



All Aboard –
Improving the
payments system
for financially
vulnerable people

August 2022





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1 Documentation Information

1.1 Copyright statement

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2 Introduction

We commissioned this research from Demos Consulting to understand the changing needs of end users, particularly as over half of the UK population now has at least one characteristic of financial vulnerability. The payments system clearly has a role to play in boosting financial inclusion and in protecting and empowering its end users. The focus of this research is on account-to-account payments - an area where Pay.UK can affect the most change.

In October 2020, the Financial Conduct Authority's (FCA) Financial Lives 2020 survey found that 27.7 million adults had at least one characteristic of financial vulnerability, a 15% increase from February 2020.¹ Owing to the pandemic, many people will have taken on additional debt, developed long-term health conditions, and experienced major life events. The pandemic has also accelerated trends towards digitalisation and a cash-free society, ultimately exacerbating the financial exclusion of those dependent on face-to-face assistance and cash.

Even as we emerge from the pandemic, consumers are facing another blow: the cost of living crisis. The rate of inflation, as of August 2022, is 10.1%² and is expected to reach over 13% in late 2022³. The Bank of England is predicting that inflation is likely to only fall next year. The Office of Gas and Electricity Markets (Ofgem) warned in May that household energy bills are due to rise by GBP 800 a year in October⁴. This will exacerbate the struggles of those on lower incomes or anyone who has difficulty paying bills.

Financial vulnerability can be a loaded term, and many people who technically fall into this category would not define themselves as such. Moreover, financially-vulnerable people are not a fixed cohort, and it is important to realise that almost everyone at some point will experience some characteristic of vulnerability.

We chose to define financial vulnerability according to the criteria used by the FCA, as this is the most widely-used definition.

Below are the four FCA categories of financial vulnerability for this project:⁵

¹Ripley, E et al, *Financial Lives 2020 survey*. 2021.

² Bank of England, 2022. Available at: <https://www.bankofengland.co.uk/> [accessed 12/08/2022]

³ Bank of England, *Bank Rate increased to 1.75%*. Bank of England, 2022. Available at: <https://www.bankofengland.co.uk/monetary-policy-summary-and-minutes/2022/august-2022> [accessed 12/08/2022]

⁴ BBC News, 2022. *Energy price cap: Typical energy bill set to rise £800 a year in October*. BBC News, 2022. Available at: <https://www.bbc.co.uk/news/business-61562657> [accessed 10/06/2022]

⁵Exact criteria can be found at: Bloor, S, *FCA Guidance on Vulnerable Customers*. CCAS, 2021. Available at: [FCA Guidance on Vulnerable Customers - Consumer Credit Advisory Services \(ccas.co.uk\)](https://www.ccas.co.uk/FCA-Guidance-on-Vulnerable-Customers-Consumer-Credit-Advisory-Services) [accessed 9/02/22]

- Health Vulnerability: having a mental or physical health condition that affects the ability to carry out day-to-day tasks
- Life Events Vulnerability: experiencing major shocks such as divorce or job loss
- Low Financial Resilience: struggling to keep up with bills and being unable to withstand financial shocks
- Low Financial Capability: lacking an understanding of financial matters or lacking confidence in managing money.

Methodology:

- Desk-based literature review of recent research on the payments system and financial vulnerability in the UK
- Roundtable discussion with experts from charities, regulators, industry and fintechs
- Focus groups with people from each category of financial vulnerability
- A week-long payments diary tracking the payments movements and pain points of a further 20 people with characteristics of financial vulnerability
- Follow-up one-to-one interviews with each person participating in the payments diary exercise
- Polling of a sample of 7,500 nationally-representative UK adults, conducted in December 2021 by Opinium
- Ten interviews with experts from regulators, banks, fintechs and charities.

Of the people we polled, 54% had at least one characteristic of financial vulnerability. This is in line with the FCA's most recent survey, which found that 53% of adults (as of October 2020) had at least one characteristic of financial vulnerability.⁶

Our survey found that:

- 11% had a health vulnerability
- 29% had life events vulnerability
- 34% had low financial resilience
- 10% had low financial capability.

Demos Consulting was commissioned by Pay.UK to carry out this research and produced all the original findings contained in this report.

⁶ Ripley, E et al, *Financial Lives 2020 survey*. 2021.

3 Executive Summary

Over half of the UK population - 54% - now has at least one characteristic of financial vulnerability. Although more people are banked than ever before, we live with an increasingly complex, and often intimidating, payments system.⁷ This report examines four key areas - Authorised Push Payment (APP) fraud; Billing; Buy Now, Pay Later (BNPL); and Cryptocurrencies - and outlines how the payments system can better protect and empower financially-vulnerable people.

All our topic focuses are critical to today's payments landscape:

- Firstly, APP fraud is on the rise, growing both in frequency and in value.⁸ Certain characteristics of financial vulnerability can increase the risk of harm, especially when fraudsters often see financially-vulnerable people as easy targets
- Secondly, more people are working zero-hours contracts, doing flexi-work or gig-economy work, or “hustling” on the side.⁹ This means that the traditional model of being paid a fixed salary at the end of the month is less and less common, and the payments world needs to reflect this
- Thirdly, there are more ways to pay than ever before, and BNPL has expanded rapidly and given millions of people access to easy and cheap credit.¹⁰ However, BNPL has led to some people taking on debt they cannot afford to repay, and facing substantial late fees for missed payments, all the while damaging their credit rating
- Finally, more people are engaging with and buying cryptocurrencies that are all too often risky and mis-sold.¹¹ We want to understand if financially-vulnerable people are more exposed to this volatile and unregulated asset and its use in payments.

The goal of this project is to understand what difficulties people with financial vulnerabilities face when using the payments system, and what Pay.UK and the wider payments ecosystem can do to tackle these problems.

Our fundamental question is: “How does the payments sector need to change in a world where financial vulnerability is not the exception but the norm?”

⁷ Ripley, E and others. *Financial Lives 2020 survey: the impact of coronavirus*.

Financial Conduct Authority, 2021, p.17. Available at: <https://www.fca.org.uk/publication/research/financial-lives-survey-2020.pdf> [accessed 9/02/2022]

⁸ Worobec, K. *Fraud The Facts 2021*. UK Finance, 2021, p.28. Available at: [https://www.ukfinance.org.uk/system/files/Fraud The Facts 2021- FINAL.pdf](https://www.ukfinance.org.uk/system/files/Fraud%20The%20Facts%2021-FINAL.pdf) [accessed 9/02/2022]

⁹ Cheese, P. *Zero-hours and short-hours contracts in the UK: Employer and employee perspectives*.

