

Call for Evidence Response

HM Treasury: Cash and digital payments in the new economy

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About Age UK

Age UK is a national charity that works with a network of partners, including Age Scotland, Age Cymru, Age NI and local Age UKs across England, to help everyone make the most of later life, whatever their circumstances.

In the UK, the Charity helps more than seven million older people each year by providing advice and support. It also researches and campaigns on the issues that matter most to older people. Its work focuses on ensuring that older people: have enough money; enjoy life and feel well; receive high quality health and care; are comfortable, safe and secure at home; and feel valued and able to participate.

About this call for evidence

HM Treasury (HMT) has recognised both the significant opportunities in digital payments and the potential challenge of ensuring that access to cash remains for those who need it. The government wants to make sure that the economy is fit for the future and keeps pace with changes in the way that people manage their finances. It also wants to make sure that cash remains for those who need it.

Key points and recommendations

- The ability to store money and make and receive payments is essential for participation in society. It is particularly important for older people because without safe convenient and affordable access to these services it is not possible to live independently at home
- Cash remains vital for many older people, including small informal person to person payments which facilitate important social activities and the giving and receiving of informal support
- Reduced use of cash is not always driven by consumer choice
- Consumers may appear to have adopted new payment or banking services but in fact be operating through proxies or 'working around' systems rather than using them as intended
- If use of Faster Payments increases as some anticipate, it is vital that consumer protection – especially against scams – is increased
- Many of the issues raised in discussions on digital inclusion will be relevant to increasing adoption of digital payments
- The rapidly changing payments landscape must be seen as part of the wider changes in access to retail banking, including branch closures, and we need a sensible debate on how to ensure that those consumers whose needs are not fully met by new payment services are not left behind

Introduction

The way in which the UK banks and makes payments is changing significantly. Some of this is driven by consumers adopting new technologies and ways to manage their finances, some by merchant adoption and some by reduction in availability of traditional channels, such as branch banking. The pace of change is rapid and expected to continue to move swiftly. Consumers are responding very differently to the change and so the payments landscape is increasingly diverse. As HMT noted in the Call for Evidence, we see both more people using no or very little cash and more people relying on cash.

The retail banking and payments sector has seen two other similar transitions recently where there has been both rapid change and diverse impact on consumers. In the case of the proposal to close cheque clearing, the industry's failure to listen to consumers early enough in the process resulted in a climbdown effectively imposed on them. In the ongoing case of branch closures there has been no coordinated process involving meaningful consumer representation and services relied on by consumers are being withdrawn, resulting in increased dependence and vulnerability.

The ability to store money and make and receive payments safely, conveniently and affordably is essential for full participation in society. Without these services older people are not able to live independently in their own homes, are made vulnerable to scams and abuse and become dependent on others. Although there is currently no universal service obligation Age UK views payments as essential services, very similar to energy and water.

We recognise that the changing face of cash and digital payments will raise questions over potentially increasing the cost of cash and further questions over who pays for it. We are pleased that the government has clearly expressed its desire that cash should remain available for those who need it and we equally pleased that HMT has created this forum for informed debate to ensure that sustainable solutions can be developed. This call for evidence and surrounding debate is extremely timely and important.

1. Consultation questions

Q1 How do you expect digital payment methods, and the adoption of these by merchants and consumers, to change over the next 10 years? What are the drivers of this?

Overall we expect to see a greater range of payment services available to more informed and engaged consumers. In this section we focus on the potential impact of new payment services rather than the continued trend towards card/contactless payments already being experienced. We discuss drivers and inhibitors below, however note here that it is likely that not all consumers will be drivers of this trend or even willing adopters. For example cash is much less acceptable for parking payments now than a few years ago, this appears to be driven more from preference of car park operators than consumer demand. We expect that consumers will also be encouraged to make payments on a range of devices, especially smartphones and possibly also wearables. Further, it seems likely that

there will be increasing non-bank operators and a much more diverse payments marketplace. On one level this will increase choice, however if payment services proliferate significantly there may be questions over how beneficial it would be:

- research has found that too much choice can act as a disincentive to actively participate in a market
- consumers will need a simple way to check that a payment service is reputable or it will be difficult for new entrants to gain trust
- if different payment services have different rules around re-imburement for scams and consumer responsibilities it may be difficult for consumers to make informed choices, especially where those payments services appear on the same device for the same transaction types
- depending upon how Open Banking and aggregator services develop, multiple payment services could make it either easier or more difficult for consumers to keep track of their money and budget effectively.

