NOVEMBER 2019

Everyday Finances

What consumers need in a changing world of banking and payments

Contents

Executive summary

The way in which people spend money and conduct their banking is changing. Over the past two years, card payments have outstripped cash payments for the first time, and the proportion of people using online or app-based banking has continued to climb: at least seven in 10 people now bank online or via apps.

A mix of cost-cutting, competition and new regulation is helping to drive the rapid move to online banking and digital payments. But while for many people the speed and convenience of new technologies is welcome, the changes gathering pace have the potential to see large swathes of the population left behind.

The most obvious change has been the rapid decline in bank branches and, more recently, the reduced availability of free-to-use ATMs. As branches disappear and free-to-use ATMs are lost, people increasingly face the risk of exclusion, as key ways in which many people choose to access their core banking services are becoming harder to access. Around 11 million adults (22%) in the UK are not yet confident they could check their bank balance online. In this context, issues in banking and payments are not just as simple as whether or not someone has a bank account, but whether or not someone can access and use the account they have. The continued move towards online banking and digital payments means people may increasingly struggle to access their banking services in a way that suits their needs.

The decline of in-person banking and cash payments is heralding more fundamental changes to the way banks and other firms offer core banking and payments services to consumers in the UK.

We are already seeing greater use of people's payment data by banks and financial technology firms (or 'fintechs') to provide highly personalised products to customers. For those people that are able to access and use these services the innovation is welcome, but if the shift continues and the UK develops a banking market where data-sharing is standard and where people are expected to use a range of banking service providers, we may begin to see more people struggling to use digital banking services and unable to access good-value essential banking services. These changes could also be precursors to the demise of free-if-in-credit banking services, which would lead to many people in the UK becoming exposed to a banking market in which they have to pay for core products and services for the first time.

A worrying consequence of all of this will be an increase in the number of people who are unable to or who struggle to access essential banking and payments services. More will need to be done to support those who are at risk of being left behind and who are in danger of being branded as 'laggards' by an industry that is pushing innovation in a market where demand for change is low.

To ensure that people's voices are heard, Which? has undertaken a unique and in-depth research project from which emerges four overarching conclusions that reflect what consumers need and want as we move towards a future of digital banking and payments.

Our four conclusions

ONE: Everyone must have access to core banking and payments services that meets their needs.

- Core banking and payments services are essential to people's lives. Most would struggle day to day without all of the following:
  – **a secure place to store money** – a bank account.
  – **access to payments** – in particular cash, as a universally understood and accepted payment method, but also payment cards and facilities to set up and manage regular payments.
  – the option to **talk to a real person** from their bank when they need support.

Three quarters of adults think everyday banking and payments services are as essential to the way they live their lives as gas and electricity.

- As bank branches and free ATMs disappear, people are increasingly at risk of being left without the option of cash and are being pushed to bank online. This is reducing the choice of services available, leaving some people struggling to access essential services.
- While the UK already has some protection in place to try to make sure everyone can open a basic bank account with all major UK banks, the provision of these accounts does not address two key concerns: the need for people to be able to access and pay with cash, and the need for people to be able to access core banking services offline. Which? has already called for the government to legislate to protect access to cash for as long as it is needed. **Government and regulators now also need to ensure that all consumers are able to get a bank account and are able to access and use it securely both online and offline**.

TWO: People must not face unnecessary barriers or experience harm when engaging with digital banking and payments.

- Due to a decline in the availability of offline banking services, and the increasingly complex and personalised way services are offered, there is a significant risk that banking and payments markets could start to exclude or unfairly penalise certain people.

One in five adults in the UK do not feel confident in their ability to check their balance online

- This could have a particularly negative impact for those who may struggle to engage with online banking services, new providers or tech-enabled services as a result of low levels of digital capability and poor connectivity.
- **The government, regulators and industry must ensure that:**
  – **people can bank, manage their finances and make payments offline or online without finding themselves paying unfairly high prices or using unsuitable products.** Otherwise, complex data and personalisation could make it harder for people to make fully informed decisions.
  – there is **good digital infrastructure across the UK** so that everyone can access online banking and digital payments.
  – **everyone has the opportunity to gain the necessary digital skills** to engage, bank and pay securely when they are using digitally enabled banking or payments.

THREE: People who cannot – or may struggle to – adopt newer banking and payments technology must have access to appropriate products, services and support.

- People believe that everyone must have access to core banking and payment services, and that different people's needs must be accounted for as we transition to a more digital economy. There is widespread concern for those who may be left behind by changes, whether because of limited digital capability or poor connectivity.

Over half of adults would need support to help improve their digital capability if they had to bank online.

- To protect these people, **banks need to make sure that the digital products they develop take into account the different needs of their customers and that support is in place for everyone in order to help them bank digitally.**

FOUR: People must have a choice over how they access essential banking and payments services and be able to access them at a fair price.

- Most people feel that they have no say in the changes in the industry. New innovations are targeted either at those who have money and are profitable for banks, or at reducing banks' costs. This has led to widespread pessimism about the future of retail banking and payments, particularly among those who feel they are at risk of being left behind.

Three quarters of those with only basic digital skills are pessimistic about the future of banking and payments.