Chartered Institute of Personnel and Development, 2015, pp. 6-9. Available at: https://www.cipd.co.uk/Images/zero-hours-and-short-hours-contracts-in-the-uk-2015-employer-employee-perspectives_tcm18-10713.pdf [accessed 9/02/2022]

¹⁰ Equifax, *Use of Buy Now Pay Later hits all-time high, as shoppers look to spread the cost of Black Friday and festive period*. Equifax, November 2021. Available at: https://www.equifax.co.uk/about-equifax/press-releases/en_gb/-/blog/use-of-buy-now-pay-later-hits-all-time-high-as-shoppers-look-to-spread-the-cost-of-black-friday-and-festive-period-9 [accessed 04/03/2022]

¹¹ Business Standard, *UK govt cracks down on misleading cryptocurrency ads to protect consumers*. Business Standard, January 2022. Available at: https://www.business-standard.com/article/international/uk-govt-cracks-down-on-misleading-cryptocurrency-ads-to-protect-consumers-122011801237_1.html [accessed 04/03/2022]

3.1 Key findings

Authorised Push Payment (APP) Fraud

- Authorised Push Payment (APP) scam attempts are widespread in the UK. Our polling found that over the previous month, 52% of people had received a request to transfer money, which they believed to be fraudulent
- Financially-vulnerable people are more likely to be targeted by fraudsters: 60% of those with characteristics of financial vulnerability had received some kind of fraudulent request in the last month
- Confirmation of Payee (CoP) adds a level of safety for users, but some users ignore or circumvent its alerts. This may be partly because CoP is not mandatory for customers of every bank or building society, creating confusion, especially for those who are not financially savvy
- Nearly one in 10 people (8%) said they would ignore the CoP alert and transfer the money anyway
- People with certain characteristics of financial vulnerability are more likely to ignore CoP alerts: 14% of people with low financial resilience said they would ignore the alert and transfer anyway - nearly double that of the average population
- 13% of people said they would transfer a small amount of money first before sending the full amount. Those with a health vulnerability, a life events vulnerability and low financial resilience were more likely to use this '£1 transfer' (16%, 16% and 17% respectively)
- Financially-vulnerable people are also more likely to share their bank details with someone else, putting them at greater risk of fraud and economic abuse committed by a known person
- 23% of the population said someone else has the ability to log in to their personal bank account and make a payment, and the number is higher for financially-vulnerable people at 27%.

Billing

- Financially-vulnerable people are less likely to be paid monthly and are more likely to struggle with paying Direct Debits. If people are unable to pay by Direct Debit, they are likely to miss out on deals and pay more for their bills
- While 62% of people surveyed said they received their primary source of income on a monthly basis - the timeframe that lends itself best to paying Direct Debits - this was true for only 55% of financially-vulnerable people
- Many financially-vulnerable people find it emotionally and financially stressful ensuring there is enough money in their bank account on the particular day a Direct Debit is due
- 53% of financially-vulnerable people said they borrowed money to pay a Direct Debit, and nearly 1 in 10 said they had to borrow money several times a month to pay a Direct Debit
- Request to Pay could offer the flexibility of timing to pay bills that really matters to people. 69% of financially-vulnerable people said it mattered when Direct Debits came out, nine per cent higher than the nationally-representative population. The timings of Direct Debits matter even more to those with low financial resilience (75%) and low financial capability (74%).

- Request to Pay also ensures that the identity of the biller has been validated – reducing the risk of APP scams.

Buy Now, Pay Later (BNPL)

- Financially-vulnerable people are more likely to use BNPL services than the general population
- Our polling found that people with certain kinds of financial vulnerabilities were more likely to use BNPL. 38% of people with low financial resilience and 36% of people with a health vulnerability said they had used BNPL in the last year, compared with 21% of the general population
- Financially-vulnerable people are also slightly more likely to report seeing BNPL as a payment option: 65% of people with any kind of vulnerability said they had seen the option to use BNPL at the checkout, seven per cent higher than the general population
- Although women are more exposed to seeing BNPL as a payment option, men and women are equally likely to have used it in the last 12 months
- Men are much more likely to say they had missed or deferred a BNPL repayment: 54% of men said they had, compared to 23% of women.

Cryptocurrency

- Despite the hype, a very low percentage of the population hold a form of cryptocurrency: 6% of people polled said they had owned cryptocurrency or made a payment using it
- Cryptocurrencies are often held as an asset, rather than as a form of money
- Younger people are much more likely to have owned or made a payment with cryptocurrency: 15% of 18-24-year olds say they had owned or used it, compared to 2% of people aged 55+
- There is some research that might indicate that financially-vulnerable people who own cryptocurrencies are more likely to use it as a payment method. However, more research is needed on this.

4 APP Fraud

APP scams are extremely widespread, but certain groups are targeted more than others.

Authorised Push Payment (APP) scams - whereby criminals convince victims to make the transfer of funds - are a widespread problem in the UK. Our polling found that in the last month, 52% of people had received some kind of request to transfer money, which they believed to be fraudulent, and 60% of financially-vulnerable people had received some kind of fraudulent request. This is unsurprising but still shocking given that a UK Finance report found a “71 per cent increase in APP fraud during the first half of 2021 and, for the first time, the amount of money stolen through APP fraud overtook card fraud losses”.¹²

Of these requests, 25% of people had received emails they believed to be fraudulent asking them to make payments, 22% had received texts, 16% phone calls, 9% adverts, 7% letters and 16% other fraudulent messages. Our findings on the ubiquity of APP fraud attempts is alarming, but unsurprising, in a world where APP fraud is rising both in volume and in value.

Younger people were often more likely to be targeted by fraudsters, particularly through letters and adverts, but many older people also reported receiving texts and emails they believed to be fraudulent. This may be because younger people consume more media, especially online. However, it brings to light the fact that anyone - even the tech-savvy - can be a target.

