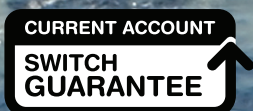


# CONSUMER REPRESENTATION IN FINANCIAL SERVICES

An industry response to Queen  
Margaret University's report into  
consumer representation in the  
payments sector  
December 2017

A Bacs Discussion Paper







IF YOU WANT TO  
BUILD A LONG TERM  
SUCCESSFUL BUSINESS,  
YOU HAVE TO PUT THE  
CONSUMER AT THE  
HEART OF BUSINESS  
DECISIONS



## FOREWORD

### Jo Kenrick

Executive Committee Chair, Current Account Switch Service

The world of payments is in a state of flux. Regulation and advances in technology mean a rapidly changing landscape that can be difficult to keep up with. We recently welcomed the New Payment Systems Operator (NPSO) which will bring Bacs, Faster Payments and the Image Clearing Service together into one new strategic payment system operator, and the Payments Strategy Forum (PSF) will also deliver its final blueprint for its New Payments Architecture, Request to Pay and Confirmation of Payee.

Open Banking 'goes live' in January and will revolutionise the way we move and manage our money, not to mention our payments 'data'; and the Current Account Switch Service (CASS) is powering new types of switching, meeting the needs of innovative challenger banks.

All of these initiatives drive massive technology changes which bring exciting new benefits and the potential for an array of new products provided by non-traditional service providers. But under the surface of glitzy innovation, there are strong currents that can threaten to sink the opportunities:

- conflicts of interest between firms that provide APIs and their competitors that want to use them
- a proliferation of choice that's impossible for consumers to make sense of, and
- unclear terms and conditions that leave us none the wiser about the risks we are taking.

Putting the consumer at the heart of design can provide an anchor in the middle of this great sea-change. When trade-offs have to be made between different stakeholders, fixing on what delivers for consumers can help focus minds: innovation can only deliver good consumer outcomes when the systems that underpin it are reliably safe, secure and resilient.

Switching only counts when people switch to better products; and sharing your personal information only makes sense when services are trustworthy, and you know where to get help easily when things go wrong.

Knowing and understanding your customers is vital to delivering great products and services. Regulators and providers alike recognise the increasingly important role consumer representation can play in delivering good consumer outcomes. That's why I was delighted to welcome Faith Reynolds and Chris Pond to the CASS Executive Committee earlier this Autumn. We're building a strong, independently-minded Executive that's focused on being consumer-led, working with our non-bank representatives to build our consumer focussed networks, develop our research programme and reach out beyond the 'usual suspects'.

I know from my own experience, if you want to build a long term successful business, you have to put the consumer at the heart of business decisions. Top down, bottom up, a dedication to the consumer and their interests is what drives a consumer-focused culture. That culture in turn drives clarity about a company's objectives, its strategy, budgeting, research programme, decision-making and operations. Most of all, it helps focus the trade-offs in ways that deliver for the consumer resourcefully – it requires thinking outside the box but leads to more creative and solid outcomes that customers come back for. Culture makes that happen, not tick boxes. Involving consumers and their representatives is at the heart of that.

But as the research Bacs recently commissioned into consumer representation by Queen Margaret University, Edinburgh (QMU) points out, getting consumer representation right can be tricky. Payments are often referred to as the 'plumbing' of financial services. Consumer advocates may be more concerned with directly 'felt' issues like debt and it can be difficult to engage them in highly technical areas which do not have obvious relevance to the needs of their clients, especially when their resources are stretched.

The research shows that consumer representation requires investment. Consumer

representatives need resourcing. Training and capacity building are particularly important aspects. Reaching out, 'taking someone out for a bun and cup of tea' to explain things in layman terms can help. Not just being willing to listen, but actively looking for input, challenge and ideas signals an organisation's commitment to consumers.