We envisage that Open Banking could result in a much greater use of Faster Payments. A key change here would be that more payments would be being made on an irrevocable basis, but under current rules these payments offer significantly less protection to consumers than most alternative payment types (other than cash).

The drivers for change are likely to include some consumer demand, however this will be very unevenly distributed among different consumers. We should be especially careful in describing payments change as largely consumer-driven given the complexity of products and the likely lack of understanding of how many of these systems work. For example, it would be interesting to see research into how well consumers understand the different types of protection attached to different payment types, and research on the impact of payment methods on spending propensity. It would also be interesting to research how access to and acceptability of different payment services has changed, to help understand why consumers are changing the services they use.

We expect that some older consumers will adopt new payment methods proactively, including digital, however based on experience to date with adoption of digital channels we would expect adoption to be slower among older people.

We would also expect to see consumers superficially adopting new technologies, especially if they are effectively the only way to make essential payments, but either not using them as they were intended to be used or using proxies. Examples including handing over PINs and debit cards to another person to access cash, or allowing someone else to register and use online banking in your name on your behalf. The Financial

Conduct Authority's research into Coping Mechanisms describes examples of this phenomenon in other areas¹.

Most emerging forms of digital payments require some level of connectivity to the internet and so it is helpful to look at internet use and especially adoption of smartphones to help understand how use of digital payments may change over the next ten years. Use of internet banking services may also affect the way in which consumers are able to use cards. For example if a consumer is able to access a real time budgeting app then some of the budgeting function of cash may be replicated, however if a consumer is not able to check statements until one is received from the bank or obtained at an ATM then the budgeting function of cash may be more valuable.

While internet use in older age groups has been increasing over time there are still 3.7 million people aged 65+ in the UK who have never used the internet and a fifth (20%) of people aged 65-74 and well over half (56%) of those aged 75+ have not used the internet in the last 3 months.²

Further, there are significant differences between being an internet user and banking or making purchases online. Of those aged 65-74 who use the internet, just 34% used internet banking in the last week and 34% made an online purchase in the last week. Looking at people aged 75 and over, these figures fall to 20% for online banking and 19% for online purchases.¹

Lower levels of online shopping and banking among older internet users may be partly a result of more recent adoption and so increase in time. However it may also be a very sensible response to concerns around fraud and in particular scams where they are misled into authorising a payment – in these circumstances, consumers are currently not guaranteed any protection. Even if the payment system itself is secure a user must still consider their own ability to identify and protect themselves from scams and if they do not feel confident in doing so then they may choose a method offering greater protection.

Looking at internet users of all ages we see that since 2015 the percentage who report using online banking or shopping has remained almost static at around 70% for shopping and 64% for banking (latest figures are for 2017).² Given the increasing reductions in bank branch networks and the push from firms to get customers online we might have expected to see increases in take up over this period and so this 'flatlining' poses questions as why take up has not increased and whether we can assume continued indefinite growth.

It is also important to remember that these figures do not measure confident use or extent of use, other than frequency (e.g. is this just balance checking, or are users also confidently making transfers/opening new accounts). As noted earlier, we do not know the impact of online banking on financial capability. There is certainly much potential for apps and other products which nudge users towards improved financial behaviour to improve the UK's money management. However it could also be that people rely on checking their balance rather than budgeting, and online marketing and shopping along with reduced

¹¹ Ofcom, Adult's media use and attitudes report 2018

² Ofcom, Adults media use and attitudes report 2018

friction in payments also increase risks to impulsive spenders with potentially severe detriment to some vulnerable consumers (e.g. those with certain mental health conditions).