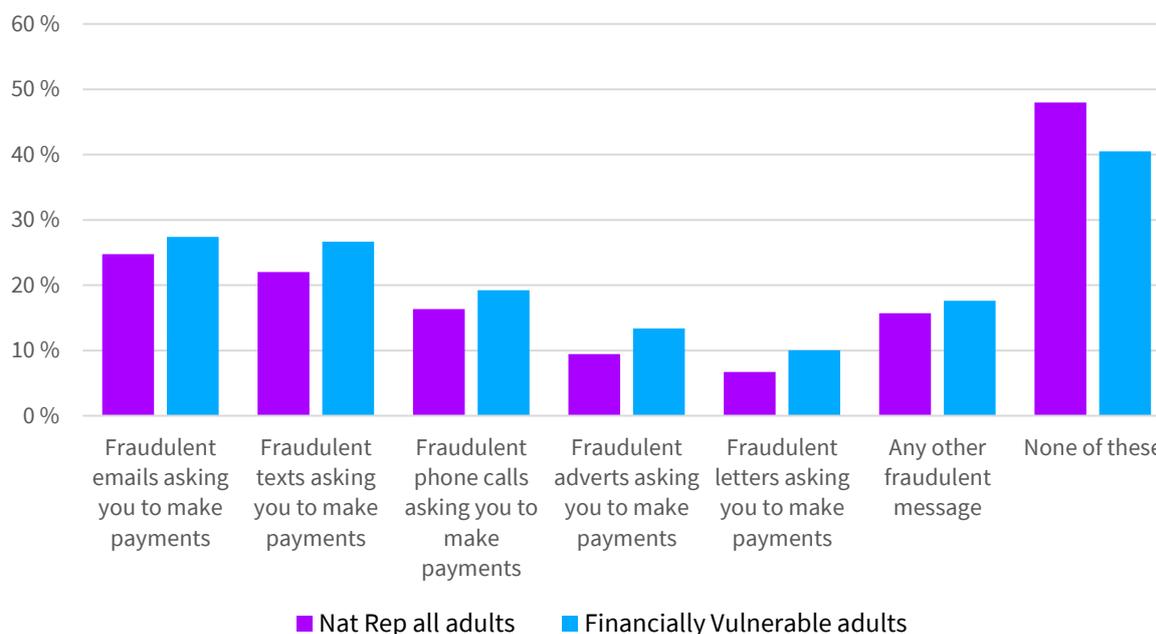
People with certain characteristics of financial vulnerability - especially those with low financial capability and those experiencing a life event - are seen as easy targets for fraudsters. Fraudsters disproportionately target people who are vulnerable¹³ and who have money¹⁴. This explains why our polling found that people in higher socio-economic groups and financially-vulnerable people were more likely to report receiving some kind of fraudulent APP request.

¹² UK Finance, *Government-coordinated action needed as fraud losses rise by 30 per cent*. UK Finance, 2021. Available at: <https://www.ukfinance.org.uk/press/press-releases/government-coordinated-action-needed-fraud-losses-rise-30-cent> [accessed 04/03/2022]

¹³ Moody, R, *Fraud The Facts 2021*. UK Finance, 2021, p. 7. Available at: [Fraud The Facts 2021- FINAL.pdf \(ukfinance.org.uk\)](https://www.ukfinance.org.uk/fraud-the-facts-2021-final.pdf) [accessed 9/02/2022]

¹⁴ Wagstyl, S, *Richer people more likely to fall prey to fraudsters*. The Financial Times, 2022. Available at: <https://www.ft.com/content/5e83db76-1e52-46b8-89ad-f14170bcb4a8> [accessed 9/02/2022]

Have you received any of the following in the past month?



Many people in our focus groups reported receiving fraudulent texts “all the time”, citing common scams whereby the recipient receives a text saying they have missed their parcel delivery and need to pay a fee to reschedule.¹⁵ Most people in the focus groups and interviews said they felt confident at spotting these scams now as they were so used to them: “I know people who have answered these emails [...] That was quite a few years ago, and I don’t think people would fall for that now.”

However, those who were specialised in tackling fraud - both within and outside of the industry - repeatedly raised concerns that fraudsters are always evolving their tactics to be one step ahead. As Will Barnes, Head of Campaigns and Policy at MoneySavingExpert.com said, “Anybody can be a victim of fraud. The criminals are clever, convincing and slick. They know all the psychological tricks in the book.”¹⁶ Most recently, Barclays said that reported “family and friends” scams - whereby the scammer impersonates someone close to the target to ask for money - went up fourfold in the last quarter of 2021.¹⁷ As such, the risk of scammers creating an ever more sophisticated, believable and less recognisable scam is not so much a question of if, but when.

¹⁵ Peachey, K, *Fresh warnings over Royal Mail parcel scam*. BBC, 2021. Available at: <https://www.bbc.co.uk/news/business-56496203> [accessed 04/03/2022]

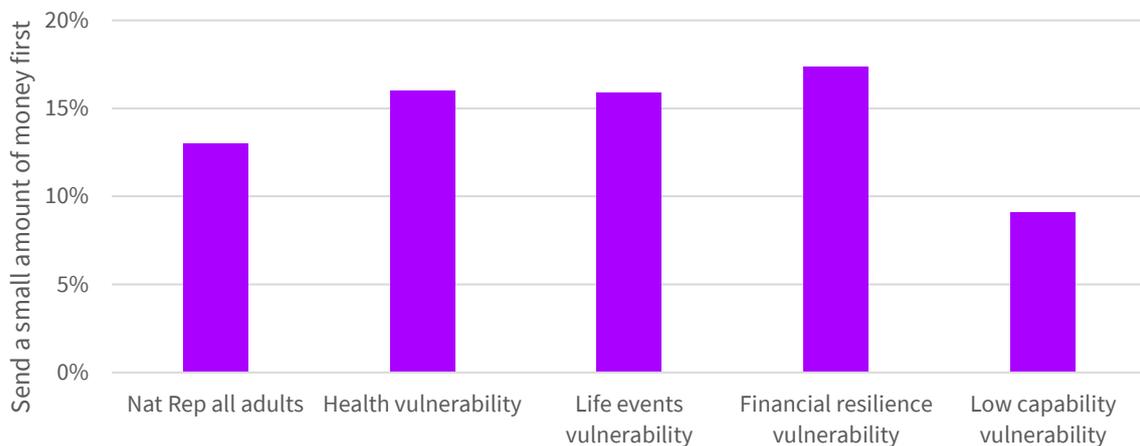
¹⁶ Demos Consulting interview, December 2021.

¹⁷ Hall, T. *Rise of parents caught out by ‘Dear Mum’ money scam*. Scottish Daily Express, January 2022. Available at: <https://www.scottishdailyexpress.co.uk/news/scottish-news/rise-parents-caught-out-dear-25997137> [accessed 04/03/2022]

Confirmation of Payee adds a level of security and curtails fraud, but its benefits need to be more widely understood.

Interviewees and focus group attendees typically said Confirmation of Payee (CoP) added slightly more reassurance when making payments. When asked what they would do if CoP flagged details as not matching, some said they would transfer a small amount of money, e.g £1, check with the receiver, and then send the full amount. Our polling found that 13% of people would send a small amount of money first in this case, and those with a health vulnerability, a life events vulnerability and low financial resilience were more likely to use this ‘£1 transfer’ (16%, 16% and 17% respectively); although people with low capability were less likely to do this (9%).

If you were paying or sending money to an individual that you had not met before and your bank (e.g. banking app, online banking website) flagged that their details did not match, what would you do?



People use this ‘£1’ transfer method because it makes them feel safer by confirming the receipt of money with the person they are sending the money to and not risk ‘losing’ the full value. This method shows that CoP is driving the right behaviour as the sender is taking a precautionary step.

