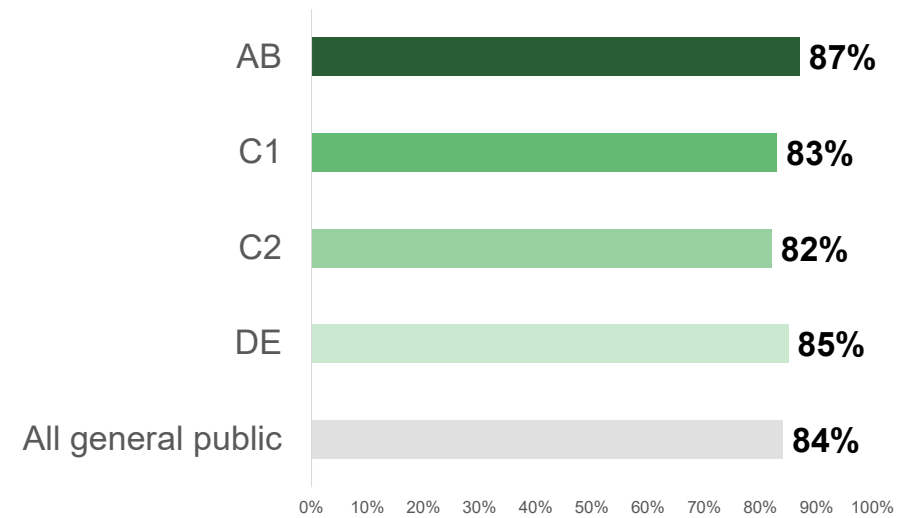
Positivity towards name-checking is consistent across the public

There are very few significant differences when the results are analysed by demographic factors.

Positivity towards name-checking
- public by age



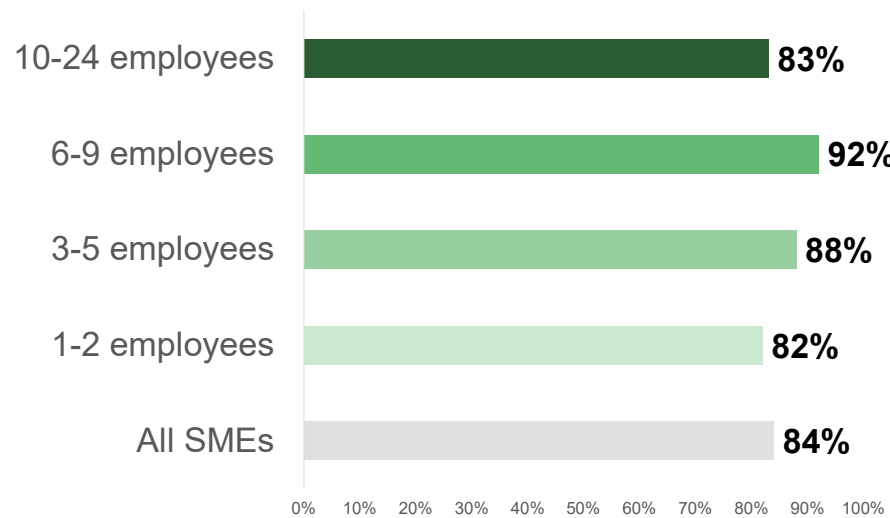
Positivity towards name-checking
- public by social grade



