

# Payment Systems Regulation: Call for Inputs

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## **About this consultation**

The Financial Services (Banking Reform) Act 2013 requires the Financial Conduct Authority (FCA) to establish a new regulator for payment systems in the UK. This new regulator, currently referred to as the Payment Systems Regulator or PSR was incorporated as a subsidiary of the FCA in April 2014 and will be fully operational in April 2015. The FCA has published a call for inputs, focused especially on the issues of competition, access, governance, ownership and innovation. The findings from the consultation are expected to inform the PSR's approach as it develops specific regulatory options for formal consultation later in 2014.

## **About Age UK**

Age UK is a charity and a social enterprise driven by the needs and aspirations of people in late life. Our vision is a world in which older people flourish. Our mission is to improve the lives of older people, wherever they live.

We are a registered charity in the United Kingdom, formed in April 2010 as the new force combining Help the Aged and Age Concern. We have almost 120 years of combined history to draw on, bringing together talents, services and solutions to enrich the lives of people in later life.

Age UK provides information and advice to over 5 million people each year, runs public and parliamentary campaigns, provides training, and funds research exclusively focused on later life. We support and assist a network of around 170 local Age UKs throughout England; the Age UK family also includes Age Scotland, Age Cymru and Age NI. We run just over 450 Age UK charity shops throughout the UK and also offer a range of commercial products tailored to older people.

Age UK also advocates for older consumers. Particular areas of focus in financial services in the recent past have been payment systems (including work on the future of cheques); access to banking more generally (for example accessibility of telephone and online options, treatment of powers of attorney); equalities (for example calling for blanket age limits in lending to be replaced with appropriate use of underwriting).

## Key points and recommendations

- Payments are essential services but currently exclude some user groups.
- The PSR's objectives are all framed around 'the interests of those who use, or are likely to use, services provided by payment systems'. We welcome this focus on the user. .
- The PSR must understand what service users need and how they currently use payment systems. This will require the PSR to commission independent research.
- The PSR will also need strategies to ensure it engages effectively with service users, including consumers.
- The PSR may benefit from some of the FCA's recent work on engagement with consumer groups and should work with FCA colleagues to develop a culture which understands consumer issues.
- Vulnerable consumers should be a particular concern of the PSR. Issues affecting currently marginalised groups should be addressed directly by the PSR and not seen as optional corporate social responsibility issues.

### 1. Introduction and general comments

We are pleased to respond to this call for inputs from the FCA on behalf of the Payment Systems Regulator. We strongly support the establishment of the new regulator and welcome the decision to frame each of the PSR's objectives around 'the interests of those who use, or are likely to use, services provided by payment systems'. While there are many exciting opportunities for innovation in payments we believe that the PSR's objectives give it a clear mandate to focus regulation in a way which ensures all consumers have access to payment services which they can use safely and conveniently.

Payment systems are essential services. They are effectively the only medium through which consumers can access utilities and essential services such as gas, electricity and water – and most people also use them to undertake the most basic of everyday tasks such as grocery shopping. Almost without exception, everyone needs access to payment systems in order to be able to participate in society at the most elementary level. Payment systems also form an essential part of community infrastructure, particularly in rural areas where older people may be heavily reliant on small local businesses.

Older people constitute a rapidly increasing proportion of the population. Today over 14 million people in the UK are aged 60 or over, with this number expected to pass the 20 million mark in the next 20 years<sup>i</sup>. In fact, the percentage of the total population who are over 60 is predicted to rise from 22% at present to almost 30% in the next 20 years<sup>ii</sup>. Yet Age UK research in 2011 found that payment systems were not working well for many older people<sup>iii</sup>. New developments that make it harder to obtain wages and benefits in cash – including modernisation of their payment systems by DWP, HMRC and the private sector; changes to delivery of social care as part of the personalisation agenda – increase the reliance of consumers, particularly older people, on payment systems. Unless their needs are taken into account, a lack of access to non-cash based payments for this

increasingly large segment of the population will further increase their exclusion from society. It is also important to note that issues experienced by older consumers are often also found among other marginalised groups, such as those living with disabilities or on a low income.

Age UK provided a full response to previous consultations on UK payments which may be relevant, our response to the most recent consultation on the establishment of the PSR can be found [here](#).