- People want to make sure they have a choice of how they bank and pay. This includes the option to use cash and to bank offline. This choice extends to finding ways to ensure even the most vulnerable people can bank and pay securely.
- People also want to be able to access and use their core bank account and payments services for free, as is the case currently for most bank customers in the UK. Three quarters of people said that, in principle, cross-subsidisation is a fair way for banks to provide 'free' bank accounts.
- To ensure consumers' demands are met, **regulators, the government and others should work to encourage the industry to innovate and to develop sustainable business models and services that continue to meet the needs of all consumers**. In addition to this, **regulators will need to set out minimum protections for consumers and ensure that no consumers are unfairly charged to access core banking services**.

1. Introduction

At the heart of all consumer activity is spending. To support their spending and day-to-day financial activities, consumers rely on:

- banks, building societies and other account providers to receive, transfer and store money
- retailers who accept payments in return for goods and services
- a vast network of payment services providers and intermediaries who move our money between these institutions.

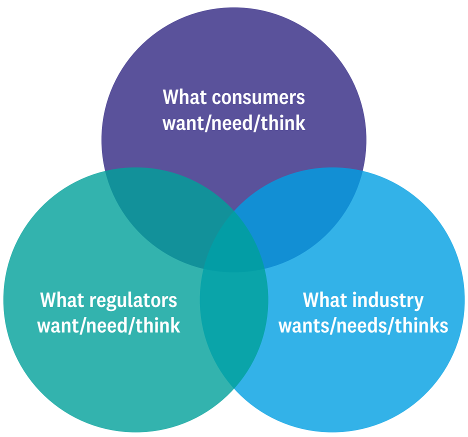
But the way in which people spend money and conduct their banking is changing. A mix of cost cutting, competition and new regulation is helping to drive the rapid move to online banking and digital payments. At the same time we are seeing a decline in the availability of high street banking and cash.

New technology is providing many of us with the benefits of speed and convenience. But as change gathers pace and bank branches and ATMs disappear, there are concerns about the consequences of these changes and the broader impact on people across the UK of changing banking and payments business models.

Given the pace of change and the genuine concerns of consumers, Which? sets out to examine people's experiences and needs in the area of everyday banking and payments.

To date, a large proportion of the consumer research in this area has been conducted for industry participants looking to deliver new products and services for consumers who are currently engaged, or might engage more, in the market. There has also been a significant amount of work undertaken by regulators and others to assess how the markets function, and how they might change or be made more competitive. What has been missing is an in-depth understanding of what people really want.

The project has helped us to understand what people need and expect from the retail banking and payments industries. It has also highlighted the potential for some people to experience additional or unintended harm as changes in day-to-day banking and payments gather momentum.



This report sets out key issues arising as the way we bank and pay for goods and services changes:

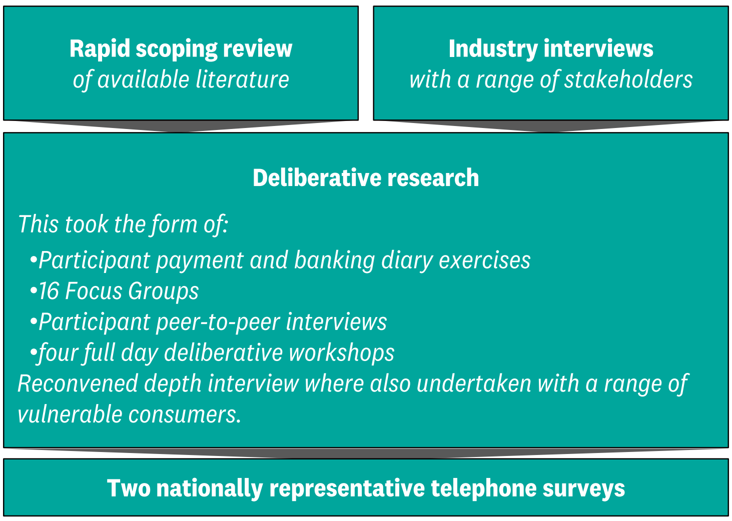
- The risk that some people lose access to core services as banks and building societies withdraw from the high street in favour of online digital services.
- The risk that people struggle to keep control of their finances in a more complex and personalised world.
- The risk that people will find it harder to manage their everyday finances if they are required to shop around and share data to ensure they get good value from retail banking and payments services.
- The potential risks associated with a move away from free-if-in-credit banking.
- The risk that not enough will be done to support those that may be left behind in this transition to digital, and who are in danger of being branded as 'laggards' by an industry that is pushing innovation in a market where demand for change is low.

Having highlighted the challenges and risks people face, the report sets out in detail what Which? has learnt from the people we have engaged with over the last year, including what they need from banking and payments in their day-to-day lives, their expectations of the retail banking and payments markets, and what they hope to see from the industry in the future.

Finally, the report sets out four overarching conclusions that highlight the need for action from industry, government and regulators in order to ensure that everyone is supported through this period of change.

What we did

To inform this work, Which? commissioned and undertook primary research to fill the knowledge gap. We wanted to provide regulators, government, industry and other interested parties with a comprehensive understanding of what people want, how they feel about the current state of banking and payments as a whole, and how they feel about the way banking and payments may change in the coming years.



