

A national payments plan

Citizens Advice's response to the Payments Council

February 2008

Citizens Advice welcomes the opportunity to respond to the Payments Council's consultation on a National Payments Plan.

The Citizens Advice Bureaux (CAB) network is the largest independent network of free advice centres in Europe, providing advice from over 3,200 outlets throughout Wales, England and Northern Ireland. We provide advice from a range of outlets, including GPs' surgeries, hospitals, community centres, county courts and magistrates courts, and mobile services both in rural areas and to serve particular dispersed groups.

The service has two equal aims:

- to ensure that individuals do not suffer through lack of knowledge of their rights and responsibilities or of the services available to them, or through an inability to express their needs effectively;
- and equally, to exercise a responsible influence on the development of social policies and services, both locally and nationally.

In 2006-2007 the CAB service dealt with 5.7 million enquiries in total. Of these, 1.7 million were about debt, 100,000 about consumer goods and services, 110,000 about financial services and 88,000 enquiries about problems with utilities.

As well as giving advice, some Citizens Advice Bureaux deliver financial education initiatives to their community. Over 80 bureaux are now undertaking financial skill training in their communities, particularly to people at risk of social or financial exclusion.

CAB clients are often disadvantaged and many are on low incomes or benefits, or are disadvantaged in some way. For example, research by MORI for Citizens Advice found that CAB users tend to be in social grades DE and be unemployed, or living in social housing.¹ These could be termed, "vulnerable consumers" and may well be financially excluded. We therefore have a particular interest in how payment systems and methods of payment affect low income groups, though their impact on consumers generally is also of concern to us.

We have only answered those questions which appear to us to be relevant to the CAB service and its client group.

¹ Financial Overcommitment, research study conducted for Citizens Advice by MORI, July 2003

Issues for Consultation - Cheques

Q1 The Payments Council is minded to develop a proactive industry plan to manage what it sees as the irreversible decline in cheques. Do you agree that a plan for cheques should be developed?

We agree with the Payments Council's conclusion that the use of cheques as a method of payment appears to be in decline, and that they need to develop a plan for this. However we are concerned that the conclusion to develop a proactive plan to manage this appears to have been made almost solely on the basis of efficiency of payment mechanisms and what financial services providers and retailers want, and without considering what **all consumers** want and need.

We consider that the Payments Council must undertake research on the usage of and need for cheques by different groups of consumers before making firm plans to phase out cheques. This research must include how cheques are used by specific groups, including age, income, social class, and state of health. This research should also look at the need for and usage of cheques by small businesses.

In developing a plan to phase out cheques, the Payments Council should not seek to hasten their demise until alternative arrangements are in place for all circumstances where cheques are currently used and **all** groups of people are comfortable and confident in using them. They must consult widely with charities, health professionals and other groups working with vulnerable people before phasing out cheques.

When developing a plan to phase out cheques, the Payments Council need learn lessons from examples of forced migration away from cheques and cash payment. Examples of such forced migrations are additional charges imposed by some telecoms companies on those customers who were not paying their bills by direct debit. This was done without warning, and the rationale for the decision was what was convenient for the companies concerned, rather than what consumers wanted or needed.

Evidence received from bureaux shows clearly that the imposition of charges for making payment by methods other than direct debit can hit those on low income and the more vulnerable members of society particularly hard. Groups that may be affected include:

- people who do not have a bank account;
- people who have only a Post Office card account (POCa) which does not allow account holders to make direct debit payments; and

- those who deliberately choose to pay by cash since it allows them to monitor their finances more closely and avoid getting into debt or financial difficulties.

An 80 year old widow visited a Kent CAB to enquire about a processing charge which had been added to her phone bill by her landline phone company. Her only income was her pension which she received in cash and used cash to pay her bills. She was incensed as she did not want to pay by direct debit as previously she had trouble both with the bank and other creditors.

A Gloucestershire CAB reported the case of another landline telephone customer who was refusing to pay by direct debit or monthly payment plan as it did not suit her circumstances. She had been charged a payment processing fee of £1.50 per month. The client rang to complain and pointed out that the company had already charged a late payment charge of £7.50 when she paid her bill less the payment processing charge. She had been informed that if she did not pay the amount due in full the balance would be transferred to her next bill and she would be charged the late payment fee again.