As we expect more and more digital payments to take place through mobile and wearable devices it is also helpful to look at smartphone usage among older people. Here we see just 36% of adults aged 65-74 using a smartphone in 2017 (down slightly from 2016) and 20% of adults aged 75 and over using one (up 5% from 2016). This compares to 74% of all adults using a smartphone in 2017 and highlights the diversity of readiness to take advantage of the latest wave of new payment services.

Age UK has conducted more work on older people's use of the internet and we are would be pleased to discuss further how this might relate to digital payments and cash use.

Thinking further than ten years ahead, should we view digital exclusion as a cohort issue, something that will eventually die out? We expect that as an increasing number of people enter retirement having used digital technology as part of their working or social life those who are digitally excluded will fall. The numbers may fall faster if we continue to invest in initiatives such as One Digital and projects run by organisations such as The Good Things Foundation to help people get online and increase and update digital skills. However we also note that significant numbers of people who have in the past used the internet are ceasing to use it as they age. Lapsed internet use by adults aged 75 years and over rose from 3.9% in 2011 to 7.3% in 2017, before falling to 5.7% in 2018. Adults aged 75 years and over remain the age group with the highest proportion of lapsed internet users.³ More work is needed to understand why internet use may lapse: potential issues include device and app design and challenges in learning about new forms of technology and updating skills.

In addition to whether someone is online at all and whether they own a smartphone the following factors would be relevant in affecting likely adoption of digital payments by many older people:

- Payee acceptance: including small businesses, social clubs, individuals who help out
- Device design: the physical devices through which we access online services are a key gateway or barrier to use of the service. Older people are more likely to experience impairments which may make holding smaller devices such as smartphones or reading from a screen more difficult
- Interface design: as with device design this can be either a barrier or gateway depending on whether designers have taken into account the needs of a range of users
- Trust: this includes both confidence in the payment services and confidence in the user's ability to operate them correctly. It is separate from the actual levels of security offered by payment services as it relies on perception as much as absolute protection

- Security: the actual security offered and whether it is workable for the user
- Cost: including the cost of equipment and connection, especially for customers who do not wish to be online for other areas of their life
- Support in moving online there are some excellent initiatives but currently variable access
- Ongoing support: getting online is not a one off event, and while many older people will be supported by friends and family this is not an option for everyone and ongoing support (offline) is essential.
- Change and obsolescence: frequent change of systems and devices makes adoption more difficult and expensive, whilst this may be attractive to some it will be a serious barrier for others

We also highlight that the fact someone uses online banking for some activities or makes some digital payments does not mean that they no longer need access to cash. It is important that people can make the different types of payments that are important to them. Cash may therefore remain essential for someone who is a confident online user if they need it to make payments to clubs or individuals who operate in cash. Indeed, measures focusing on how people make 'most' of their payments must also be read in the context of how important the cash payments are to the individual and whether there are other meaningful alternatives.

We also raise concerns around measuring cash use as compared to measuring digital payment use. It is inherently more difficult to measure cash use than digital payment use and so whilst the decline in use of cash is unmistakable we must be careful to ensure that we do understand where it continues to be relied upon, especially as it seems to be among groups who have historically been under-represented in research including older people.

Q2 What further action could the government take to support greater adoption of digital payments by merchants and consumers (including civil society groups)?

We would encourage the government to ensure that its focus on supporting greater adoption of digital payments remains firmly within the context of ensuring that everybody has access to payment services that allow them to store money and make and receive payments in a way that is safe, convenient and affordable.