Which? interviewed a cross-section of people working in the retail banking and payments sectors, including representatives from major banks, challenger banks, payments firms, fintechs and charities, to understand how things are changing and what the risks are to consumers as technology begins to fundamentally change the way we engage with our everyday finances. This, alongside further desk research, helped inform in-depth research with consumers across the UK.

With our partners, Collaborate Research, we conducted a large-scale deliberative research project that engaged 116 people from a cross-section of society. This included a series of focus groups and full-day workshops hosted in Glasgow, Cardiff, Morley and London.

Which? also commissioned two nationally representative telephone surveys to inform our findings. 1,002 GB adults were surveyed between 29 August and 2 September 2019 and 1,004 GB adults were surveyed between 22 and 27 August 2019. Fieldwork was carried out via telephone by Populus, with data weighted to be representative of the GB population (aged 18+).

The scoping report, plus the research report by Collaborate which sets out the findings of the deliberative research, and a summary of the key statistics from our surveys can be found at *which.co.uk/everydayfinances*

2. The changing world of everyday finances

The fundamental services offered by banks have been established for generations, but with the arrival of the internet, mobile phones and a raft of new technology, we have seen rapid changes in the way people interact with banks and make payments.

From a consumer's perspective, retail banks have always offered and continue to offer accounts for individuals to store their money, to provide them with the tools to make deposits and withdrawals, and the means to make payments and transfer money to others. For the most part in the UK this is provided at no direct cost to the consumer, with products and services offered for 'free' for consumers who remain in credit with their bank. This is known as a 'free-if-in-credit' model of banking. This means very few people see themselves as paying directly for a bank account; only around 20% of bank accounts open in the UK have a monthly or annual fee (Which?, 2019a). As part of the free-if-in-credit model, banks and other account providers give their customers access to other financial products including overdrafts, credit cards, savings accounts, loans and mortgages.

But the world of retail banking and payments is undergoing a period of change. In 2018, the FCA undertook a review of retail banking business models and found that there could be significant changes in the market. The UK is likely to see increased 'unbundling' of current accounts as firms with new business models look to capture revenue from payment interchange, foreign exchange fees and from overdraft charges. The UK is also likely to see banks, payments firms and fintechs increasingly use data to provide customers with new ways of managing their money or getting better deals. This is, in part, due to the introduction of Open Banking, which allows users of online banking to share their payment data securely with firms other than their account provider. This could result in customers using providers other than their main bank more frequently. As this happens, current account providers in the UK will be looking to develop new business models that will ensure their continued profitability. These changes are expected to result in free-if-in-credit banking services becoming less widely available. It also means people may find themselves having to respond to more competitive and more data-driven retail banking and payments markets.

While the regulators and industry are actively looking at the change and the impact this may have, most consumers have very low awareness of the business models that underpin retail banking services. They are far from aware that the current changes could be the start of an unprecedented change in the way banking services are offered in the UK.

This makes it vitally important to understand from a consumer perspective the challenges the UK may face as the retail banking and payments markets evolve, to understand how consumers feel about the changes happening, and to ensure that industry, regulators and the government are engaging with and responding to any concerns.

2.1 The key changes and challenges for consumers

In order to better understand the changes and challenges people may face, Which? spoke to stakeholders from a cross-section of banks, building societies, payments firms, fintechs and third-sector organisations. Quotes in this section are taken from interviews conducted by Which?

between March and May 2019. We found that there are five key changes that have the potential to impact the way people bank and pay:

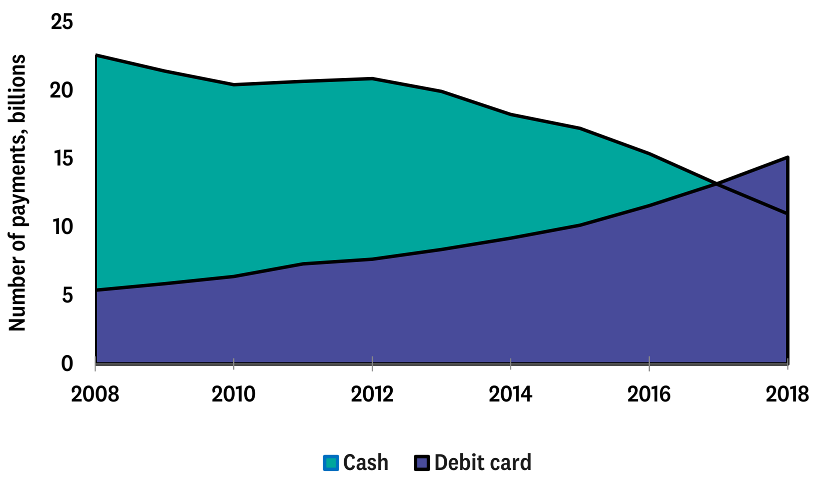
- The decline in cash use and bank branches, and **the continued rise of digital** payments and online banking services.
- An increased use of data to provide consumers with the options for greater **personalisation and control**.
- **The unbundling of products and services** that consumers traditionally access through their current account provider.
- **The shift from free-if-in-credit banking**. There is a need for all stakeholders to take steps to understand the potential impact this could have on consumers.
- The increasing need to **support those at risk of being left behind** who either do not engage digitally or who will struggle with a transition to online banking.

