

Consultation Response

Everyday Finances: What consumers need in a changing world of banking and payments

Which?

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About this consultation

Which? has published research ('Everyday Finances – what customers need in a changing world of banking and payments) that seeks to understand what people need and expect from the retail banking and payments industries.

The research found that new technology, coupled with cost cutting by banks and new regulation, is seeing the way in which people spend money and conduct their banking changing. This rapid move – promoted by the industry – to online banking and digital payments is being accompanied by an equally rapid decline in the availability of high street bank branches and ATMs, along with further decline in cash use.

The research also found that these trends have delivered significant benefits to the industry and to some consumers. However, it has also created risks. As banks withdraw from the high street in favour of online digital services, many people are losing access to core banking services and consequently will struggle to keep control of their finances in a more complex and personalised financial world. This will in turn make it harder for them to manage their day to day finances.

Which? have sought comments on several of the issues that arise from the research.

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.

Key Points and Recommendations

- Access problems are approaching the level at which a Universal Service Obligation should be considered to ensure all consumers have convenient, accessible and safe ways to receive and store money, and make payments.
- The Access to Banking Standard needs to be strengthened to require a bank to develop a plan to minimise the impact of the closure on vulnerable customers in ways that meet the customer's requirements

Introduction

We welcome this new research, which provides a useful assessment of the current state of the banking and payments industries. We agree with many of the research's conclusions and recommendations.

In particular, it is clear that the industry is currently going through a period of rapid, unprecedented change. It is shifting from the old 'analogue' model based on a branch network and regular, personal contact between the customer and the firm, to a digitally focussed model.

We agree that this will bring about many benefits to customers who choose to use such services, but it will particularly benefit the firms themselves as new technology continues to deliver cost savings to banks.

However, while many older people embrace digital technology, most prefer to transact via conventional, branch based banking¹. As such, we particularly support Which?'s view that a significant number of financial services consumers are being left behind by this change to digital, and the industry is the main beneficiary.

We also share the view that the demand from consumers for new digital services is low. While the banks have been enthusiastically continuing to increase their digital offer, ensuring easy access to cash has become increasingly important.

Recent debates have shown how important access to cash is, particularly for excluded groups such as the homeless². Yet despite this, and recognition that access to cash needs to be treated as a core part of the UK's infrastructure³, delivery – almost uniquely for such a critical service - is in the hands of a private sector industry with few requirements to ensure access (beyond offering basic bank accounts) or long term guarantees of provision.

We have not answered all of the questions, as several fall outside our remit.

Consultation Questions

Question 1: *Do the core banking and payments services identified (Section 2.1) represent the core services that all consumers need access to?*

We agree that Section 2.1 provides an accurate summary of the current state of the banking industry, and how services are evolving.

Older people are a varied and disparate group, who have a wide range of banking needs and requirements. Some will be relatively affluent, and will need a range of services to help them manage their money most effectively. Many are living on low incomes, with few

¹ Age UK, *Age Friendly Banking*

² <https://servicing.hsbc.co.uk/togetherwethrive/>

³ Access to Cash review 2019

savings to fall back on, and so they will require a range of services that will be focussed on how they can best manage the limited resources they have.

There is still a preference for personal, branch based banking amongst older people⁴. 53% of older people had only used non-digital banking methods to access their account in the last three months⁵.

We return to these issues later in our response, but believe that the level of bank branch and ATM closures has reached a point that means the time is now approaching that a Universal Service Obligation (USO) for banking should be properly considered. Banking is increasingly regarded as is an essential service – like water, power and communications – so a USO, regulated by the FCA, would ensure that all consumers have affordable, convenient and safe ways to receive and store money, along with making payments.

Transactional banking services fulfil European requirements for an essential service, and are equivalent to other services in the UK for which a USO already exists⁶.

To reflect banking's status as an essential service, Government needs to take a more active role in ensuring access to banking. A subset of the Financial Inclusion Policy Forum should be established, tasked with investigating how access to banking services can be maintained and ensuring that banks are delivering a good quality service to consumers. Ultimately, consideration may be needed to introduce legislation to require 'bricks and mortar' businesses to accept cash, in a similar way to that recently introduced in New York⁷.

The rise of digital banking can also be a mixed blessing even for those who are digitally aware. Those who wish to use digital banking services may be unable to do so because of a poor broadband connection, or may not be able to afford either an internet connection or the hardware required.