So, I am particularly pleased to welcome here three different viewpoints from influencers in payments who are thinking about how best to 'get it right'. Chris Pond from CASS tells us about his aspirations for switching, Anna Bradley and Melanie Johnson provide us with their vision for how consumers will influence the NPSO and Faith Reynolds takes us on the journey of Open Banking, from the technology to the consumer revolution.

**Jo Kenrick**

Executive Committee Chair, Current Account Switch Service



THERE IS A DISTINCT  
DIFFERENCE BETWEEN  
SEEING PEOPLE  
AS CUSTOMERS OF  
FINANCIAL SERVICES  
AND IDENTIFYING THEM  
AS CONSUMERS



CASS PROVIDES  
CONSUMERS WITH  
THE OPPORTUNITY TO  
EXERCISE CHOICE IN  
CURRENT ACCOUNTS.  
IT IS PROVEN TO BE THE  
MOST EFFICIENT AND  
SAFE WAY FOR ANYONE,  
CONSUMERS AND  
SMALL BUSINESSES,  
TO SWITCH BANK  
ACCOUNTS



## CURRENT ACCOUNT SWITCH SERVICE SUMMARY

### Chris Pond

Independent Director, Current Account Switch Service

How to effectively represent consumers in financial services is a question that has been with us all for many years.

I am an Independent Director of CASS, a role I took on because of the evident conviction and commitment CASS has in ensuring consumers have an effective voice in financial services. It's very true that financial services do not always receive the best press on what they are doing for the consumer, so the proactive approach of CASS is welcome.

There is a distinct difference between seeing people as customers of financial services (receiving services as part of a commercial agreement) and identifying them as consumers. The latter description of consumer is far wider, including for instance those who don't access financial services at a particular moment in time. As Vice-Chair of the Financial Inclusion Commission, I believe it is vitally important to include potential consumers in our definition, as well as existing customers.

The question is how best to deliver effective services from a consumer perspective. After all, consumers are not an homogenous 'blob'. We all want and need something different from financial services, depending on the particular stage of our lives in which we find ourselves.

There are plenty of examples where banks and other financial services providers are stepping up and delivering services that are socially useful as well as commercially sensible, for instance, those that build people's capacity to access online services. Most banks and financial services companies will obviously focus their business model on the safest and most profitable sectors of the market; they will sail in the calmest waters where there may be the best opportunity to deliver services to the broadest market.

So a consumer with a good credit score, stable employment, reasonable wage, consistent banking history and, in some cases, a 'good' postcode, will easily find choice, a range of access opportunities and potentially competitive and well-priced products to choose from.

CASS research shows that those who would benefit most from this vibrant market are the farthest away from it – fighting stronger currents with leaky boats – and least likely to have time to engage because they are more preoccupied with the everyday challenges of making ends meet on a low, and often unpredictable income.

CASS is a consumer-centric organisation; one that wishes to learn from its users and consumers so that it can develop strategies that meet future as well as current needs. CASS provides consumers with the opportunity to exercise choice in current accounts. It is proven to be the most efficient and safe way for anyone, consumers and small businesses, to switch bank accounts. And up to now, four million people, and over 100,000 small businesses have. We work with nearly fifty banks and financial services providers who are full members of CASS. This enables anyone to switch their current account to virtually any bank. CASS consults with a full range of consumer representatives, working within communities to extend our knowledge to ensure we can meet diverse needs.

As CASS is the UK's regulated bank account switch service, it accepted undertakings from the Competition and Markets Authority (CMA) to ensure its governance was fully representative for the community it serves. That's why CASS now has an Independent Chair and I have my role as an Independent Director, ensuring the consumer's voice is heard directly in CASS decision making.

CASS uses its wealth of evidence, collected via consumer engagements and working with partners in the voluntary and academic sectors to help it to decide how to deliver services that are inclusive and accessible.