In this call for inputs we focus on how the PSR will be able to ensure that it effectively meet its objectives 'in the interests of those who use, or are likely to use, services provided by payment systems'. We include references to some of the issues older people currently encounter in the payments landscape, however we would welcome the opportunity to talk about these in more detail as the PSR develops its thinking.

## **2. Understanding the interests of service users**

Historically it has been difficult for consumer organisations to achieve adequate representation given the imbalance of power between consumers and the industry and within existing governance structures.. Experience of working within payments and in seeking to provide consumer insight to the FCA suggests that consumer organisations alone will rarely be able to provide the evidence required by the regulator either to determine its plans or to take action on a particular issue. Further, consultation exercises will tend to receive a much greater response from a range of industry players, some of whom may be particular types of service users, than from consumer groups. This means that:

- the PSR will need to undertake or commission its own independent research to understand the needs of service users and:
- the PSR will need to build links with and capacity within relevant service user organisations.

We believe that the PSR will need to be proactive in this area and focus on holding the industry to account in the interests of service users. The need for this has been demonstrated by past failings to take into account the needs of consumers, or even seek to understand their views. The tendency seems to have been a push for change before the implications for consumers have been fully understood, for example the cheque withdrawal programme, current voices pushing for cashless society, and a focus on innovation based around digital and mobile devices. This is contrasted by the lack of attention paid to improving existing services even where gaps have been documented, for example a lack of safe ways to delegate payments effectively. Progress in these areas has tended to require significant input from consumer groups and at times Government before industry responds. Further, we continue to see considerable PR activity around new payment systems and the role of technology which do not take into account the needs of older consumers or provide any more general context.

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The mechanism for the new regulator's engagement with consumers therefore needs to be carefully thought through, both in terms of the formal structure it takes and getting the right kind of people around the table. We would favour either replicating – or expanding the remit of - the FCA's consumer panel as a means of achieving this.

Success in understanding the needs of service users will also require an appropriate culture within the PSR. We recommend that the PSR learns from the experiences of the FCA and where possible considers using resources developed in the Consumer and Market Intelligence team to help promote positive culture within the FCA.

### **3. Vulnerable service users**

Because payment services are an essential service and in the light of recent experiences we would also argue that, over and above the need for consumer engagement, there should be a specific focus on how payment systems work for vulnerable consumers. A “vulnerable consumer” can be defined in various ways depending on the regulator but commonly includes those who are of pensionable age and disabled people. This is another area in which the PSR may benefit from sharing expertise being developed within the FCA. Although not all older people are vulnerable, and we would argue against stereotyping them as such, we strongly believe that suppliers of products and services can render people unnecessarily vulnerable because of the policies and procedures they employ. This is particularly the case in a sector such as financial services that is already intrinsically complex and where, for example, technological innovations designed without the needs of older people in mind leave them with no viable alternative to access money.

It is important that vulnerable service users and other marginalized groups are covered by the work of the PSR. These users are especially likely to experience a failure of competition and therefore need the intervention of an economic regulator to ensure that services promote and take account of their needs. The Payments Council has recently started some good work on understanding the needs of the older old and those living with disabilities and on delegated payments, however this has occurred following significant pressure from Government and consumer groups. We would therefore be concerned if this type of work was left as a corporate social responsibility 'extra' to the industry; it should instead be central to achievement of the Service User objective.

### **4. Older people and payment services**

Age UK has found that payment services do not meet the needs of many older people.<sup>iv</sup> Common issues include challenges in safely and securely delegating payments and difficulties communicating with their payment service providers. Difficulties using PINs and feeling compelled to accept new systems that they do not feel confident using or cannot use without assistance are also reported to us. Some of our main concerns at this time, however, are around the future payments landscape. The vision expressed among many payments professionals does not appear to take into account the needs of a significant section of the public.

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<sup>i</sup> Age UK Later Life Factsheet February 2014

<sup>ii</sup> Age UK Later Life Factsheet February 2014

<sup>iii</sup> The Way We Pay: payment systems and financial inclusion, Age UK 2011

<sup>iv</sup> The Way We Pay: payment systems and financial inclusion, Age UK 2011