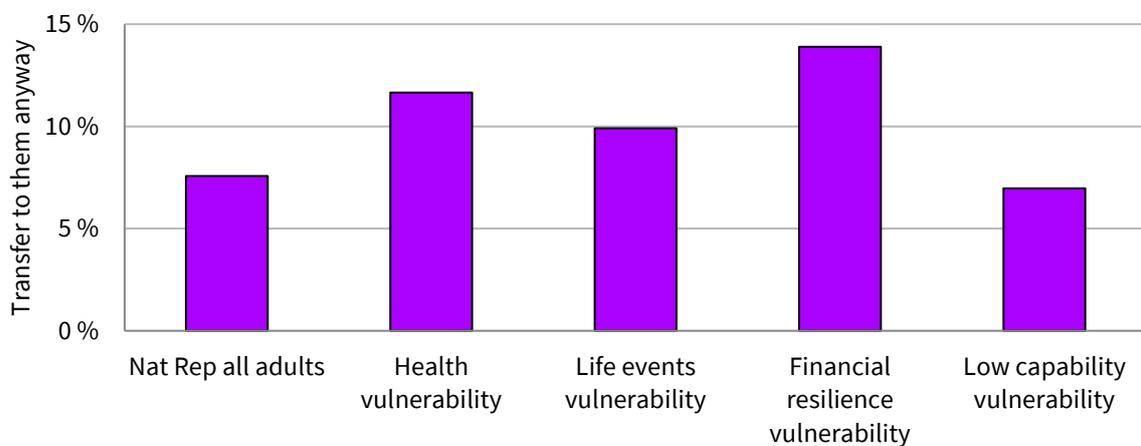
However, it is an inefficient way of getting more security when transferring money, especially if people feel the need to do this frequently, given the extra time and effort required. As Manish Garg, founder and CEO of financial services company, Banksly, pointed out, the prevalence of the ‘£1 transfer’ technique highlights the need for widespread ‘back confirmation’ of payments, whereby the sender receives immediate confirmation as to when the money has been sent and received.

He suggested a ‘WhatsApp-style’ tick system to confirm payment had been sent and received, which incidentally was also suggested by some focus group attendees: “Something as simple as that, but that reassurance of you have done that transaction, they have got the money, you have got your evidence.” However, a simple ‘back confirmation’ in the absence of other measures may not be a good suggestion,

as it would only confirm that the sender has transferred money to the account they have requested the funds to be sent to. In the case of fraud, it would confirm that the money has been sent to the fraudster's account.

We also found that whilst 92% of the total population take heed of a CoP alert, some people choose to ignore it. 8% said they would make the transfer anyway, and this number is higher for those with a health vulnerability (12%), life events vulnerability (10%) and low financial resilience (14%).

If you were paying or sending money to an individual that you had not met before and your bank (e.g. banking app, online banking website) flagged that their details did not match, what would you do?



These figures are truly concerning, not only in that nearly one in 10 of the general public are ignoring CoP alerts altogether, but that people with low financial resilience are nearly twice as likely to do so.

Our focus groups and interviews also found that those with low financial resilience make transfers between their own and friends and family accounts to help manage cash flow, depending on a wider network of payees. As a result of a wider network, the frequency of seeing CoP messages may encourage apathy towards new payees, and people might more urgently need to send the money so will more readily ignore CoP alerts.

That a significant chunk of people ignore CoP alerts might be due to the misconceptions of CoP - although “not all institutions apply CoP” currently, banks have other effective fraud monitoring tools in place. People also perceive that “standards are not shared throughout the industry”¹⁸, despite CoP standards being publicly available and the benefit of a more flexible approach being that banks can deploy more targeted messaging as the threat evolves. These misconceptions may create more

¹⁸ Demos Consulting Interview, January 2022.

confusion around what customers are being alerted to and what the consequences of ignoring it are, especially for those with a lower level of financial capability.

A clear and strong approach to messaging will combat misconceptions, help people to understand the benefits of using CoP appropriately, and ensure it is used more widely. Since the completion of the research, the Payment Systems Regulator (PSR) has also acted to expand the use of CoP, with 400 more financial firms being required to make the service available¹⁹.

Not all fraud is committed by strangers, and our financial institutions need to recognise this.

Our research also raised concerns about fraud committed by someone close to the victim, a subsection of financial abuse. Many financially-vulnerable people in the interviews and focus groups spoke of relying on family or friends to help them manage their money on behalf of them, and to even look after their savings for them. 23% of the population said someone else could access their bank account and make a payment, while 31% of those with a health vulnerability, and 29% of those with a life events vulnerability and low financial resilience, said other people could access their account.

While these informal financial support structures are invaluable for many, they raise concerns about financial abuse, especially when they are not operating under the legal structure of Power of Attorney. Moreover, those with financial vulnerabilities are more vulnerable to economic abuse, both because economic abuse constitutes a life events vulnerability, and because it is correlated with having health and capability vulnerabilities.

Fraud committed by an intimate partner is sadly all too often not recognised as the fraud it is, and victims often find it much harder to recover the losses than if they had been defrauded by a stranger. A policy officer at Surviving Economic Abuse (SEA), provided an example of a woman whose partner took out a credit card in her name and re-mortgaged her house without her knowing. She struggled to get her bank to refund her.

¹⁹ Payment Systems Regulator, *PSR announces plans to make more financial firms provide Confirmation of Payee*. Payment Systems Regulator, 24th May 2022. Available at: <https://www.psr.org.uk/news-updates/latest-news/news/psr-announces-plans-to-make-more-financial-firms-provide-confirmation-of-payee> [accessed 29/06/2022]

5 Billing

Request to Pay (RtP) is a messaging service that offers a new and more flexible way for bills to be settled between people, organisations and businesses. Billers can request payment for a bill rather than sending an invoice, and customers can choose how they respond, driving efficiencies

RtP offers a flexible way for bills to be settled between people, organisations and businesses. It has been created to complement existing ways to pay and is especially important for financially-vulnerable people who are less likely to receive their income on a monthly basis.

Our research finds that RtP is a valuable and much-needed tool, especially for people with financial vulnerabilities who may avoid Direct Debits but might then miss out on financial deals that are only available through recurring payments. For those managing low or irregular incomes, having a flexible way to manage payments may benefit them greatly, as one supermarket worker explained to us: “Whenever it falls on a pay day, I just go and draw £300 out and pay my gas and electric, my water [...] on a payment card. [...] Because I’m paid four-weekly, and not a set date each month, it’s a bit of a nightmare [...]. Ideally, I would love Direct Debits. It would just save me a job going to the Post Office but, because of the way I’m paid, it’s just a bit silly.”