Of course, not everyone wants to switch. Indeed, crudely counting the numbers of switches is not, in itself, a good indicator of competition in the market. Consumers are incredibly loyal, preferring to keep their current account rather than switch, or choose to open a new account and keep their existing one open. Recognising that consumers have different motivations, CASS has created different services – like the partial switch service – to cater for these choices. Knowing how to get the best from the product is critical so our new 'knowledge centres' enable financial institutions to ensure they are fully up to date with all the information they need to continue providing better services to consumers.

CASS is committed to going further than ticking some of the boxes given to us by the Regulator. That is why we asked QMU to develop this research, which we hope will be of benefit not just to CASS but to the whole financial services industry. In particular, we hope the findings will reflect how the Payment Strategy Forum's recommendations can make future financial services a better place for consumers. The Forum has recommended, and CMA has endorsed, proposals to consolidate Bacs, Faster Payments and the Image Clearing Service into one organisation – a New Payment Systems Operator (the NPSO) that sits at the heart of UK financial services. In our view, it is imperative that consumer needs are a priority for the new organisation.

This is an opportunity to consider how the NPSO can deliver to all its consumers – not just those who are finance-savvy, easy to reach and digitally engaged. This won't be easy. The NPSO's end-user focussed objective should extend to all consumers – not just the biggest or the profitable. CASS is, as a future part of the NPSO, fully supportive of this approach and is committed to helping the NPSO navigate this complex challenge.

There is also the question of scope. What do we mean by consumer? Are all consumers the same? What about other financial service companies in the payments market? Do large corporates and Third Party Providers (TPPs) – those organisations who access payments on commercial contract terms for other financial and retail businesses – have the same representative needs as the consumer like you and me or those who run small businesses?

Clearly, corporates and TPPs have different needs. Of course, they are still consumers, but they have specific requirements and needs that we decided should sit outside the scope of this QMU research. That probably means there is a requirement for some future research to establish how these consumer needs differ.

As QMU's excellent report shows, for financial services to effectively address the needs of all consumers, and to truly represent their interests, this commitment should be represented at Board level. A change of culture is needed that leads to consumer interests being given the same priority as risk assessment, or finance. An environment where all board members think of the consumer first, and a business culture that puts consumers at the very heart of corporate strategy.

That'll be a long voyage, but one in which CASS can perhaps be a facilitating sail to the wind of innovation in payments.

**Chris Pond**

Independent Director, Current Account Switch Service



**Melanie Johnson**  
Chair, NPSO



**Anna Bradley**  
Independent Director and Chair of the End User Council, NPSO

## THE NEW PAYMENT SYSTEMS OPERATOR

The NPSO is a brand new organisation and this puts us in the privileged position of being able to build our approach to what we will call 'end-users' from the bottom up. Our definition of 'end-users' is broader than the QMU definition of consumers - also including organisations that depend on payment systems, such as businesses - but the principles are the same.

When we discussed our approach to building an end-user focus in payments at the NPSO Board, we resolved that we would adopt a three part approach: appropriate Board membership, an independent End-User Advisory Council and a wide and deep end-user engagement strategy, including research that will be owned by and embedded in the new organisation. We think this all sits very comfortably with the QMU report.

### The drivers that led to the creation of the NPSO were broadly two:

1. The recognition that there were significant areas of present user detriment which the industry had been slow to respond to, and
2. The identification of significant potential benefits for end-users through the creation of a more competitive and innovative payments system.

No surprise then that the primary purpose of the NPSO is to: 'Support a vibrant UK economy enabling a globally competitive payments industry through the provision of robust, resilient, collaborative retail payments services, rules and standards **for the benefit, and meeting the evolving needs, of all users.**' This is quite a complex and rich purpose, but one that puts users right at the heart of the project. This is why we are very pleased to receive the report from QMU on *Consumer Representation in Financial Services*.

The report arrives just as we are considering how to fulfil our promise of our work, and our new organisation, and this initial response from us affords us an opportunity to share the early thoughts of the NPSO Board.