A 71 year old CAB client from Hampshire, living on her own received a telephone bill with a £4.50 processing charge. The due date was only two days later and she would be charged £7.50 if the payment was late, leaving the client annoyed and worried this might have an impact on her overdraft.

The consequences of these charges include:

- by actively seeking to persuade people to opt to pay their bills by direct debit, some suppliers are effectively pushing customers towards using a payment method which may not be appropriate for them (e.g. due to the imposition of bank default charges for missed payments);
- information about the charges does not seem to be immediately obvious to the consumer, prompting questions about (i) transparency; (ii) competition; and (iii) their potential role in subsidising eye-catching headline rates (e.g. for monthly charges) by generating alternative streams of revenue;
- attempts by consumers to query such charges with a customer services adviser can often be frustrated by extremely poor levels of customer service, meaning that people who are penalised through non-direct debit charges or late payment fees are then punished again by having to pay for lengthy calls to their communications supplier.
- the imposition of charges on existing contracts would seem to represent a unilateral variation of terms which disadvantages the customer, so we would welcome some clarification about the legal status of such moves; and

- the level of charges imposed for non-direct debit payments by some companies appears to have increased dramatically recently although it is not apparent why this should be the case.
- It is disappointing to note that although many communications suppliers are keen to encourage their customers to pay by direct debit through the imposition of additional charges for other payment methods, it appears that these companies have so far failed to contribute in any meaningful way to the process of fostering greater financial inclusion. We would have hoped that responsible companies would wish to coordinate their efforts to promote payment by direct debit (and, by implication, ownership of bank accounts) with wider activities involving government, industry and the charitable sector that are intended to assist consumers in this process.

Q2 For which types of payment currently made by cheque do new alternatives need to be introduced?

Citizens Advice believes that there are two further types of payment currently made by cheque which need to be added to the list of types of payment set out in the two bullet points at the bottom of page 16 of the consultation paper. These are:

Those people whose state benefits or housing benefit are still paid by cheque

Whilst the vast majority of state benefit claimants are now paid their entitlement into a bank account or Post Office card account, a small number continue to be paid by cheque. We understand that 98% of all state benefit recipients now have their benefit or pension paid into an account. Around 2% (around 400,000) people are paid by cheque. Many of these will be people who cannot open or operate a bank account of any kind, including a Post Office card account. These include:

- housebound people who have more than one regular carer,
- those who can't cope with PINs, either because they cannot remember them or cannot use a PIN pad
- *inability to open/operate an account due to disability/degenerative illness*
- *those who lead chaotic lives*
- and one-off and emergency payments (e.g. crisis loan payments from the Social Fund).

The Department for Work and Pensions (DWP) has recently consulted with us and other stakeholder groups on possible changes to cheque payment, including whether cheques could be replaced with automated methods of payment for all cheque payment recipients. In our response we stated that any cheque replacement product based around plastic cards and PINs should be able to meet the needs of all of these customers.

Housing benefit, which is administered by local authorities and which provides help for tenants on low incomes with their rent, can also be paid by cheque. Whilst reforms of housing benefit to private tenants which take effect in April 2008 introduce direct payment into a bank account as the main method of payment, some tenants will continue to have their housing benefit paid directly to their landlord, particularly if they cannot open a bank account. However, for the first time, they may also be entitled to a payment of excess housing benefit of up to £15 per week which needs to be paid directly to them.

People without bank accounts

Citizens Advice Bureaux continue to receive evidence about people who are working but do not have bank accounts into which their wages can be paid. In these situations they receive cheques from their employers which are cashed at cheque cashers. The cost of a cheque cashing service can be significant for people on low incomes:

Q3 Would it be acceptable for the National Payments Plan to include a target date of 2018 for the closure of the cheque clearing (on the assumption that acceptable alternatives to cheques have been developed)?