The continued rise of digital

The most clearly observed change raised by those we spoke to is the move towards a society where banking is predominantly done online and cash is a rarity.

We have already seen a marked transition away from cash, which is happening alongside a rise in the proportion of payments made using a debit card. This change is, in part, a result of the widespread adoption of contactless card and device payments. In 2018, a fifth of all payments in the UK were made using contactless cards (UK Finance, 2019).

Volume of cash and debit card payments



At the same time, the proportion of people using online or app-based banking services doubled between 2008 and 2018, with seven in 10 people now banking online or via apps (ONS, 2019a).

The flip side of this is the decline in the use and availability of more traditional means of accessing and using banking and payments services. A third of bank branches in the UK have closed in the four years from 2015 (Which?, 2019b). At the same time, the number of free-to-use ATMs has started to fall, with as many as one in 10 free-to-use ATMs either closing or switching to charging fees since January 2018 (Which?, 2019c).

> *'The amount of bank branch closures we see now is a direct result of the amount of people that are moving over to online banking [...] it does leave an awful lot of people behind from our experience.'*
> Employee at a UK charity

While there is a certain inevitability to all of this, there remains the challenge of understanding how people will respond to the change in the way these core services are being offered. This is important because, while consumers are generally using bank branches and ATMs less frequently than they have done in the past, there is a significant proportion of people who still rely on these services. A fifth of consumers are still entirely reliant on offline banking services. As the cost of serving them remains relatively high, the expectation from those we spoke to is that we are either going to see core services continue to disappear or consumers being charged to access services that cost more to provide. This means that there will be people who need support to use affordable and accessible services and that there will be people at risk of being left behind or excluded. As the proportion of consumers who need access to cash and offline banking services reduces there will be less and less desire from industry to provide for these consumers.

'The people who are heavily reliant on cash – that will be tricky. There are so many players [in the retail banking and payments industry] that benefit from going cashless'
Employee at a UK bank

Personalisation and control

A further key change that was raised by those we interviewed is the shift in the way consumers interact with their everyday finances as firms encourage the increased use of and sharing of personal data.

While the introduction of Open Banking – which allows consumers to securely share their banking data with third parties – is in fairly early stages, it is seen by some in industry as the first step in a move towards an economy in which consumers' data will be used to offer personalised deals, tailored support and new data analytics services.

'Open Banking is that first step, but actually if you look at where open data is we think it is very likely that over the coming years we are going to see sectors like energy, like telecoms … be encouraged to put customers in control of their data'
Employee at a UK bank

Data analytics and artificial intelligence (AI) will increasingly support new business models, with current account providers and others looking at ways to provide consumers with personalised services and better deals in return for data sharing. This could support a range of things from better budgeting, to easier access to affordable credit, to better price comparison services for subscriptions and household bills.

'AI will really work across all payments [related products and services] to help differentiate and make people feel very individual'
An employee at a payments firm

While personalisation and greater use of data have the potential to help many individuals, it raises two issues around control. First, as people are increasingly expected to take control of their data there is potential for people to make poor choices, potentially getting worse outcomes for having shared it. For example, someone could share data that shows they are in need of financial support, before then being targeted with offers of credit – which provides a return for firms – but with no support on how they could better manage their finances to avoid relying on borrowing in the long run. Equally, an individual who manages their money effectively and budgets well manually may be penalised with higher charges if firms assume that a decision not to share payments data is a reflection of poor financial capability.

The second is a broader issue around whether technology is actually helping people stay in control of their finances. A lot of the focus of industry is around making things easier and quicker.

While this undoubtedly will provide benefits for some, it could raise challenges for others who would for various reasons potentially benefit from tighter control of their finances. Data will help make such offers more targeted. For instance, firms may be able to look at a person's spending preferences and map that information to their location data, offering one-off deals as they pass a favourite food chain. We are operating in a world of 'one-click' purchasing and in terms of budgeting or managing debt, speed has the potential to help some. Elsewhere, it may make it harder for people to budget and easier to make poor decisions that have a long-term negative impact on finances. This could be even more harmful when firms offer credit to help consumers pay for goods and services.

'If things are easier to do, it can cause harm. If you can take out a loan in your app that could be pretty harmful, if there is no human action. [...] Anyone that makes it easy to spend a lot of money needs to enable controls as well so that customers can protect themselves'
Employee at a UK challenger bank

The unbundling of products and services

The third key change that many in the industry expect to see is people looking to providers other than their main bank for managing their everyday finances. There are already app-only banks or fintechs that consumers can use in addition to their main account to access services such as spending analysis and cheaper foreign exchange.

We are also seeing banks and new fintechs starting to take advantage of Open Banking to aggregate people's payment data in order to help consumers manage their everyday finances or access financial products through non-bank providers. Equally, there is potential for tech-engaged firms to have their services integrated to banking platforms. Some banking providers have taken steps to achieve this by providing third-party firms access to their customers through their in-app marketplaces.