We particularly welcome the conclusions to this section, highlighting the need to support people left behind by any changes, especially where the changes will benefit the industry and a minority of engaged customers to the detriment of the majority.

Question 2: Are there sufficient regulations or other protections in place to ensure that all consumers are, and will continue to be, able to access the services they need to manage their day to-day finances?

No. We have seen banks – over a period of many years – continue to close both branches and ATMs in the face of local opposition and argue that their internet and wider digital offering more than compensates for these closures.

⁴ Age UK, *Age Friendly Banking*

⁵ Which? surveyed 1004 UK adults between 22nd and 27th August 2019. Fieldwork was carried out by telephone by Populus and data have been weighted to be representative of the GB population (aged 18+)

⁶ Age UK 2011 *The Way We Pay*

⁷ <https://www.theguardian.com/us-news/2020/jan/24/new-york-city-ban-cashless-businesses-discrimination>

Clearly, the move to these new, technology based solutions will be welcomed by some bank customers, and as noted in the Which? research, 8.4 million customers now prefer to bank online. However, this is less than the 11 million adults who the research found chose not to use any online, web or app based banking service over the last three months, and we will shortly be publishing research that will show that a significant minority of older people who were previously online have stopped using it the internet for a variety of reasons, including experience of fraud, cost, an inability to keep up with constantly changing technology and lack of interest⁸.

To reflect this large group of consumers who continue to prefer 'analogue' banking techniques and methods, the Government should ensure that all consumers have safe and affordable ways to receive, share and make payments in a way that needs their needs and requirements.

We have the following comments on the specific issues you raised:

Basic Bank Accounts

While there is clearly a role for basic bank accounts, they will not be suitable for most older people, who will usually have an account already but find that it increasingly does not meet their needs, or require the services that a 'conventional' account offers such as an overdraft or cheque book. Key issues that older people encounter with their banks are often difficulties accessing cash, receiving appropriate advice from staff who are often unaware of the needs of older people, or from branches whose design can often prove challenging to older people.

A basic bank account will not solve problems of accessing cash if the branch has been closed. Likewise, if an older customer has difficulty remembering or entering their PIN number at an ATM, this will be the case whether accessing a basic or a conventional account.

What matters is that older people have a wide range of accounts available to them, to reflect their differing financial needs, rather than one specific type of account.

The number of banks

We share the concern that with only nine major banks, there is relatively little competition between them.

However, this is only part of the issue – the Government and regulators also need to address the issue of what services they actively provide. With ready access to cash and non-standard services (such as assistance with third party access, or notification of a bereavement) being so important to older people, the geographical coverage of service delivery is also very important.

While we support any attempt to increase competition amongst the main banks, it will not produce change on the scale needed. This is because vulnerable people are poorly placed to switch accounts, and also because the main competition to the existing providers is

⁸ Age UK 2020 *Not Like Riding a Bike*

coming through new, technology based providers. By definition, these services are least applicable to people not online.

The Access to Banking Standard

The Access to Banking Standard does not provide an effective level of protection to bank customers.

The Standard requires banks considering closing branches to inform their customers of the potential closure and to make them aware of other banking options. It also requires banks to minimise the number of branches that they shut.

Banks could do more to encourage use of their existing branch network. Customers would, for example, use branches more if they had extended service hours via virtual services with a representative in the branch (36 per cent of consumers), provided digital self-help screens with the option of help from a representative if required (34 per cent), 'virtual meetings' with staff via video (52 per cent) and providing café style facilities (34 per cent)⁹. Banks must be more proactive in considering methods to increase a branch's footfall and viability before taking the decision to close a branch.

However, banks are continuing to close branches and there are increasing numbers of 'deserts' with no branch provision, and consequent problems encountered by people accessing in branch and their cash. In 2017, around 10 per cent of the rural population lived at least 10 miles away from their nearest branch, while in some localities there were even bigger problems. 45 per cent of people in West Devon lived at least 10 miles away from a branch, while in Aberdeenshire it was 41 per cent and 38 per cent in Richmondshire¹⁰.

The Standard must go further than it does at the moment to ensure that the impact on vulnerable customers is minimised. The main beneficiary of closing a branch is the bank, which will make financial savings through saving both the costs of the building and staff (which have been estimated at £590,000 per branch per year¹¹). However, customers face increased costs as they have to spend more in travelling further to facilities than they once did, or find that they are unable to access once convenient banking services at all.

The Standard needs to be strengthened to require banks to proactively engage with vulnerable customers ahead of a branch closure to ensure that the customer fully understands the implications for them of the branch closing, and to develop a plan that minimises the impact of the closure on vulnerable customers in a way that meets their requirements.