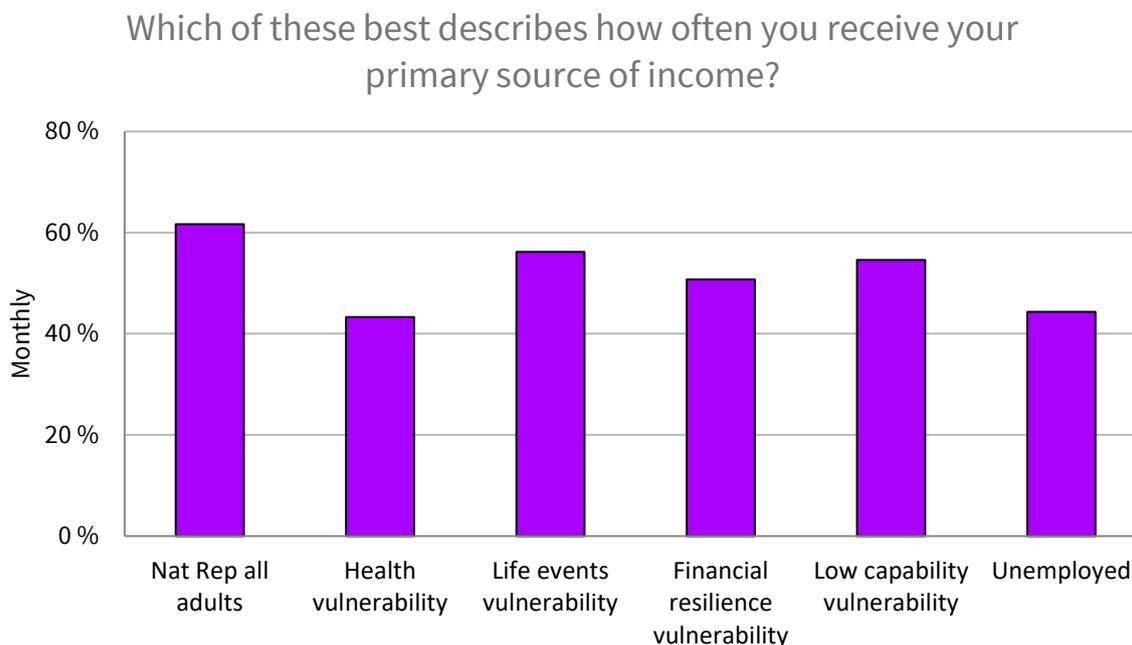
Direct Debits can prove a challenge for people who have low financial and emotional resilience, who may also heavily depend on their relationships to pay their bills

Our polling finds that financially-vulnerable people are less likely to be paid monthly and are more likely to struggle with paying Direct Debits. While 62% of people surveyed said they received their income on a monthly basis - the timeframe that lends itself best to paying via Direct Debits - the number was lower for those with financial vulnerabilities: Health Vulnerability (43%), Life Events (56%), Financial Resilience (51%), Low Capability (55%). Unemployed people were even less likely to receive their income on a monthly basis (44%).

Request to Pay does not solve the problem of working with a tight budget; however, it does offer a more flexible, ‘self-service’ way to manage monthly bills than a set monthly Direct Debit date. Many people in our focus groups and interviews spoke of the stress of gathering money to pay for an upcoming Direct Debit, with one woman telling us how she and her neighbours rely on each other for these issues: “One of my friends down the road will be like, ‘Oh I have got £20 cashback (in cash), I have got a Direct Debit going out tomorrow, can you transfer me over and I will drop £20 off?’”

This is corroborated by our polling: over half of financially-vulnerable people said they borrowed money to pay a Direct Debit, and nearly 1 in 10 said they had to borrow money several times a month to pay a Direct Debit. Previous research has found that financially-excluded people rely heavily on “that informal

lending to avoid the pernicious effects of short-term illiquidity”. However, this puts a strain on their relationships and social capital.²⁰



Request to Pay offers the flexibility of timing that some financially vulnerable people need

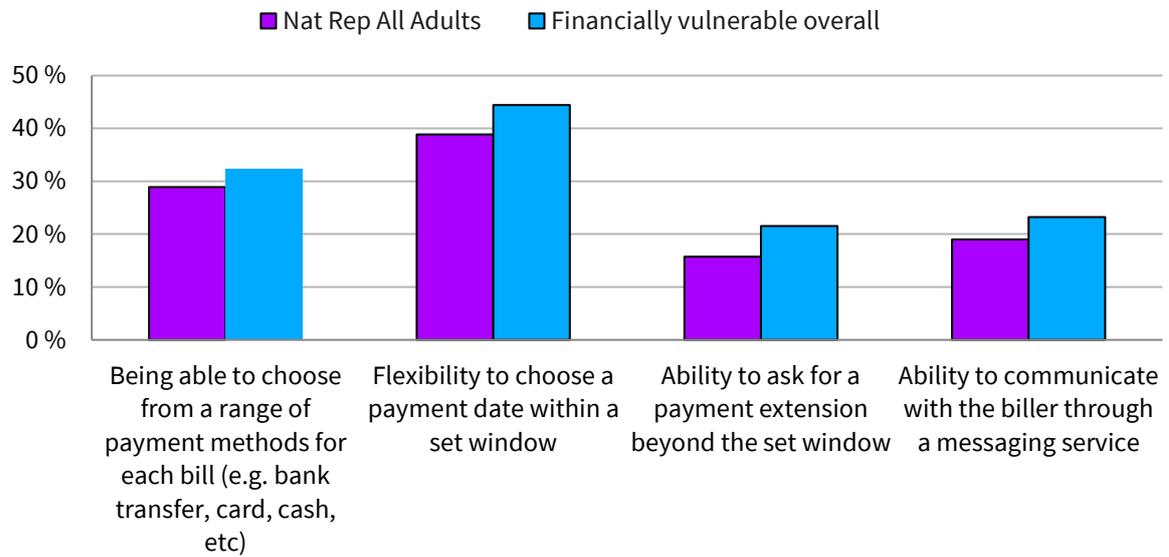
For people managing tight budgets especially, it is clear that the timing of Direct Debits really matters. Our survey found that 63% of those in a vulnerable category have arranged a specific day(s) for the Direct Debits to come out, compared to 58% of the general population. 60% of people in total said it mattered when Direct Debits came out, compared to 69% of financially-vulnerable people, and the timings matter even more for those struggling with financial resilience (75%) and low financial capability (74%).

Many people want the features Request to Pay offers for paying bills, especially those with financial vulnerabilities: 39% said it would be useful to have flexibility to choose payment dates within a set window, rising to 44% for financially-vulnerable people. 16% of people said it would be useful to be able to ask for a payment extension beyond a set window, and the number is higher for financially-vulnerable people at 22%. 19% of people said it would be useful to communicate with a biller through a messaging service, and again the number is higher for financially-vulnerable people (23%).

²⁰ Biosca, O and others, *Tightrope: Using Financial Diaries to Investigate Day-to-Day Financial Decisions and the Social Safety Net of the Financially Excluded*.