'People will have more than just one financial institution. People will pick'n'mix more'.
Employee at a non-bank financial service provider

While this has the potential to benefit consumers by allowing them to access better-quality products and services, it depends on consumers' willingness and ability to engage with these services. Banking might become more complicated for people if they have to be searching and sharing data frequently to ensure they are getting a fair price. This raises the risk that people will find it harder to get good-value products and services, especially those who may struggle to use new technology or who cannot get online.

A shift from free-if-in-credit banking

These changes all begin to touch on the fundamental point that business models are changing within the world of retail banking and payments. Many of those we spoke to raised the issue that changing business models were putting pressure on free-if-in-credit business models.

The UK has a predominantly free-if-in-credit banking model, which means those who have a bank account and are in credit – so are not borrowing money, going overdrawn or relying on other forms of credit – do not generally pay for their banking and payment services. The cost of providing the services is covered in a number of other ways. These are primarily:

- **Generating a funding benefit** from deposits held in current accounts. This means banks generating a return on deposits greater than the interest rates paid out to the account holder.
- **Charges on overdrafts**.
- **Interchange and foreign exchange fees** paid to the current account provider either directly or indirectly when customers use cards to purchase goods and services (FCA, 2018).

Currently this model is sustained by a degree of cross-subsidisation between consumers. Around 10% of consumers are responsible for 60% of the income that banks get from personal current accounts. These consumers tend to either have high current account balances or are heavy overdraft users (FCA, 2018).

Across the board, those working in retail banking and payments are aware that recent developments are putting a strain on the long-term sustainability of free-if-in-credit banking in the UK.

> *'There will be an interesting question for regulators over the coming decade. Traditionally, the UK has had a free-if-in-credit model, […] that is right for customers, but as the ways in which banks [generate revenues] are increasingly pushed down [by competition and regulation] and as banks increasingly are trying to deliver new innovations to customers we will have to be more transparent around costs.'*
> Employee at a UK bank

The FCA acknowledged in its strategic review of retail banking business models that free-if-in-credit banking services may become less widely available 'if new business models encourage consumers to move balances out of personal current accounts and erode their value as a source of low-cost, stable funding or drive unbundling of interchange, foreign exchange, or overdrafts'. As a result we may increasingly see banks looking to charge fees for providing current accounts or individual fees for the services associated with a current account, such as charges per transaction or for services that require bank staff to be available. (FCA, 2018)

While a move to charging as standard in banking may encourage greater competition, the risk to consumers highlighted by those we spoke to is two-fold:

- **If consumers do not engage with the market, competition will not be effective at driving fair prices in retail banking**. We have already seen this with card charges being banned to protect consumers from unfair charges in the payments market (HMT, 2018). Of particular concern are vulnerable consumers who may not be able to engage effectively, such as those who struggle to use online services, who may then find themselves charged in a way they would perceive to be unfair. Again, we have seen this with fair pricing in essential markets: the UK government has put in place regulations to cap charges for gas and electricity in order to protect vulnerable consumers (BEIS, 2018).
- **People with low incomes may pay directly to access core banking services**. It is already possible to observe this in the provision of current accounts where customers who pay in a certain amount each calendar month are refunded the account fee or rewarded with cashback (Which?, 2019e). Currently major banks have to offer a free basic bank account, but there have already been concerns raised about how accessible they are and whether banks are doing enough to promote them. There is also a question around their sustainability if they are just being offered by large banking firms.

Support for those who might be left behind

The concerns flagged in relation to both the changes we expect to see and a shift away from free-if-in-credit banking all share a common theme that almost everyone we spoke to raised: the move to digital puts at risk those who currently do not engage with or struggle to engage with online banking and digital payments services. It highlights the importance of discussions around how we protect those who may be vulnerable in a digital economy. It is increasingly the case in banking and payments that the risk of vulnerability relates to an ability to engage digitally.

There is widespread awareness of the issues, ranging from how to support those who still rely entirely on cash for managing their finances, to how to encourage people to engage and learn how to bank securely online.

'We are talking about people that still get all their money out every week at the Post Office, put in various envelopes for various bills. They don't want to be on the system and digital is such an alien concept for some of our clients. Open Banking might as well come from another planet for a lot of people.'
Employee at a national charity

'The question is for those that don't want to adopt, how can you give them the same levels of access to these kinds of support services through existing physical channels? I think that's a real challenge. It could be completely commercially unviable.'
Employee at a major UK bank

The key question, to which no clear answer was apparent, is who should be responsible for ensuring that nobody is left behind or excluded by this transition to a world of online banking and digital payments.

In order to provide an answer, there are a range of options that need to be considered. Banks and other providers of core financial services could have an important role to play in supporting consumers to go digital. Some are already putting in place programmes to support their customers, such as Barclays' Digital Eagles. While supporting people to get online may be a solution for some, there remains the question of how to protect access to services for those who are not or who cannot get online. While large providers retain some high street presence, new online competitors are putting more pressure on business models and encouraging change in the market. It may not be enough for the UK to simply rely on individual firms to do their part.