Citizens Advice believes that this date appears to have been set in an arbitrary way. As we have highlighted in our answer to question 1 above, the Payments Council should wait until acceptable alternatives are in place for **all users** and all situations especially those involving 'vulnerable' consumers. The Payments Council must also ensure that people are confident in using alternatives to cheques. We therefore welcome the commitment made by the Payments Council in this consultation paper to providing education for all consumers on using alternatives to cheques.

Q4 What sort of education of users is needed to support the migration away from cheques?

From our experience in helping CAB clients manage benefit payments migration for both state benefits and housing benefit, we believe that the education strategy needs to be inclusive and needs to be more than just an advertising campaign if it is to reach the most vulnerable consumers and help them become more financially included. This means investing money in organizations providing financial skills training to hard-to-reach groups; providing support to people using these alternatives to cheques for the very first time and providing ongoing support for a while.

As well as education initiatives, Citizens Advice believes that the Payments Council should consider developing an equivalent to the Direct Debit guarantee for the new cheque alternatives to instill consumer confidence.

Q7 Do you agree that, as part of the National Payments Plan, there should be an objective review of the future of the paper credit clearing?

Citizens Advice welcomes the Payments Council's commitment to an objective review of the paper clearing cycle. For this to be objective for all consumers, this review needs to look at the importance of the paper credit clearing cycle for different groups of consumers, particularly those who are likely to be vulnerable or financially excluded. Many CAB clients still use and value payments cleared in this way, as it is a good means of budgeting. Payments made at a post office counter may also be more convenient for some people, particularly if they live in a rural area where the local post office provides the only local means of access to financial services.

A CAB in North West Wales reported that an 87 year old woman's new electric meter was a key system as opposed to the previous card system. The client's local subpost office sold the cards but did not have facilities to charge up the new keys. The client found travelling difficult, but would now have to make a 10 mile round trip to charge the key. The local sub-postmistress stated that the lack of local key charging facilities was forcing people to go out of the village for key charging, and take other business (paying bills etc) with them.

The review also needs to examine whether it is fair for people paying by this method to be penalized by additional charges. As we raised earlier in our response, some telecoms companies have recently imposed such charges which hit people on the lowest incomes the hardest.

Citizens Advice also considers that the Payments Council should consider undertaking a review of money transfer services to ensure that they are safe for consumers to use.

CASH

Q8 The Payments Council believes that the National Payments Plan should be developed on the assumption that cash will remain a major payment method for the foreseeable future. Do you agree?

Despite direct payment of benefit into bank accounts and other initiatives aimed at tackling financial exclusion, some people on low incomes still budget in cash. Despite all efforts to raise levels of financial inclusion, we believe that this is likely to remain, because it is the easiest way of keeping control of a limited budget. For example, DWP commissioned research into piloted reforms of housing benefit for private tenants mentioned earlier in our response found that, after two years of the pilot, 21 percent of housing benefit claimants were choosing to pay their rent to their landlord by cheque, and 34 percent by cash.

Only 40 percent felt capable of using a direct debit or standing order to pay their rent.²

Q10 What other actions, if any, should there be in the National Payments Plan in regard to cash?

Citizens Advice believes that the National Payment Plan should also cover the availability of free cash. This is not just about access to free ATMs, but also to ensure that there is counter access to cash at post offices and banks and building societies. We are concerned that some banks will not provide counter services to basic bank account holders, although these are the people who may need assistance from someone with banking services:

A CAB in Hampshire reported that their client had a basic bank account. Her bank did not allow people with this sort of account access to counter services unless they paid for them. Because the client had had four strokes she was unable to use the pin operated ATMs. She had special dispensation to use the bank's counter services because of this. However, if a new member of staff was on duty she was always challenged when she tried to draw her money out. The client suffered further humiliation because her disability meant her signature was not constant and at least one member of staff had challenged her identity once she got as far as the counter.

If the Payments Council wishes to play a greater role in fostering financial inclusion, access to free cash must be included in the National Payment Plan.

DIRECT DEBITS

Q11 What improvements would lead to the greater take-up of direct debits by users?