ANNALS, AAPSS, 2020, p. 61. Available at: [Walking a Tightrope: Using Financial Diaries to Investigate Day-to-Day Financial Decisions and the Social Safety Net of the Financially Excluded \(sagepub.com\)](https://www.sagepub.com/journalsPermissions.nav?lang=en&path=/journals/annals-of-the-american-academy-of-political-and-social-science/2020/01/annals-117-01-061-081.pdf) [accessed 9/02/22]

Which of the following features, if any, would be useful for paying a bill online or using a mobile device?



6 Buy Now, Pay Later

Buy Now, Pay Later is here to stay, but better regulation is desperately needed, especially for vulnerable customers.

Buy Now, Pay Later (BNPL) - a point-of-sale financing option that allows customers to pay in interest-free instalments - has skyrocketed in popularity in recent years. Bain & Company's report on BNPL found that: "transaction value in the UK reached GBP 6.4 billion, or 5% of the e-commerce market, reflecting 60% to 70% annual growth."²¹ BNPL offers many people interest-free credit who wouldn't otherwise be able to access it, yet it has also been described as the "new payday loans scandal" by Tony Craddock, Chair of the Payments Association.²² Our research finds that while BNPL needs a rehaul, the elements that work for customers need to be preserved.

Our focus groups and interviews with financially-vulnerable people found that the use of BNPL is linked to struggling with money. The people who used it tended to have the lowest incomes and had the most difficulty budgeting; often they were the least likely to be able to envisage their financial situation in a few months and they struggled to save anything. Some also spoke of overspending being a coping mechanism for their mental health issues.

One interviewee with low financial resilience explained how easy it was for her spending to get out of control with BNPL: "I'm spending on things, probably, that I want and not need. A lot of it could be clothes and stuff, but in my mind I'm like, oh, I'm only going to pay £20 this month and £30 next month. But then it adds up, doesn't it? [...] I have got myself into messy situations with them, because you almost forget that you're constantly paying monthly, and then you're adding more to it." She also told us that her late repayments to BNPL providers had damaged her credit score, which makes using other forms of regulated credit even more inaccessible for her.

Because BNPL providers do not carry out the credit and affordability checks their regulated alternatives – such as credit card companies - have to, it is very easy to accumulate unmanageable levels of debt by taking on lots of debt from multiple BNPL providers. Customers who miss repayments also face very high late fees and charges.²³

²¹ Bain & Company, *Buy Now, Pay Later in the UK*. Bain & Company. October 2021. Available at: https://www.bain.com/globalassets/noindex/2021/bain_report_buy_now_pay_later-in-the-uk.pdf [accessed 25/04/2022]

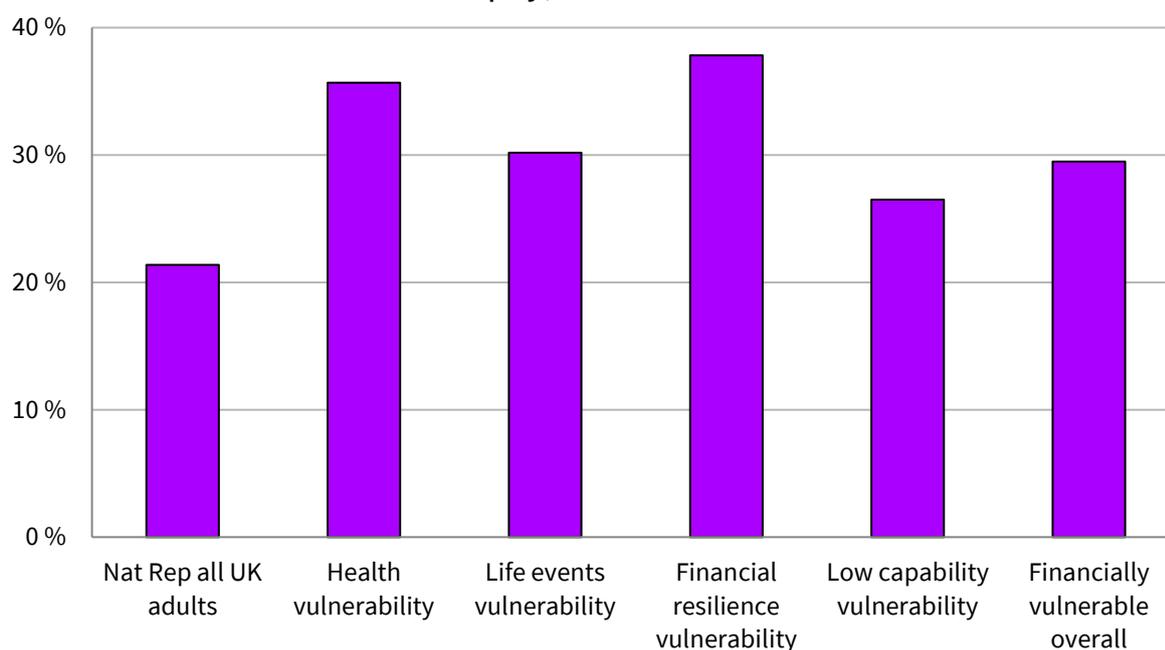
²² Demos Consulting interview, January 2022.

²³ HM Treasury, *Buy-now-pay-later products to be regulated*. Gov.UK, 2nd of February 2021. Available at: <https://www.gov.uk/government/news/buy-now-pay-later-products-to-be-regulated> [accessed 11/02/2022]

Financially-vulnerable people are more likely to use Buy Now, Pay Later.

Our polling found that people with certain kinds of financial vulnerabilities were more likely to use BNPL. 38% of people with low financial resilience and 36% of people with a health vulnerability said they had used BNPL in the last year, compared with 21% of the general population. Financially-vulnerable people are also slightly more exposed to seeing BNPL as a payment option: 65% of people with any kind of vulnerability said they had seen the option to use BNPL at the checkout, compared with 58% of the population.

Have you ever used a Buy Now Pay Later service, such as Klarna or Clearpay, in the last 12 months?