The industry and stakeholder work done by the PSF and the Payment System Operator Delivery Group (PSODG) prior to our establishment, made a number of recommendations about end-users. In particular that there should be at least one person on the Board who could speak to the end-user interest group and there should be an independent End-User Advisory Council that could help the organisation develop its understanding of end-user needs, and the best way to respond to them.

The NPSO Board is not yet fully constituted, but one of the first appointments is one of the authors of this response to the QMU research. Anna Bradley brings many years of experience in consumer and user representation, and will chair the soon to be constructed End-User Advisory Council (EUC) enabling a direct line between that Council and the Board's thinking. While end-user focus is the responsibility of the entire Board, we have tried, through this arrangement, to ensure that we will never lose sight of this focus.

Our plan for the EUC is just being developed and recruitment will begin very shortly with a view to a first meeting early in 2018. A first question for the NPSO Board was whether to have two separate Councils, one for End-Users and one for Participants, or one joint one. We have resolved to have separate Councils, at least at the outset, but to make it clear that we expect them to work together regularly. This will ensure that we both provide the environment in which end-users and participants can separately and safely discuss the issues, while at the same time helping the NPSO by identifying and debating differences so we can work to reconcile these.

THE EUC WILL PROVIDE THE ENVIRONMENT IN WHICH END-USERS CAN SEPARATELY AND SAFELY DISCUSS ANY ISSUES, WHILE AT THE SAME TIME HELPING THE NPSO BY IDENTIFYING AND DEBATING DIFFERENCES



It has always been clear that a key role for the EUC would be 'to advise the NPSO Board on matters relating to the end-user interest and the wider public good in payment services.' However, it was less clear how this 'end-user' interest would be identified.

**There are broadly three options:**

1. The EUC comprises sufficient numbers of people from the wide set of end-user interests to represent those views themselves;
2. The EUC itself builds and manages a programme of end-user engagement, including research; or
3. The NPSO builds an insight programme to identify the end-user interest which it shares with the EUC.

The Board view is that the first option would make the EUC too large and unwieldy and could anyway never be constructed so as to include everyone whose voice should be heard. There is also a danger with this model that 'he or she who shouts loudest' is heard most.

The second option may be more viable, but it has the drawback of locating end-user engagement at one remove from the NPSO. This has the effect of making the EUC more like an executive arm of the organisation and might permit the NPSO to think end-user engagement is 'someone else's job'.

The third option is the one we have selected. We think it puts end-user engagement at the heart of the NPSO and in doing this can help to build an end-user focus within the organisation. We have therefore also agreed that a key role for the EUC will be to 'advise and challenge NPSO on the way it identifies end-user needs, its understanding of those needs and the way it addresses them in its work'.

This approach to the EUC means that we will be looking for a smaller committee style group, rather than a larger forum membership. We anticipate about ten to twelve members from across the broad end-user community. Taken as a set, they will need to bring their understanding of different types of interest, but importantly also some expertise in ways of gathering insight about end-users.

We will not expect the members of the EUC to be the evidence, nor directly to represent end-users. Instead we expect them to help build and interrogate the evidence. Indeed, a first task will be to do some of the early design work for the end-user engagement strategy and approach to research that will ultimately be implemented by the NPSO once it is staffed and fully operational. This will need to be supported by regular and routine communication and information to a wide audience to keep them in touch with what the NPSO is thinking and doing, just as the PSF has done throughout its work. The detail of all of this is far from thought-through, but the ultimate responsibility is now very clear and will be considered in the design of the Operating Model for the NPSO.

Another important question for the Board is how to define end-users and so the pool of people who might populate the EUC. Of course this includes consumers as end-users, including those with particular needs because of such things as financial disadvantage and physical or mental vulnerabilities, whether permanent or temporarily caused by an individual's current circumstances, such as bereavement.

Importantly though, the EUC must also consider the interests of the more general consumer for whom payment services are core to life, whether for receiving income, paying for goods and services, or transferring funds. The nature of payments systems means that all consumers have very limited power in the market and will depend on others to articulate their interests.

