



Runnymede's response to the National Payments Plan 2011 Consultation

Introduction

Runnymede welcomes the opportunity to respond to the National Payments Plan 2011 consultation *Updating the National Payments Plan*.

The Runnymede Trust is an independent policy research organisation working to build race equality in the UK. Founded in 1968, Runnymede has established a strong network of relationships with policymakers and community organisations, and has a history of producing and using original research evidence to influence decision-makers and policy debates. Our current Financial Inclusion & Ethnicity research programme involves the collection and analysis of evidence of Black and minority ethnic (BME)¹ people's experiences of financial products and services in the UK.

Background

The assertion that people in BME communities suffer financial exclusion and socio-economic disadvantage underpins much of this response, leading us to argue that attempts to protect consumers – particularly low income and vulnerable consumers, many of whom will be BME people – and include new consumers are to be welcomed.

Our initial report, *Financial Inclusion and Ethnicity: An Agenda for Research and Policy Action*,² explains that BME people are more likely to be at risk of financial exclusion than the white British population, as well as noting the need for further evidence to understand why this is the case. Examples of this exclusion include evidence that all BME groups have fewer bank accounts as well as lower levels of financial awareness than the white population. Although we recognize the differences and particularities of particular ethnic groups, BME people as a whole experience higher levels of disadvantage than the white population in a range of areas, from employment to housing to education. This disadvantage is clearly a significant contributor to financial exclusion.

A separate explanation for financial exclusion of BME people relates not to disadvantage but to the specific attitudes, preferences, traditions and practices in various communities, which either act as alternatives to formal financial products and services or are not catered for by the financial services industry.

This all means that BME groups are less likely to use the wide range of payments methods currently available – such as electronic payments, debit card facilities and withdrawing cash for free from cash machines – and by not doing so, are less able to manage their money effectively.

¹ 'BME' includes British-born people as well as migrants

² Khan, O. (2008) *Financial Inclusion and Ethnicity: An agenda for research and policy action*. London: Runnymede Trust. Available at: <http://www.runnymedetrust.org/uploads/publications/pdfs/FinancialInclusion-2008.pdf>

Our response does not address all the questions raised in Annex A of the consultation document. Instead, it makes a few comments and raises some concerns on specific payment methods, based on our expertise of BME people's attitudes and experiences of financial products and services.

Comments

Internet and telephone banking

Black and minority ethnic people and other groups may lack the confidence or language skills necessary to access mainstream financial institutions. Those with language difficulties may face even greater barriers to accessing services via the internet or telephone, as will those who currently don't have access to the internet. While more research is needed in this area, Ipsos-MORI data³ indicates that African and Chinese groups – groups who otherwise don't do as well in terms of access to and knowledge of financial products – are more likely to access the internet, perhaps because of their international connections. In contrast, Bangladeshi and Pakistani groups are substantially less likely to have access to a computer or the internet.

There is little research evidence on the use of internet banking by migrants and other BME people, or its potential to overcome some of these barriers. As such, we believe further work is needed in this area to investigate the potential of internet banking for BME and migrant groups. We also believe that people with no internet access should not be disadvantaged by the increasing use of the internet by service providers and retailers to provide customers with information and preferential rates.

Cash (Qu.6)

Access to cash is essential for those who have limited or no access to other payment methods, for example those without a bank account. Furthermore, BME people are more likely to prefer to use cash rather than more remote payment methods to pay for goods and services so that they manage their finances and keep track of how much they are spending. Also, poverty leads to a short term focus as it is accompanied by changing and unpredictable circumstances (few permanent assets, fluctuation of income, jobs change, etc). In such a climate of financial insecurity, having cash in hand is comforting for these groups.

As such, we are concerned about the impact that the removal of cash payment facilities – particularly for council tax payments – will have on consumers' ability to make essential transactions. The findings of our report *Who Pays to Access Cash?*⁴ – based on an analysis of all 64,000 cash machines across the UK – show that areas with a higher number of BME people tend to have more fee-charging cash machines and the cost of paying these charges can lead to additional banking costs of £120 a year. While we acknowledge the progress made in the

³ Ipsos MORI Social Research Institute and Institute for Fiscal Studies (IFS) (2006) *Interim Evaluation of Saving Gateway 2*. Available at: http://www.hm-treasury.gov.uk/media/D/8/savingsgateway2_180706.pdf

⁴ Khan, O. and Simpson, L. (2009) *Who Pays to Access Cash? Ethnicity and Cash Machines*. London: Runnymede Trust. Available at: <http://www.runnymedetrust.org/publications/127/32.html>

installation of non-charging cash machines, some of these should be targeted to areas with large BME populations.