'Of course there are still people who don't have smartphones, which makes using [app-based banking] not even an option.'
Employee at a UK challenger bank

It may be that regulators, government and industry need to look at putting in place solutions that require firms from across the industry to jointly support initiatives to protect access for consumers who are not online. There is already widespread discussion of the potential role for the Post Office to act as a point of access for all essential banking services. However, there are not only concerns about the sustainability of the Post Office banking services framework, but also concerns that the services offered are insufficient to replace the branch for some core services, such as setting up or altering regular payments. In addition, the decision by Barclays to remove the option for its customers to withdraw cash from the Post Office in October 2019, albeit reversed following public outcry, showed the fragility of relying on such systems to maintain consumer access to services. There has also been an emphasis from firms that we spoke to that clear direction needs to come from regulators if we are to ensure the right consumer protections are out in place as the market changes.

'The regulatory environment will continue to put pressure on incumbent suppliers as the regulatory bodies seek to ensure the right level of protection or support is available for consumers.'
Employee at major UK Bank or Building Society

A major barrier to securing a good outcome for all consumers is a perception that the people who are not engaging online are only failing to do so because of old age or because they are making an active choice not to go online or to learn the skills they need. Throughout the scoping of the project we came across research with consumers referred to as 'laggards' or 'disengaged'.

It is easy to forget that for many it is not that simple. Issues ranging from the cost of mobile data to cognitive decline mean that we cannot simply hope for society to grow out of this problem. There needs to be a recognition from everyone involved that while changes may in part be in response to changing demand, they are also in part due to cost-cutting, new regulation and increased competition driven by a minority of engaged consumers.

3. Delivering banking and payments for consumers

Even if they occur gradually, the changes discussed above have the potential to fundamentally alter the way banking and payments services are provided to and used by consumers. As a consequence of this, there is a risk we will see an increase in consumers who are unable to or who struggle to access essential banking and payments services, and an increased need to support those who are not digitally engaged and therefore risk being left behind.

To help prepare for a world where online banking and digital payments are dominant, all key stakeholders – individual firms, industry bodies, regulators and government – need to recognise and take into account the needs of all consumers.

The research undertaken identified four key issues that need consideration in a changing world of banking and payments:

1. **The essential nature of banking and payments** How do consumers perceive and engage with the retail banking and payments markets? What products and services are essential for consumers? How are consumers choosing to access these services? What services need to be protected to ensure consumers aren't excluded through this period of change?
2. **The engagement and exclusion of consumers** What barriers to engaging with retail banking and payments services might consumers face? How might this change if the retail banking and payments markets continue to change as anticipated? How might these barriers contribute to consumers being financially excluded?
3. **Supporting consumers through change** Who needs support through this period of change? What support do they need? How can it be offered?
4. **What consumers want** What are the key things consumers want from the retail banking and payments market? Do they fundamentally support the current model of free-if-in-credit banking?

The following section is informed by what Which? has learnt from consumers over the past six months and includes a range of statistics, quotes and case studies alongside the key findings from our engagement with consumers. The full findings from the qualitative research and surveys can be found at *which.uk/everydayfinances*

3.1 The essential nature of banking and payments

A key insight from the research is that consumers regard the everyday banking and payments markets as being different to many other commercial markets. The core services offered by retail banking and payments firms are seen as essential to the way people live their lives. To that extent, there is a perception that everyone needs a minimum level of provision, accessible by all, in order to live in the UK today.

'It's involved in everything you do in day-to-day normal life; it just makes the world go round.'

The essential nature of the services offered by banks and payments firms means that consumers have a tendency to view banking and payments services in a similar category to other utilities, such as gas and electricity.

75% of consumers think everyday banking products and services are as essential to the way they live their lives as gas and electricity.

This perception is evident in consumer behaviour. We know that, as with other utility markets, switching in retail banking is incredibly low. Only 6% of people have switched their main bank account provider in the past three years, with 60% having been with the same provider for 10 years or more. (FCA, 2018)

Despite the introduction of the Current Account Switching Service and numerous switching offers put in place by banks, these switching rates have remained low.

Our research has also shown that there is a reasonable level of satisfaction with the current provision of banking services and very little demand for change from consumers.

'How much faster and more convenient do we really need?'

What is clear, however, is that there are consumers who are starting to feel pressured by the change being brought about by the innovations in banking. There is concern about loss of services offered through local bank branches and the reduction in the availability of cash via free-to-use ATMs.

'The thing I'm worried about is that all of this is being pushed by the banks. It's like they're making me do things rather than it being my choice.'