EUC MEMBERS WILL  
NEED TO BRING THEIR  
UNDERSTANDING OF  
DIFFERENT INTERESTS,  
AND ALSO SOME  
EXPERTISE IN WAYS OF  
GATHERING INSIGHT  
ABOUT END-USERS.



End-users in payments also include a very wide range of organisations whose day-to-day operation is dependent on payment systems that meet their needs. Again the variety of such organisations is huge: including small and large businesses, local and national government, charities and other non-governmental organisations.

Finally and perhaps unusually, the NPA, in combination with Open Banking, will create a category of end-users who will be able to intermediate between the system and consumers and organisations by creating new, currently un-thought of ways for us all to make payments and share our data. This means that such people as App designers are important members of the end-user community. If the system is not built in a way which affords them what they need to intermediate, consumers and organisations will be the losers. The mutuality of interests makes their inclusion essential in discussion.

The NPSO EUC must bring together all these interests to articulate a comprehensive, but appropriately differentiated, well-evidenced view of the needs that the payments system must meet, not just now, but in the future. And this forward look is perhaps the most challenging element of the EUC's work. Helping to design an end-user engagement and insight programme that helps end-users to think about future possibilities is a considerable challenge, and one that must be met.

We think our plans for end-user engagement are entirely consistent with the first and second conclusions of the QMU report: *'that consumers should be put at the heart of all decision making; and that consumer representation should ideally be structured to include both Board and collective forum representatives and supplemented by direct outreach to other consumer groups including consumer orgs.'*

This thinking represents only the very beginning of our journey. As we start to put this architecture in place we will want to review and reflect with stakeholders on the way it is working and what might need to be adapted or added. One clear next step for NPSO will be to start to consider whether and how we bring end-users into the new guarantor arrangements for the NPSO, so end-users can influence not just the operational and strategic, but also have a say in the overall governance of the payments system going forward. This will bring a new fourth dimension to end-user representation.

**Melanie Johnson**  
Chair, NPSO

**Anna Bradley**  
Independent Director and Chair of the End User Council, NPSO





## OPEN BANKING IMPLEMENTATION ENTITY

### Faith Reynolds

Open Banking Implementation Entity Consumer Representative and Independent Director, Current Account Switch Service

As the consumer representative for the Open Banking Implementation Entity (the Entity), looking back, it is encouraging to see how far it has come. This time last year, the organisation was in its infancy, recruiting people quickly into teams that could deliver the CMA Open Banking Order. A year later, with the all-important 'go-live' date in sight, a lot has been achieved. Not least, the way in which consumers now have a voice within the organisation.

The Entity and the ecosystem of stakeholders that surrounds it has been on a journey. The CMA Remedy requires the nine largest banks identified in the CMA's market investigation to design and deliver APIs that allow their competitors (whether niche Third Party Providers (TPPs) or mass market incumbents) to access their customers' payments data and initiate payments from their customers' accounts, with, of course, the consumer's consent. That tension between those banks and their competitors requires constant balancing. The design of the API standards has involved mass collaboration, frequent iterations and constant co-ordination.

In the early days there was a predisposition to see Open Banking as merely an exercise in plumbing for payments. End-user interests were not a priority. However, after a change in leadership there was a re-focussing exercise which moved the focus to what Open Banking might achieve in the real world and the importance of designing something which would deliver the intended benefits for consumers, both individuals and SMEs.

This change of direction brought a new energy to the ecosystem and facilitated a culture which is far more receptive to consumer input.

July this year saw the Entity's first Consumer Forum convene. The technicality of Open Banking and the fast pace at which it's moving can create barriers to engagement for consumer groups. But the Entity's team has worked hard to take me and other consumer advocates on the journey in double-quick time, moving along the spectrum that QMU discusses in its research from informing to empowering. They have translated the technical into clear messages about what the Entity is doing and then created opportunities to get consumer feedback.