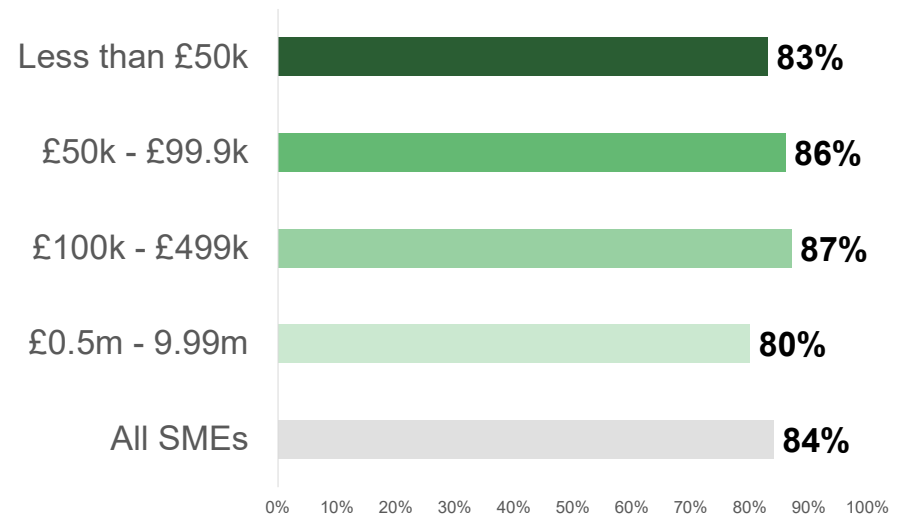
Positivity is also consistent across SMEs

There are very few significant differences in attitudes between different types of SMEs.

Positivity towards name-checking
- SMEs by size



Positivity towards name-checking
- SMEs by turnover



However, after discussing this change, many see certain drawbacks

Benefits:

- ✓ Having added security to make sure payments go through to right person
- ✓ Reduced risk of money loss

Drawbacks:

- ✗ Needing to know full names and exact spelling
- ✗ Particularly for SMEs working with companies abroad – concerns about getting correct spelling
- ✗ Speed of transaction, which is essential for SMEs but less important for consumers. Speed seen in terms of hours, rather than minutes, however.

“The numbers of errors must be quite big then, I would have thought, because it’s so easy to get a digit wrong.”
C1C2 Mainstream Consumer, Cardiff

“If you explained that ‘Because you’re using a new payee, this will take slightly longer to process while we carry out relevant checks’, that would be fine and everyone would understand that.”
Secondary, Micro, Sutton Coldfield

Implications for the PSR

1. If this change is being implemented, it will be essential to bear in mind concerns about the potential for spelling errors, etc. and ensure that changes to the system do not threaten the simplicity and speed of the current process.
2. In communications about the change, consumers’ concerns will need to be addressed.

“Request to Pay” is received quite positively, but people feel this should be optional

- “Request to Pay” notifications are broadly seen as a good idea by general public and SMEs
- However, this is not always considered “new” – many feel banks already provide this option
- Some SMEs express concerns - they tend to process a high volume of payments on a daily basis and worry about receiving too many notifications
- Positivity towards this being optional - or just for certain types of transactions rather than all



“I think that's naturally happening now anyway, for example with mobile contacts.”
C1C2 Traditionalist, Colne

Not necessarily seen as revolutionary, and there are some concerns about notification overload – especially among SMEs

Benefits:

- ✓ Greater control over payments or spending habits and reassurance that certain arranged payments (e.g. direct debits, large transactions) are being paid

Drawbacks:

- ✗ Notification overload – particularly for SMEs
- ✗ Not always a desire for notifications – some don't want to be confronted with everything that comes out of their account, while budgeters do not feel need to receive notifications as already on top of spending

"I wouldn't want to be reminded of how much money's going out."
C1C2 Traditionalist, Colne

Implications for the PSR

1. The PSR should bear in mind that not all consumers want this service – building in a degree of optionality, particularly in relation to the type of transaction included (i.e. value) will be important.
2. Communications should bear in mind that not all consumers will see this as a new innovation - many feel that their banks already provide this service.