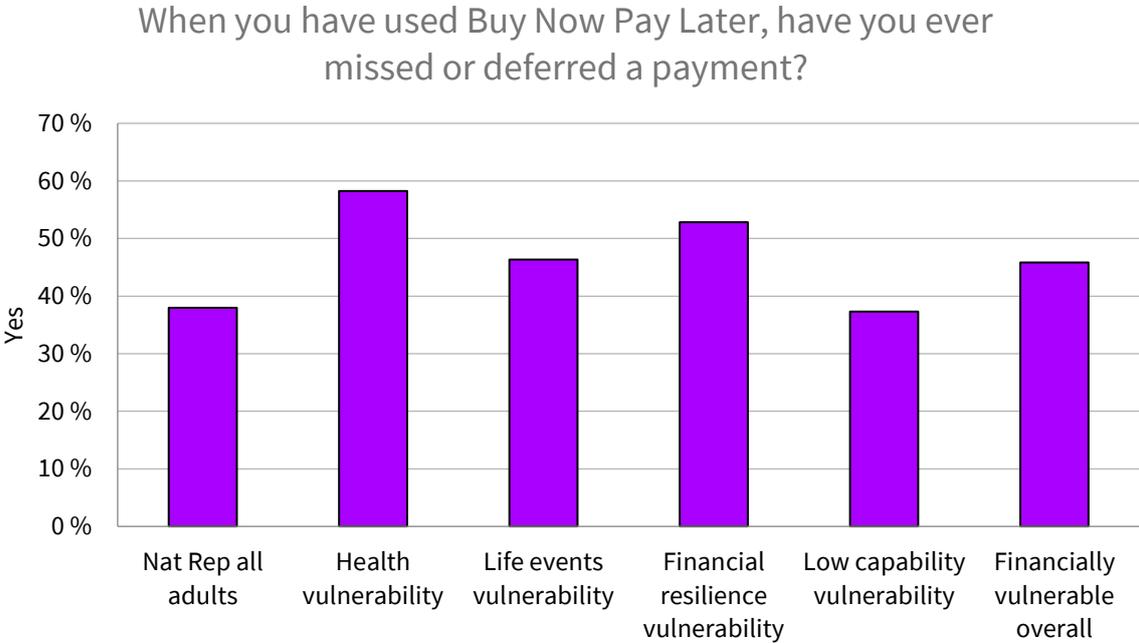
BNPL is often thought of as a women’s product: it is marketed more towards women, and it is often used to buy traditionally ‘female’ goods, such as clothes and make-up. Yet although women are more exposed to BNPL options (61% of women had seen it as an option compared with 54% of men), women and men were equally likely to have used BNPL options in the past 12 months. Moreover, men are much more likely to say they had missed or deferred a BNPL repayment: 54% of men said they had, compared to 23% of women. Previous research has also highlighted this issue, with other data finding that men spend more than women using BNPL and repay later.²⁴

²⁴ Klarna, *Buy Now Pay Later: New data from Klarna finds women spend less and repay sooner*. Klarna, December 2021. Available at: <https://www.klarna.com/international/press/buy-now-pay-later-new-data-from-klarna-finds-women-spend-less-and-repay-sooner/> [accessed 04/03/2022]

Without sufficient credit and affordability checks and warnings, many customers are taking on unsustainable debt.

Our polling clearly finds that a significant proportion of BNPL customers have taken on more debt than they can manage. Financially-vulnerable people were particularly likely to have missed or deferred a payment: we found that nearly half (46%) of financially-vulnerable people who had used BNPL said they had missed or deferred a payment, compared to 38% of the total population - a figure slightly higher than studies from last year²⁵.

More than half (58%) of people with health vulnerabilities said they had missed or deferred a BNPL repayment, and a shocking 73% of BNPL users living in London said they had done so, a figure completely out of line with any other UK region or city. With high penalties for late payments, taking on unaffordable BNPL loans can easily start a cycle of debt and can reduce access to affordable credit in the future.



Without robust credit and affordability checks, it is clear that BNPL providers can easily lend to people who cannot afford it. A fintech contact told us that the people they see using BNPL sometimes declare that they are unemployed, in arrears or have no income.²⁶

²⁵ Magnus, Ed, *Almost 8M Britons owe money on buy now pay later: Are we on the cusp of a debt crisis or is it less risky than using a credit card?* thisismoney.co.uk. 20th December 2021. Available at: <https://www.thisismoney.co.uk/money/cardsloans/article-10317739/Is-buy-pay-later-risky-credit-card-borrowing.html> [accessed 11/02/2022]

²⁶ Demos Consulting interview, January 2022.

As regulation stands, customers are - in the words of Will Barnes (from Money Saving Expert at the time of this study) “really unprotected”.²⁷ It was no surprise that almost everyone we spoke to from the payments world called for robust background credit checks, and welcomed the Treasury’s Woolard Review that has led to the government bringing BNPL products under the FCA’s regulation.²⁸

BNPL is not all bad: it offers people a quick and accessible way of spreading the cost.

There are clear upsides to the BNPL model. It allows people interest-free credit, and when used to pay for white goods and dental appointments, it enables people to buy things they need to in a more affordable, spread-out way. One man in the focus group had used it to buy a sofa he needed, meaning he could invest the money he would have otherwise spent upfront. Moreover, for those who can’t easily access cheap credit - or who are locked out of accessing it all together - it enables them to escape the ‘poverty premium’ of expensive or non-existent credit.

As such, the model of interest-free, easy to access credit is here to stay, but needs serious regulatory changes. This June, the Treasury announced plans to regulate the BNPL industry, with lenders required to be approved by the Financial Conduct Authority and to carry out affordability checks on customers. Customers need better protection when using BNPL, both in terms of the information and warnings they get when they use the product and in terms of checks to ensure they are able to take on this debt. The new proposals will ensure that customers are covered by borrower protections, and that advertisements are “fair, clear and not misleading²⁹”.

²⁷ Demos Consulting interview, December 2021.

²⁸ HM Treasury, *Buy-now-pay-later products to be regulated*. Gov.UK, 2nd of February 2021. Available at: <https://www.gov.uk/government/news/buy-now-pay-later-products-to-be-regulated> [accessed 11/02/2022]

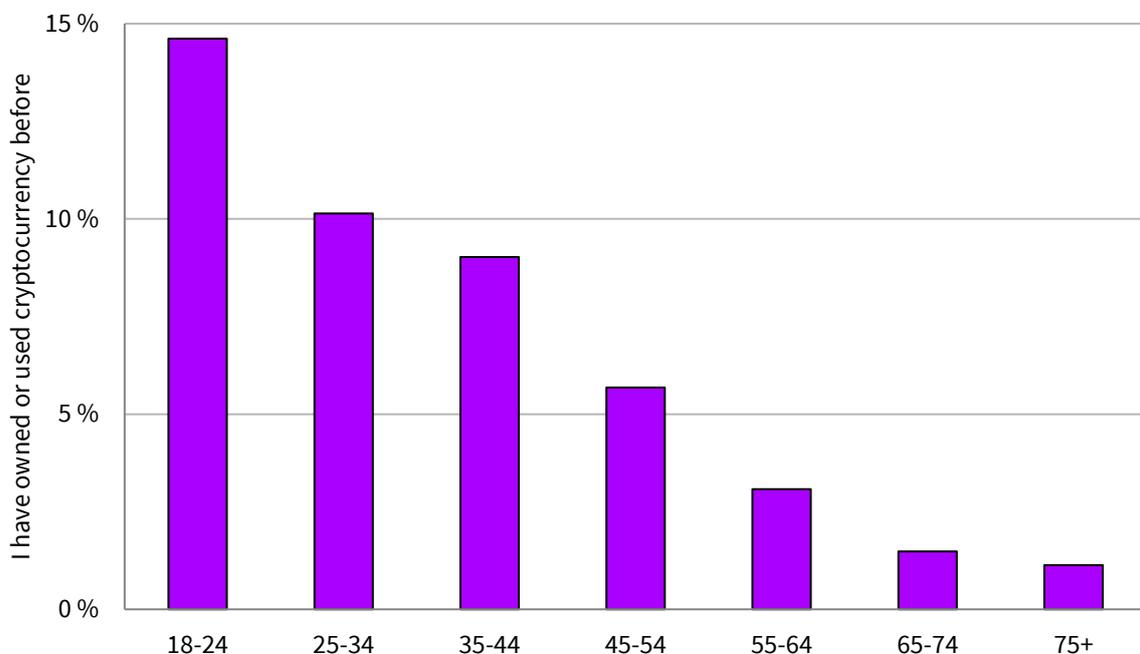
²⁹ HM Treasury, *Regulation of Buy-Now-Pay-Later set to protect millions of people*. Gov.UK, 20th of June 2022. Available at: <https://www.gov.uk/government/news/regulation-of-buy-now-pay-later-set-to-protect-millions-of-people> [accessed 29/06/2022]