There are many opportunities for government, regulators, firms and charities to make digital payments work better for consumers and so increase meaningful adoption. For example:

- Ensure that consumers are able to keep their money safe – in the context of Faster Payments this requires a combination of better rights to protection, security and support from the bank, together with reasonable expectations of what a consumer is capable of doing to protect themselves. The work that the Payment Systems Regulator is doing to respond to the Which? supercomplaint on scams, in particular in setting standards for reimbursement, should be seen as critical in establishing acceptable standards for digital payments that rely on faster payments;
- Ensure consumers are able to easily and reliably identify reputable payment service providers, this will require effective regulation, supervision and systems that allow consumers to check the status of providers
- Ensure that redress systems are simple, consistent across different payment types and effective
- Invest in and promote services to help people get and stay online and develop confidence once online
- Invest in and promote services to enable people to get support once they are transacting online
- Encourage designers of devices and interfaces to test thoroughly with a range of consumers, including those who may be considered vulnerable
- Research the impact of changing payment systems on financial capability, so that services that promote better money management can be encouraged, and those that encourage reduced price sensitivity and impulsive spending discouraged (e.g. see work being undertaken by the Money and Mental Health Policy Institute)
- Once services are safe and properly tested then it will be much easier to encourage consumers to take up digital payments
- Ensure that there are back-up systems in the event of system failure

Chapter 3: The future role of cash

Q5 Who uses cash as their main form of payment and why?

We use the UK Cash statistics as the most reliable measure currently available. A breakdown is not available for those aged 75+, but if it were, we would expect to see a significant increase in cash use among the older group.

We would also ask ‘who is cash essential for’? It may be that someone has their bills set up on direct debit and therefore their cash use appears small as a proportion of the value of their payments, but they may view it as essential. For example we speak to older people who talk of the importance of cash for very small payments which allow them to participate socially.

Improvements to third party access arrangements may reduce the need for cash in some cases. We note that it is important to focus on the whole customer journey from where the money is stored to the end payment. For example we hear from older people who manage most of the finances online but who need cash and are unable to access it themselves and therefore rely on the DWP Exceptions Service to allow a third party to access cash for them. Alternatively, we also hear from people for whom challenges with operating online or using telephone banking services mean it is hard for them to manage their money: this reduces their access to different payment services which would otherwise, at the point of sale, work well for them.

There is also useful insight from the Financial Conduct Authority's Ageing Populations Occasional Paper, in particular from the Coping Mechanisms and Third Party Access research (focused on older people receiving help managing their finances and their carers) which highlighted that:

".....for many, access to cash was very important and helped older people feel calm and in control. It also gave them a sense of autonomy and independence..... there was a preference for face-to-face interactions and reliance on a branch to undertake financial activities."

Other factors identified as important included:

- certainty overall and paying bills on time was a priority
- paper statements, receipts and mini-statements from ATMs were felt to be reassuring and helped some older people recall the actions they had taken
- older people had a strong preference for maintaining their existing and familiar routines. They and their carers believed that working within their existing routines helped prolong their autonomy and independence

Other payment methods do have the potential to deliver these qualities, however currently cash is currently still preferred for some groups.

Q6 How does cash usage and need vary by demographics, geography, and socio-economic status?

As before, we refer to the Cash Services statistics as the most useful source of quantitative data on cash usage.

The FCA's Financial Lives Survey also contains some useful context on access to banking and payments more generally.

10. Does the current denominational mix (eight coins and four banknotes) meet your current and future needs? If not, how should it change?

Through our advice line we hear from older people for whom cash is essential to reimburse those who have helped them (for example by doing the shopping), paying small amounts for a lift or also often small amounts for tea and coffee or entrance to an activity. These transactions which are perceived as essential for social inclusion often rely on the availability of at least some of the smaller coins.

Other comments:

We recognise that these changes in payments have important implications for fundamental rights and also our security as a nation. In particular we have concerns around how new payments systems affect privacy and our ability to continue to function in the case of an emergency, including power outages or cyber-security breaches. We have not responded in detail on these points as they are not our core areas of expertise, however we highlight them here as issues of concern to all consumers.

¹ FCA Coping Mechanisms Report, 2017

² From ONS Internet Users, UK: 2018

³ ONS Internet Users, UK: 2018