Cheque

A significant number of people, such as those without a debit card or who find it difficult to budget effectively using electronic payment methods, still rely on cheques to pay for certain services. The inability to do so would potentially put them at a disadvantage and cause hardship.

Plastic cards/ Chip and PIN (Qu.7/8)

In the UK, almost all credit and debit card transactions now require the use of a 4 digit PIN. Research has revealed that certain groups – such as disabled and older people – may face difficulties using these facilities where they are associated with bank accounts, thereby reducing the benefits of account ownership.⁵ Indeed, the ease of remembering a PIN declines with age and disability. Help the Aged has found that almost half of older people find it difficult to remember or simply use a PIN.⁶ It estimates that there are around 750,000 victims of low-level dementia who would struggle with chip and PIN technology.⁷ In addition, the Royal National Institute of Blind People (RNIB) estimates that banks and financial institutions are failing to support blind and partially-sighted customers in the use of chip and PIN cards.⁸ As such, we welcome the development of chip and signature cards for those who need them.

Direct debits (Qu.9)

Since poorer groups, including BME people, require just as much access to cash and credit as others, their lack of formal banking necessarily results in them paying more for these services. One good example is direct debits, a facility that automatically and electronically withdraws payment for a bill – say for a utility or credit card – once an account holder has provided relevant account details. As a consequence of lowered administrative costs and the guarantee of on-time payment, those who pay for direct debits typically get discounted rates. Because they lack bank accounts, the poorest end up paying more for their heat, electricity, water, gas, TV licence and indeed council tax.

Direct debit is a relatively unpopular payment method among disadvantaged groups as the amount taken from the consumer's account each month can vary, sometimes significantly. People with little expendable income can find it difficult to anticipate how much money will be taken from their bank account from one month to another. It can result in uncertainty, missed payments and, sometimes, bank charges (when there are insufficient funds in the account to cover the amount requested).

An anthropological perspective is useful when looking at migrants' and other BME people's attitudes towards direct debits. 'Hidden fees' or overdrawn accounts, for instance, can be perceived

⁵ Age UK (2011) *The Way We Pay: Payment systems and financial inclusion*.

⁶ Help the Aged (2006) *Financial Exclusion among older people*.

⁷ Moon, S. (2005) *Chip and pain for elderly*. Retrieved August 16, 2010, from:

http://www.thisismoney.co.uk/savings-and-banking/article.html?in_article_id=403684&in_page_id=7

⁸ RNIB (2008) RNIB Research Statistics: Number of people with sight problems by age group in the UK.

as a breach of an arrangement by certain BME and low income customers.⁹ Such issues could be avoided if companies receiving payments by direct debit communicate effectively to their customers how much, how often and when money will be taken from their account.

Pre-paid cards (Qu.25/26)

Evidence shows that a majority of migrants and other BME people have never heard of pre-paid credit cards,¹⁰ although their potential uptake by migrant and BME groups and the role of community organisations in their promotion needs to be further investigated. A preliminary finding from Datta's (2007) research is that while many migrants have not heard of these cards, some are willing to learn more about them, while being wary of any fees which may be attached to such products. A lot could be learnt from experience in the US, where pre-paid debit cards have been piloted in partnership with community-based workers centres.¹¹ However, pre-paid cards do not currently provide a suitable alternative to having a bank account, which is essential in order to receive wages and/or benefit payments, as well as for direct debit payments.

Conclusion

While many improvements have been made to ensure that payment methods are made accessible to all consumers over the last ten years, we urge the Payments Council to focus its efforts on the many people who are still experiencing significant hardship and disadvantage due to their inability to access certain payment methods. As the internet is becoming increasingly ubiquitous in people's financial practices, we urge the Council to ensure that people who do not have access to the internet or are not inclined to use it to make financial transactions will not suffer from further financial exclusion. The Pay YOUR Way website is undeniably a useful educational tool on the payment methods available. Yet, we believe that the information available on the website should be made available in hard copy from other sources (including banks, post offices, advice centres, public buildings etc). We also deplore the fact that information provided is not available in any other language but English.

Finally, we believe that the Payments Council should also invest in financial education, specifically tailored to suit harder-to-reach groups, including BME communities, in order to help them develop the knowledge and skills necessary to use more effectively the payment methods available to them.

⁹ Sawady, E.R. and Tescher, J. (2008) *Financial decision making processes of low-income individuals*. Cambridge MA: Joint Center for Housing Studies, Harvard University.

¹⁰ Datta, K. (2007) *Money matters: Exploring financial exclusion among low paid migrant workers in London*. London: Queen Mary, University of London.

¹¹ Fine, J., Leimbach, L., Jacobs, K., Doan, T., Sanchez, A. and Savner, S. (2005) *Distributing prepaid cards through workers centres: a gateway to asset building for low income households*.