7 Cryptocurrency

Cryptocurrency ownership is still quite unusual, but younger people are more likely to hold and use it than older people.

Our research finds that a small but significant minority engage with cryptocurrencies. 6% of people polled said they had owned or made a payment using cryptocurrency, and the number is slightly higher for people with financial vulnerabilities at 7%. More significantly, 9% of people with a health vulnerability said they had owned or used cryptocurrency.

Certain demographics are much more likely to own or use cryptocurrency, with 15% of 18-24-year olds saying they had, compared to 2% of people aged 55+. 13% of people from an ethnic minority said they had owned or used it, compared to 6% of white people, perhaps reflecting the fact that the younger population is more ethnically diverse in the UK, or other socio-cultural drivers.



Cryptocurrency is still used much more as an asset than as a way to pay.

The majority of people who hold cryptocurrency use it as an asset rather than as a standard of payment. However, around one-third of people who owned or had owned cryptocurrencies had used it to buy goods or services, and the number is higher for financially-vulnerable people at 38%. For those people who had used it for a purchase, the majority of the time they said that the good or service was priced in cryptocurrency (63%). We found a small amount of data that might indicate that those with health vulnerabilities are more likely to buy goods or services using cryptocurrencies. However, further research is needed into this area.

Our qualitative research found that people who held cryptocurrency assets tended to invest a relatively small amount of money in a well-known currency, such as Ethereum or Bitcoin. Some people we spoke to knew very little about their investment: “I put £20 in just to see what would happen. I can't remember the name of it. It is definitely not Bitcoin though.” A few mentioned that they had put money in and couldn't access it when they tried to: “I tried to take it out once, and I [...] didn't know how to do it, so I just left it. I just thought, ‘Oh, you know what? It is a sign. Just leave it there. You never know. It might make me rich one day. Doubt it, but...’”. Most people received “tips” from relatives or friends, who they viewed as more knowledgeable on investing. Although people were investing small amounts of money, it was concerning to see people who regularly struggled to pay for bills put any money at all into such a volatile and inaccessible asset.

8 Recommendations

- **Helping people manage their bills**

Request to Pay offers users flexibility when paying bills that could help people keep on top of their finances. We are, therefore, actively promoting Request to Pay to billers and to banks and other institutions whose role in the RtP ecosystem will be necessary to ensure the process is adopted widely. Separate independent research conducted on our behalf identified that there would be significant benefits to billers of using RtP and of providing payers with payment date flexibility and a safe and secure communications channel. Whilst it does not change the legal position between payer and biller, RtP enables both parties to reach an optimal payment solution – particularly helpful when the standard timing would prevent payers – especially those who are financially vulnerable – from being able to meet their obligations.

- **Tackling fraud**

While Confirmation of Payee is not the silver bullet to preventing APP fraud, it offers a level of security that should be available to everyone. The PSR consulted this year on increasing coverage from 92% to 99% of Faster Payments³⁰, which would make the service mandatory for all banks and building societies. This would also have the added benefit of eliminating confusion arising from the service not being applied universally.

On top of this, we recommend that banks and building societies adopt the lessons learnt from our benchmarking research into identifying best practice for a more clear and impactful use of the Confirmation of Payee service in customer journeys and messages. This could be through the use of placement, symbolism and colour that shows a clear and unmistakable ‘close match’ or ‘no match’ alert. We will share this research with our customers to promote best practice.

Payment Purpose Codes help to identify transaction details and could play a part in providing more information for relevant parties to facilitate better fraud detection, particularly financial abuse. To do this, further research is needed into financial abuse more generally, and what the payments ecosystem can do to tackle it.

- **Protecting customers using Buy Now Pay Later (BNPL)**

Consumers using BNPL are not afforded the same protection as when using other forms of regulated credit. For this reason, we support the Woolard Review’s recommendations to require affordability checks on customers before allowing them to use BNPL. We also recommend that the FCA brings BNPL under Section 75, to offer customers the full protection of the Consumer Credit Act that they benefit from when making a purchase with a credit card.

³⁰ Payment Systems Regulator, *PSR CP22/2 Confirmation of Payee: Requirements for further participation in CoP*, Payment Systems Regulator, 2022. Available at: https://www.psr.org.uk/media/gc1bfva1/psr-cp22-2-requirements-for-further-participation-in-cop_may-2022.pdf [accessed 1/08/2022]

BNPL is still an emerging area of the payments system, and regulators need to decide what kinds of goods and services can or cannot be bought through it. However, many goods and services fall into a greyer area, which the Treasury has not clarified in its recent proposals in June to regulate the industry. Regulators need to decide what the parameters of BNPL should be and legislate accordingly, and we can expect draft legislation by the end of 2022 which should address the complexity of such regulation.

Although BNPL offers many people a way to buy goods and services in an affordable way, paying this way as the default risks people taking on more credit than they can afford. As such, we recommend that the UK follows in Sweden's footsteps, where debit options must be presented first at an online checkout before credit options.

- **Cryptocurrency: the wild west of payments**

Although the numbers are still small, our research finds that a not-insubstantial number of young people own, or have owned, cryptocurrency. Given that young people are more likely to be financially vulnerable, careful attention is needed to monitor how the young in particular are engaging with cryptocurrencies, and the kinds of advertising and warning messaging they are receiving, as well as understanding the growing area of crypto-investment scams.

Finally, our research potentially flags those with health vulnerabilities as more likely to buy goods or services using cryptocurrencies. As such, more research is needed into understanding whether their use of cryptocurrencies is linked to their health needs and, if so, how we can better serve people's health conditions in a regulated market.



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