Attitudes towards Request to Pay are broadly consistent across consumer groups



Traditionalists

- Generally value added level of security with Request to Pay – seen as extra line of defence against fraud
- But also express concerns about additional process – worry about extra time required, and additional emails coming in



Mainstream consumers

- Can see benefits of added security – although some concern about potential for scams
- Would value system as long as it is kept simple – want emphasis on very straightforward procedures rather than extra complication



Early adopters

- Concern about introducing Request to Pay for all purchases – many consumers say that it is unimportant for small transactions (e.g. £5)
- Can see usefulness for larger scale transactions (e.g. £200)

Both retail and secondary sectors have concerns about cash flow implications



Professional

- Broadly positive about this idea, although many think that it exists already
- Small businesses in this sector particularly positive – some larger businesses have concerns about “notification overload”



Retail

- Questions about practicalities of name-checking – while some see advantages in terms of aiding cash flow management, others worry about impact on cash flow in terms of potentially slowing down transactions



Secondary

- Worry that delays could cause cash flow issues
- Positive about idea – but also seen as “nice-to-have” rather than essential
- Many say that this already exists – believe that banks already provide this service

Across all audiences, participants struggle to see Smart ATMs as useful innovation

- While many consumers use ATMs every now and again, proportion of regular users is low
- And key benefit of ATMs is drawing cash out
- Regular users tend to be 'traditionalists' who would be reluctant about impersonal interactions anyway (prefer in-person interaction with cashier)
- Less frequent users (mainstream consumers and early adopters) use platforms such as online banking and see smart ATMs as a backward step



Many do not see strong benefits to Smart ATMs

Benefits:

- ✓ Being able to manage an account at any time of the day or night - seen as useful for small or micro SMEs in the secondary sector who might get paid cash in hand, or in case of emergencies

Drawbacks:

- ✗ Many (mainstream, early adopters and SMEs) would be more comfortable conducting the proposed functions online, at home or in the office
- ✗ Very few people could envisage needing to make a cash deposit, and would prefer doing so in person or at least in an ATM inside the branch

"I used one because, I think it was Saturday and the bank was closed (...), they've just got machines where you like put your money in and it just sucks it in and counts it and, so I used that."

Secondary, Micro, Colne

"Why would you need to do it there, unless you don't have a computer?"

Professional, Small, Nottingham

Implications for the PSR

1. Smart ATMs need to be designed particularly bearing in mind the needs of those who are not regular online bankers, as these are likely to be the people using them most frequently.
2. The location of Smart ATMs is very important – ensuring that these are situated in places where people feel comfortable will be crucial to them being used widely.

For different reasons, traditionalists and early adopters appear unlikely to use Smart ATMs



Traditionalists

- Concerned about using ATMS that are not in-branch, due to perceived security risks
- Also prefer in-person contact available in a branch for complex procedures – feel more comfortable and confident in transaction



Mainstream consumers

- Broadly ambivalent about Smart ATMs – can see advantages in terms of convenience, but also concerned about security of on-street use and comfortable with current usage patterns



Early adopters

- Suggest that they are unlikely to use Smart ATMs – happy with using their phone or PC for many processes already
- Even Early Adopters express some concerns about security of using on-street ATMs

Relative lack of enthusiasm towards Smart ATMs is consistent across sectors



Professional

- Struggle to see the need for Smart ATMs – think that they are almost irrelevant in era of internet banking



Retail

- Vague positivity, although also not convinced that this is a revolutionary idea
- Some inclined to use it if it would save them time, but also some with concerns about lack of personal interaction as well (lower confidence in transactions)



Secondary

- Smart ATMS seen as a bit of a waste of time
- Despite propensity to use ATMs on a regular basis, few see this as directly relevant to them

Innovation – implications for the PSR



- In general, consumers struggle to think of any unmet needs and to identify new developments that would improve their lives – as such, they are unlikely to come up with new ideas and actively drive innovation for the payments industry. Nonetheless, when introduced to different ideas, consumers are able to visualise the potential impact and benefits of each idea on their lives.
- Whilst many people tend to be receptive to innovations and happily incorporate them into their daily payment behaviours, it is often felt that these innovations are mostly industry-driven, and that consumers are not given the option of choosing which innovations they adopt. An example of this is contactless cards, as many (particularly older, traditionalist and vulnerable) audiences feel that this is a forced, rather than optional, change that has been imposed by their banks.
- As a result, it is important for the PSR to ensure that consumers have a degree of choice over innovations and changes – ensuring that innovations feel optional, rather than forced.