If the banking industry believes that this is not possible, then again consideration needs to be given to a USO to ensure that vulnerable customers are able to easily access banking services.

⁹ Deloitte Ireland *Accelerating Digital Transformation in Banking 2018*

¹⁰ FCA 2019 *When bank closures bite : the picture across the UK*

¹¹ BSA 2019 *Reinvigorating Communities*

Post Office Banking

The post office banking system (both by a post office offering transactional services for banks or via the operation of its own products and the Post Office Card Account) represents a banking option for many older people. 19 per cent of people aged 65+ had used the Post Office to access or manage their bank account in the last three months compared to just 12 per cent of those aged 35-64¹².

Using the Post Office network has become the 'go to' response of banks and others when talking about branch closures, with them directing customers impacted by closures to the post office to access their services, and highlighting the extensive coverage of the network. Delivering banking services via the post office is also a good way of sustaining the post office network, which we know is important to many people, young and old¹³.

We support the use of post offices for transactional banking services such as cash withdrawals, but for this to be effective, it needs the full, ongoing, support of the banking industry. Barclays, for example, announced in October 2019 that they would end cash withdrawals at post offices. Although they later rescinded this decision, it was only for three years¹⁴.

Nor can post offices be a complete alternative to a branch. Post offices often have long queuing times for service (which 14 per cent of post office shoppers felt was unacceptable)¹⁵ a lack of privacy and a lack of banking advice.

If branches continue to close and this leads to a further increases in demand for Post Office banking services, the network may not have the capacity to cope.

Shared banking hubs

We strongly support the concept of shared banking hubs. Older people very much value the existence of a branch of their bank on the high street. While we recognise that this will not always be possible for every bank in every high street, the development of shared hubs would allow individual banks to maintain a presence in towns and areas they would not otherwise be able to serve, and return to communities they have left.

We remain bemused at the apparent lack of enthusiasm from the banking sector for the development of such services. Developing shared hubs would allow banks to retain a presence in markets they would otherwise be absent from, maintaining customer awareness and goodwill, and allowing their customers in those areas to continue their banking relationship with them.

As well as accessing cash, one of the key services that customers value from a branch is the ability to seek help and advice. This is often not complex 'regulated' advice, but can be help with simple transactional issues, such as asking about their balance. Again a network

¹² Which? surveyed 1004 UK adults between 22nd and 27th August 2019. Fieldwork was carried out by telephone by Populus and data have been weighted to be representative of the GB population (aged 18+)

¹³ Social Market Foundation 2016 *Balancing Bricks and Clicks*

¹⁴ <https://home.barclays/news/press-releases/2019/10/barclays-and-the-post-office-banking-framework/>

¹⁵ Citizens Advice 2017 *Research into the quality and consistency of service standards and product knowledge across the post office network*

of shared banking hubs provides an opportunity for banks to continue to please their customers by providing such services, while utilising the post office network for more transactional services.

Question 3: *Does Which?'s research correctly identify the key barriers to accessing online banking and digital payments? Are there any further barriers that will need to be addressed to ensure consumers have the option to access online banking and digital payments services should they want to?*

The key barriers preventing people from accessing online banking are outlined in the research with one exception – affordability should also be considered. This means being able to afford either the internet connection or the cost of computing or smartphone equipment to actually access the internet or apps.

Additionally, many online and digital services assume a reasonable level of digital skills. Yet 11.9 million people in the UK do not have the digital skills required for day to day life¹⁶, let alone managing their finances. Online and digital services need to be designed in an inclusive manner to make them as accessible to people with relatively poor digital skills. Our forthcoming research with lapsed internet users also shows that constantly changing technology is also a barrier.

We are particularly supportive of the recognition that cognitive decline – a key factor in aging - is a major barrier to people using digital banking solutions. An older person may have a high level of digital or financial skills, but as cognitive decline takes place their skills may also decline, making it more difficult to bank electronically. Even with normal ageing, the brain becomes less efficient at creating new memories, making learning how to use new technology and redesigned websites even more challenging.

We are aware that some people argue that as a consequence of younger cohorts being more tech-savvy, society will grow out of a reluctance to use digital solutions. However, the impact of cognitive decline on an individual's ability to use digital services will mean there will always be a significant group of older people unable to bank this way.