Citizens Advice believes that there are a number of improvements which the Payments Council should consider to improve take-up of direct debits, particularly for those on low incomes or who are vulnerable in some way:

Improving consumers' control of direct debits

One of reasons for people's reluctance to opt for direct debits is because they fear 'losing control' over their income and bank account. They have no choice over the date when the direct debit is taken from the account. Those whose income is paid other than calendar monthly (e.g. benefit claimants whose entitlement may be paid weekly, fortnightly or four-weekly) face particularly acute problems in trying to align these payments with direct debits paid calendar monthly.

² Local Housing Allowance Final evaluation, Report No15, table 5.21, DWP, 2006

People's fear of direct debits may also be based on past experience where they have incurred default charges when they had insufficient money in their account to cover the direct debit. . The outcome of the current test case in the High Court between the Office of Fair Trading and the banks may provide some help in this regard

Improving help for consumers when direct debits go wrong

Mistakes do happen, for example, a direct debit taken from an account twice or a direct debit for a large amount. Despite the Direct Debit Guarantee, it is not always easy or straightforward to put things right. CAB clients are put in difficult financial circumstances where this occurs:

A Surrey CAB reported that a lone parent on benefits had been paying her fuel company £30 per month by direct debit. On March 1 2007 the client received the first bill in a new system by her fuel supplier which gave the number of the meter. She had reason to question the amount and checked the meter number to find it belonged to her neighbour. She advised the fuel company immediately that the meter number was incorrect and gave them her correct one. She also pointed out that the readings on the bill did not correspond with readings from her previous bills. They said that Transco had given them the wrong number and they would rectify the matter. The client heard nothing until her next gas bill arrived in June. It showed a usage for 3 months of over £500. The meter number was still the incorrect one. A direct debit amount of £103 was demanded. When the client phoned her fuel supplier, she was told they would look into it and her direct debit amount would be reduced to £30. Over the weekend client's bank card was refused because she was overdrawn. She found that the fuel supplier had put through the direct debit amount of £103. As a result of the fuel supplier's mistakes, the client had been unable to buy necessities because of the withdrawal from her bank. She was upset that the fuel supplier had not acted on the information she had given them. The fuel complaints department told she could have the money refunded to her bank account by requesting an indemnity claim form. She feels she should not have been put in this position.

A CAB in Worcestershire reported that a man in receipt of means-tested pension credit wanted to make a regular donation to a charity helping people in the developing world, and set up a direct debit for £3 per month payable on the 4th of each month. By happenstance he drew some money out of a different branch from where his account was based and asked for a mini-statement. The client was shocked to find out that he had gone overdrawn by just £1. The bank clerk informed him that the direct debit had been taken on the 1st of the month. As a result he would be subject to a £30 charge on his account for an unauthorised overdraft. The clerk advised the client to claim the charge back from the charity concerned and stated that he 'needed to be careful with direct

debits'. This action would mean that he would have wasted 10 months' contribution to the charity for the sake of going overdrawn by £1 through no fault of his own, and with a consequent record on his account that would probably give him a poor credit rating.

A CAB in Berkshire reported that a disabled man on pension credit and disability living allowance opened an account to pay off a loan to another bank by direct debit. He managed the account carefully, always paying in cash before a direct debit is due. Despite being in credit, he was charged £70 for two direct debits for which his bank said there weren't funds. When the CAB adviser checked the client's bank statement, it quite clearly showed that he had paid £20 into account on 1st August making a balance then of £23.14. On 3rd August £10 was paid for direct debit mandate No 4. The same day £10 was paid to mandate No 3 leaving £3.14 in account as planned. For some unknown reason the same payments were paid again to mandates 3 and 4 on the same day making the client overdrawn. He was not aware of this until letter from bank arrived beginning of Sept telling him of this and charging £70 (£35 per direct debit) For a client on limited income this has thrown his careful budget out completely for September.

Encouraging banks and the originators of the direct debits to make changes in this area

Citizens Advice has been discussing these issues with the banking industry for some time and we are beginning to feel somewhat frustrated as to the lack of substantial progress. In our experience banks and originators of direct debits both state that they are keen to explore direct debit innovations, but point to the other party as stumbling block. It would be helpful if the Payments Council could play an active part in encouraging both sides to work together on solutions.