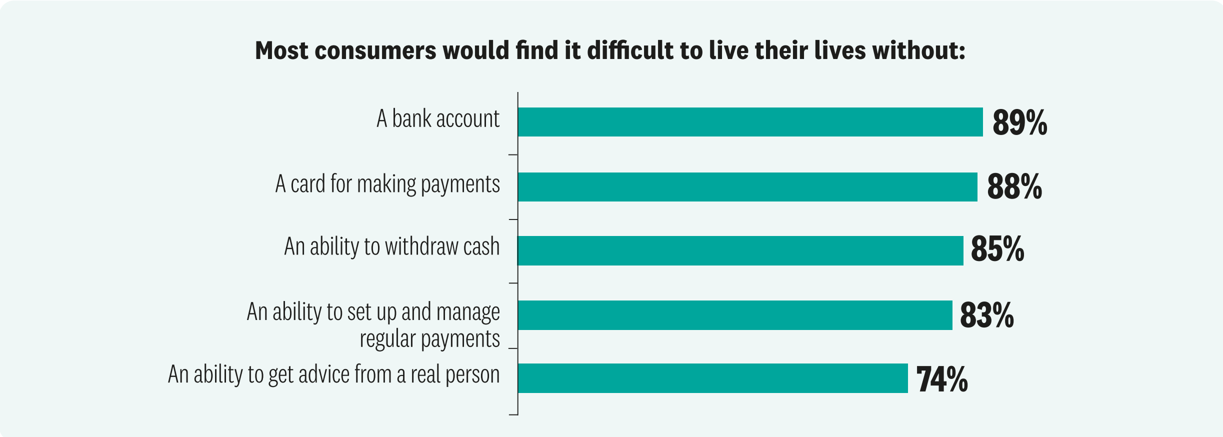
The concerns raised by consumers extend to a concern that as people are being nudged towards technology, the other options available will be withdrawn. This has been most evident to consumers in the closure of bank branches and the reduction in the availability of free-to-use ATMs.

The perception of certain services as vital, and the concerns around the changes that we are seeing in the retail banking market, lead to a common conclusion among most consumers: as a society, we must protect access to products and services that are essential for consumers when managing their everyday finances, and no one should be excluded.

'You can't exist now without a bank account, whereas once upon a time you got cash for the work you did.'

While the products and services that constitute 'essential' everyday financial services vary depending on consumers' own behaviour and preferences, there is some commonality. Across the board, consumers need: access to a secure means of storing money; a choice of payment methods in recognition of different consumer needs and to provide back-up options to all consumers; continued free access to a universal payment option (currently this is cash); and continued free access to person-to-person bank services when required (for most people this would be for occasional use, for example when something has gone wrong, rather than for routine use).

To clarify what this looks like for most people, we asked what services they would find it difficult to live without. The vast majority of consumers would find life difficult without access to a **bank account**, a **payments card** (eg a debit card), the ability to **withdraw cash**, the ability to **set up and manage regular payments** and the option to **talk to a real person** at their bank.

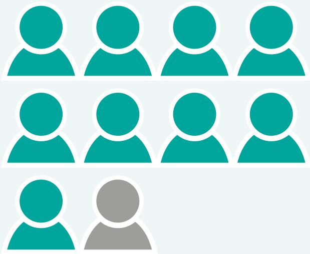


While there is commonality, people acknowledge that their needs vary and that not everyone is the same. For example, only around half of consumers would find it difficult to live without online or mobile banking – this includes four in five people under the age of 35 – and around half would find it difficult to live without cash-depositing facilities.

There are also a significant proportion of people (42%) who would find it difficult to live without the ability to pay for things on credit.

The importance of cash

The issue of accessing cash was one of the most emotive topics addressed throughout the research and it was made very clear that people feel they need to be able to access their cash free of charge.



9 out of 10
consumers like the freedom to choose between cash, card and other forms of payment

9 out of 10
of consumers agree that they need access to their cash free of charge

9 out of 10
consumers think cash is important to have as a backup as it doesn't rely on a digital IT system to work

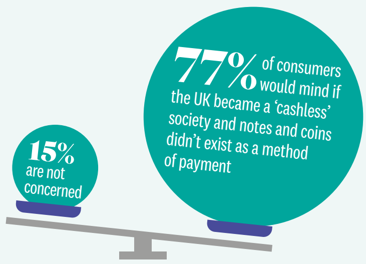
Which? is aware, from our 'Freedom to Pay. Our Way.' campaign, just how important it is to have the choice to pay in cash.

For a majority of people (74%) it is important that they are able to pay for goods and services using cash. Half of consumers (52%) feel it is very or extremely important that they are able to pay using cash in-store. There is also a significant proportion of people (34%) for whom it is important that key service providers, such as utility companies, accept payments in cash.

52%
of consumers say it is important to make payments with cash in-store

34%
of consumers say it is important that key service providers, such as utility companies, accept payments in cash

44%
of consumers say they would use cash more frequently if it was more convenient to withdraw



Throughout this research consumers told us they value access to cash because:

- It is a **backup** in case of issues with other payment methods.
- It plays an important role in the **budgeting** approach of some consumers.
- It is regarded to be a **universal** form of payment that everyone can use.
- The **anonymity** of cash payments is identified by some as a plus point.
- Some also felt cash to be important to developing children's **financial literacy**.

While cash is valued, consumers recognised that cash usage was on the decline: both because individuals were using less cash than they have in the past, and because it is becoming harder to get hold of. This is reflected in the fact that more than two fifths of consumers agreed that if getting cash out was more convenient, they would use it more frequently.