Question 4: *Is there any evidence or examples of retail banking, payments or short-term credit products or services being provided online or digitally that may be causing harm because either:*

- a. access is restricted to certain consumers*
- b. firms are using technology to offer consumers products or services in a way that is likely to encourage poor financial decisions?*

We recognise that increasingly firms are seeking to serve customers via online offerings, and that many customers welcome the opportunity to use such offerings.

However, they are based around small cost differences for commoditised products, with firms competing to offer a small price saving to perform well in best buy tables and price

¹⁶ Lloyds Bank Consumer Digital Index 2019

comparison websites to attract new customers. This focus on the ‘average’ customer risks excluding those who are not so easy to serve out of the market.

This is particularly prevalent in the insurance sector, where older people find they are unable to buy cover- or it is offered at an unaffordable premium – as a consequence of their age. In the mortgage sector, an older person who meets all of the income and other requirements to take out a loan would probably be unable to do so as, for example, the loan would extend beyond their 75th birthday.

When older customers can buy products, firms then take advantage of customer inertia to slowly increase the premium (or, in the case of savings accounts, lower the interest rate) so that the products are no longer competitively priced. The FCA’s 2015 study of the cash savings market, for example, found that £175 billion was being held most in easy access and cash ISA accounts with balances above £5,000 at interest rates of 0.5per cent or less¹⁷.

A Money Savings Expert User found that for around 10 years her grandfather had been holding over £90,000 in a building society account that was earning 0.08per cent interest, having been migrated to the account from one he had held for a number of years¹⁸.

Online or digital services also often emphasise their speed and ease of use to customers. However, fast, frictionless payment systems can also be used by fraudsters to facilitate scams, so online and digital products need to have options available to increase friction when appropriate and reduce the speed of payments to protect against fraud.

Life in retirement can also put new demands on older people’s financial capability skills. A major issue is the assumption that all financial information and advice can be provided online.

While many people welcome this, people at all ages value human interaction to make sense of and understand information provided online and how it applies to them. From managing money day-to-day, banking in new ways and avoiding scams to more complex financial decisions such as downsizing and paying for care, older people need good quality information advice that they can trust.

Question 6: *What institution(s), if any, should be responsible for increasing the digital skills of consumers?*

When a bank seeks to move a customer from an ‘analogue’ to a digital banking solution (perhaps as a consequence of a branch closure or a change in the product offering) then the bank should have a duty of care to ensure that affected customers have the skills required to bank online or that other processes are available that meet the customers’ requirements to allow them to continue to access banking services. We note that under the Equality Act banks already have a duty to ensure reasonable adjustments are made to ensure their services are available to people with disabilities.

¹⁷ FCA 2015 *Cash Savings Market Study Report*

¹⁸ Age UK 2014 *Financial Resilience in Later Life*

That duty of care should also extend to ensure that banking services are available for those who are not online. Just because someone chooses – or is unable – not to use online or digital services does not mean that they should be excluded from banking services. If the trend to digital banking continues, the government should give serious consideration to a USO to ensure analogue banking services remain.

Question 9: *What actions should be taken to guarantee access to free-if-in-credit banking for those that need it? Is it reasonable for the UK industry to support free-if-in-credit banking:*

a. for all consumers?

b. while protecting a geographical spread of banking access points that allows all consumers

to access core banking services offline?

Some older customers will be in a position to pay for banking services, particularly if they have substantial credit balances, the interest on which could offset account charges.

However, the majority of older customers don't enjoy such fortunate financial circumstances, but do not run debit balances so would not benefit from reduced overdraft fees. They will find that the extra costs of such an account a severe disruption to carefully balanced budgets.

However, a range of free accounts is pointless if people are unable to access banking services to use them. A good geographical spread of banking access points is required that allows all customers the opportunity to access banking services offline. More research is required to understand what 'good geographical spread' actually looks like to deliver a network that both meets consumer needs and that does not lead to customer detriment.

Question 10: *What are the potential benefits or harms that consumers may experience if the UK moves away from a free-if-in-credit banking model? It would be of particular interest to get insight of whether specific groups of consumers would be positively or negatively*

16per cent of pensioners in England live in poverty¹⁹, and these and many others face a daily struggle to make ends meet. While some might benefit from reduced overdraft fees, many older people are not net borrowers. Any move away from a free-if-in-credit banking model could potentially worsen the financial circumstances of these people further, as they would be forced to make savings and financial compromises in other areas of their life to be able to afford the relatively simple banking services they are dependent upon.

¹⁹ Age UK Poverty in Later Life 2018