Q12 Would you support the introduction of a time-limited guarantee for direct debits in place of the current unlimited guarantee?

We oppose any change in the unlimited nature of the Direct Debit guarantee, for two reasons. Firstly it protects the weaker party in the transaction. Secondly it would have a negative effect on efforts to foster financial inclusion and improve the most vulnerable individuals' financial skills.

Q16 What opportunities would you identify to exploit the ATM infrastructure for non-cash transactions? How should these be reflected in the National Payments Plan?

Q17 Which other, if any, actions should there be in the National Payments Plan in relation to credit and debit cards and cash machines?

It is vital that the Payments Council bears in mind that the ATM infrastructure may not be an appropriate way of providing non-cash transactions for

everyone, particularly if these services are to be mainly or solely delivered by this method. For example, people with sight difficulties, disabled people and people with memory problems may find it difficult to use ATMs:

The Payments Council also need to consider the impact on the existing functions of ATMs, i.e. getting out cash. If these new services were to involve protracted transactions, they may prove unpopular with consumers who value the services offered by ATMs for their speed and convenience.

Issues for Consultation – CONTACTLESS & PREPAID CARDS

Q23 Do you agree that at the present stage of market development the contactless and prepaid card sectors are best left to initiatives from individual payment service providers and the card schemes?

Q24 What support, if any, could the National Payments Plan offer to the development of contactless cards? In particular, is further action needed to ensure that the standards for contactless cards meet the needs of all sectors of users?

Q25 What support, if any, can the National Payments Plan offer to the development of prepaid cards?

Whilst Citizens Advice does not receive much evidence about the way in which people use pre-paid cards, we would urge the National Payments Council to be cautious about unquestioningly supporting the development of prepaid cards. While they can be useful in the circumstances outlined in the consultation paper, they do not appear to provide an opportunity for individuals to become more financially included.

Citizens Advice agrees with the Financial Inclusion Task Force that a prepayment card industry code of conduct is necessary to protect users.

MOBILE PAYMENTS

Q26 What role should the Payments Council play in the development of mobile payment services, including setting the standards for mobile payments?

Q27 In particular, do you agree that the National Payments Plan should support the development of mobile payment services between bank accounts?

Q28 What principal characteristics would users find attractive in a mobile payment service?

Q29 What role do mobile phone payments potentially play in providing alternatives to traditional forms of payment?

Q30 What other actions, if any, should there be in the National Payments Plan in regard to mobile payments?

Citizens Advice is concerned that the use of mobile phones as a method of payment may not necessarily be an appropriate method of delivering payment services for two reasons:

The prevalence of scams

.Scams targeted at mobile phone users are already prevalent, particularly subscriptions to download and ringtone services. There is also the strong possibility of creating confusion amongst consumers as to the primary function of the mobile phone service. At the moment many people view their mobile as a means of communication rather than a potential payment method. This can be clearly seen in CAB evidence of people with mobile phones who subscribe to ringtone or download services, and most particularly where the phone belongs to a child or teenager:

A CAB in Yorkshire reported that their client's 14 year old son had had a mobile phone since he went to senior school, without any problems. Six months ago they decided to go on a contract as 'pay-as-you-go' was costing them too much. The son saw an advert for a game which he was allowed to text for through multimedia at a cost of £3. The problem did not become apparent until the phone bill arrived, which was £290. The son had not been aware that texting for the game without putting 'STOP' after this meant that he would receive video clips at £1.28 a time and at a rate of 68 clips a minute. This also resulted in the son, a juvenile, receiving 'Adult lines'. When this happened he asked on the phone 'who is that?' He was then asked in return who he was and his age, because he had now become frightened he gave them a false name and said he was 19yrs old. When the client rang her mobile phone company they told her she could have to contact the company sending the texts.