On that spectrum of public participation, the Entity has also sought to consult. The benefit of having the Consumer Forum is its ability to take a holistic view of the market and to remind the Entity of the risks Open Banking creates as well as the opportunities, within and beyond the borders of the technology for which it is responsible. A key theme of our dialogue with the Entity is the question of trust: will the new products and services that Open Banking inspires be trustworthy; and will there be accessible and impartial help available if something goes wrong. On the next step of the journey I will be encouraging the Entity to 'involve' and 'collaborate' with the Forum more.

But sometimes, actually hearing what consumer groups are saying and being able to act on it is a battle. The CMA Order and the associated second Payment Services Directive (PSD2) are legalistic tools which require compliance. This necessarily leads to a concentration on the letter of the law: what must be delivered as opposed to what might be, to fulfil the intended spirit of those regulations.

PSD2, the CMA Order and the General Data Protection Regulation (GDPR) create a patchwork of protection for consumers and leave gaps that are difficult for the industry alone to fill. For instance, with regard to dispute resolution, it is only possible to create voluntary schemes to address the gaps left by PSD2, and it is not possible to force firms to sign up to these. Involving consumer organisations much more closely in the design of legislation may enable gaps like these to be addressed by regulators at a much earlier stage and so avoid consumer harm.

THERE IS AN OPPORTUNITY TO DESIGN A LONGER-TERM VISION AND STRATEGY, AND IN DOING SO CLEARLY ARTICULATE WHAT SUCCESS LOOKS LIKE FOR CONSUMERS AND SMES



As I write, the Entity is planning its next phase of work, bringing further functionality to the Open Banking ecosystem. Over the next year, the organisation has the opportunity to design a longer-term vision and strategy, and in doing so clearly articulate what success looks like for consumers, both individuals and SMEs.

To this end, I am encouraged to be working with the team considering how it can best place good consumer outcomes more firmly at the heart of what it's doing. One particular gap we have identified is between the approach to good consumer outcomes taken by 'consumer-focused' product developers and the approach taken by consumer advocates. When both are focused on the 'consumer', why does harm still occur?

I believe it's because too often we focus on the product and don't spend enough time looking at the business models underpinning it or the ecosystem into which the products 'land'.

It's entirely possible to create products that are attractive and work well for consumers but which when taken as a whole, don't necessarily deliver good outcomes. For instance, my current account is a reliable product (my money is safe), affordable (the account is 'free'), and I can access it whenever and wherever I want (I have a mobile banking app). However, we know from the CMA Report that customer service is poor because of limited competition. The account is paid for by way of cross-subsidisation (vertical and horizontal). Mobile banking apps are difficult to compare before buying. And branches are closing. Overall, the business model makes barriers to entry high, competition is reduced and consumers are paying more for lower quality products. This hits those worst who can least afford it.

Going forward we need to think differently about product development, the underpinning infrastructure which enables products, and where consumer and SME representation might usefully provide insight. It can be easy to get distracted by the technical challenges to be overcome for delivery and in doing so, unwittingly compromise the exciting propositions and high aspirations for what Open Banking really could achieve for consumers.

Closing the gap between the 'product manager' and the 'consumer advocate' means thinking differently and more imaginatively about the way we see consumer representation and about the skills that might be needed by consumer representatives. Consumer input could be helpful not just at the policy stages but through the full lifecycle, including the technical design of standards and the operational delivery. It includes thinking more strategically about the way research is undertaken directly with consumers, what management information is collected and the lens which is adopted when dealing with complex legal and technical design issues.

I am pleased that as we move into the year ahead, I have the privilege of working with the Customer Team at the Entity to refresh the consumer engagement strategy and see how we can best close that gap.

#### **Faith Reynolds**

Open Banking Implementation Entity Consumer Representative and  
Independent Director, Current Account Switch Service

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## FURTHER INFORMATION

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