A man visited a Gloucestershire CAB after receiving a £840 bill from his mobile phone provider. After closer examination, he saw that his account showed that a charge of £642 for 'Text Info Services'. The adviser rang the phone company and found out that the client had probably downloaded a ring tone to his phone and that some less reputable companies include in the small print authority for them to send clients unlimited texts at a cost of between 12p and £1-50 per text.

A disabled man sought advice from another CAB in Gloucestershire about multimedia text messages. Hundreds of messages were coming through with the client paying for each one received. He sent text messages saying STOP but the texts continued. His telephone bill after one month was £664.73 and when the client contacted his mobile operator he was told his bill had now risen to £1,250 and cancelled the client's account leaving him with this debt.

A South East Wales CAB reported a text messages scam. The client, an asylum seeker, received a text message from "Immigration, Home

Office” saying: “If you want to view the message reply 'secure 5716' to 84222 and text will cost £2.00 + standard text”.

If problems like this are to be avoided, then it is essential for the Payments Council to ensure that adequate consumer protection measures are built in to mobile payment developments. This means working with the mobile phone industry and its regulator, OFCOM.

The security of the mobile phone

Theft of mobile phones is rife, and Citizens Advice is concerned that information about an individual's funds might then be stolen and available for ID fraud. We are also concerned that the availability of terms and conditions and signed authority would be difficult to provide in a mobile phone transaction. We would strongly encourage the Payments Council to look at cases taken under the new Consumer Protection from Unfair Trading Regulations which come into force in April 2008 where testing fairness of advertising information can be subject to the capacity of that medium e.g. textable digits.

Financial education

Q35 What gaps are there in current financial educational initiatives in regard to payment matters?

Q36 What role can the Payments Council play in promoting the education of consumers about the choice of payment methods available to them? What other bodies should it work with to deliver this role?

Citizens Advice would endorse the view expressed in the consultation paper that users need to be comfortable with new payment services in order to make best use of them. This requires a financial education strategy which is aimed at reaching all consumers. The approach we have outlined in our response to question 4 of this consultation would appear to be appropriate here.

Citizens Advice, as a provider of financial skills training, would be happy to work with the Payments Council on this issue. Later this month, we are meeting BACS to discuss the potential for working together on these issues.

FINANCIAL INCLUSION

Q37 What role can the Payments Council play in promoting financial inclusion?

Q38 What other bodies should it work with to deliver this role?

As we have outlined in many of our responses to the questions posed in this consultation paper, we believe that the Payments Council must take into account the problems experienced by vulnerable and financially excluded people when developing all parts of its National Payments Strategy and new methods of making payments. In order to achieve this, it should work with the

Financial Inclusion Taskforce, and with groups who work with financially excluded and hard to reach groups.

Fraud

Q40 How should consideration of measures against fraud be included in the assessments which the Payments Council makes of proposals for innovation?

Q41 How can the National Payments Plan assist with issues of customer authentication? To what extent do these need to be addressed across the payments sector?

Q42 Should minimum standards be introduced for authentication of remote transactions? If so, should a common measure of authentication be recommended/mandated?

Q43 How should the National Payments Plan address new technologies, such as biometrics, which may contribute to customer security?

Q44 What actions, if any, should the National Payments Plan include in regard to data sharing?

Q45 How can the National Payments Plan help ensure that the burden of fraud prevention is shared equitably across payment service providers and users, including SMEs?

Q46 What role should the Payments Council play in raising the profile of fraud and security issues and in lobbying government and the public authorities?

Citizens Advice considers that it is vital to ensure that security measures are built into innovations in payment methods. However Citizens Advice believes that the Payments Council need to learn from the roll out of Chip and PIN cards that alternative security arrangements may need to be put in place for some people, and staff need to know about these alternatives.

A CAB in Staffordshire reported that a blind man living alone was given a chip and PIN debit card by his bank without explaining how he could handle his bank account securely. They gave client a chip and pin debit card. When the client went shopping, he always gave his debit card to the cashier for them to complete the transaction. The bank did not explain to him that he was not covered for fraud protection or mis-use of his card by shopping this way. The bank should have offered him a chip and signature card so that he could be in control of his finances. The bank said that they were unaware that there were other options and insisted that chip and pin was the safest way to shop.