Overall, consumers perceive many disadvantages and few benefits to moving towards a cashless society. The potential negative impacts foreseen include:

- Increased **costs to access cash** for those who need it. There is a strong resistance among consumers to only having access to paid-for ATMs even if their cash use is low.
- It being **more difficult to budget**, and easier to overspend, for some consumers.
- Greater **vulnerability to technical system failures** that impact digital payments.
- Increased **risk of financial exclusion** for those without access to, or capability to use, emerging digital methods such as app-based payments. Some people do not have an alternative to card payments without cash, eg they do not have access to a phone or credit card.

Case Study: Louise

Louise, a mother of two in her late 30s, lives with a physical disability that makes it difficult for her to leave her home. She relies on Employment and Support Allowance and Child Tax Credits, accessed through her Post Office account. She has a basic bank account, having previously relied on sharing her partner's bank account.

Louise lives on a low income and does not have savings. She finds everyday finance a *'struggle'* and needs to budget effectively in order to manage her money. She uses her basic bank account for direct debits and making online payments, and cash withdrawn from her Post Office account for day-to-day spending. She does not have a contactless card and does not want one – she has security concerns, particularly were her card to be stolen. She can't afford to lose £30, which is the current spending limit per transaction.

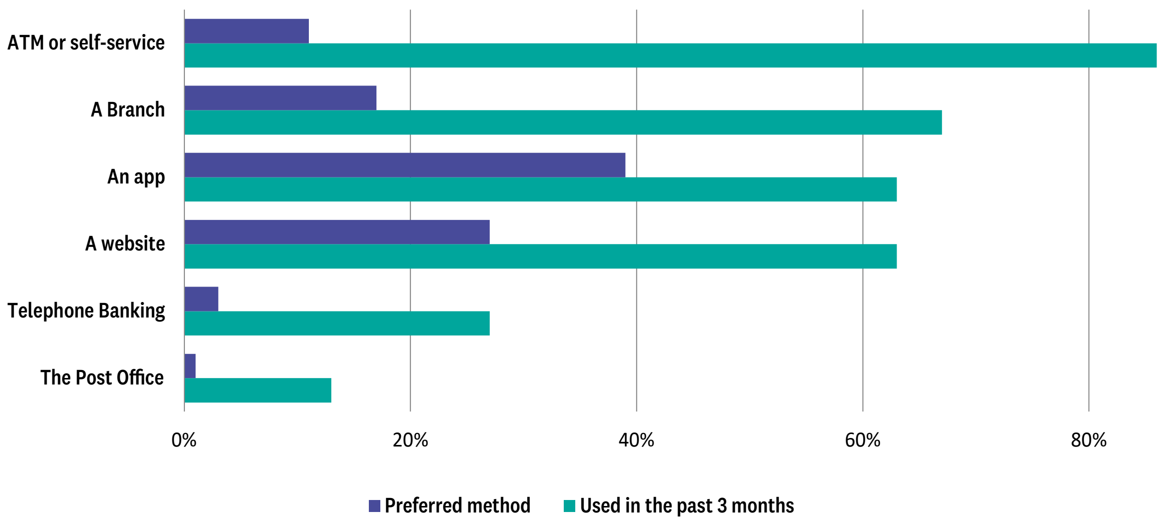
Louise hopes that banking and payments will remain more or less the same in the future. She recognises she might need to upgrade her app, but sees cash as integral to how she budgets and doesn't view herself as especially technologically savvy. Fundamentally, Louise doesn't perceive a need for new ways to pay or bank becoming available. When presented with information about potential future innovations, Louise was concerned about security, people's abilities to adapt and engage with technology.

'Now it's card and cash. Leave it at that.'

The importance of different access channels

People saw real value in there being sufficient banking and payment options available to suit the needs of all consumers. This extends to the availability of different access channels, including online banking (via websites and apps) and offline banking (via ATMs, branches and telephone).

How people manage and access their current accounts



It's clear that the majority of consumers prefer to bank online: the largest proportion of consumers preferred to access their bank accounts through their mobile app, followed by web-based banking. But it is important to note that a significant proportion, representing around 11 million consumers, prefer to bank in branch.

We also need to recognise that, while a majority of people prefer to bank online, the reality is that, in a three-month period, almost all consumers with bank accounts – some 95% – used services other than online banking to access or manage their current account.

It is unsurprising that ATMs and self-service terminals were the most popular way of accessing account services, as the majority of people would find it difficult to live their lives without access to cash. But, there are also two thirds of consumers who still visit bank branches, a third who use telephone banking and one in 10 people using the Post Office, even though the latter is only the preferred banking method for 1% of current account holders.

This reflects the fact that currently for some services almost all consumers are still using 'offline' banking services. Six in 10 people stated that it is important they are able to access their bank account offline.

As such it was seen as essential that consumers have a choice as to how they access and use banking and payments services, rather than pushing consumers towards a one-size-fits-all online approach.

Needs vary by type of consumer

It is important to reflect that these behaviours are not solely about capability or learnt behaviour. Much of consumer behaviour reflects the varying features different methods of banking and payments provide. Our work has found there are four typologies when it comes to what we need from and how we engage with everyday banking and payments services.

There is a **mainstream majority** who primarily use mobile banking apps or online banking, and who use cards, including contactless, to pay in-store. While they value the convenience these options bring and are generally able to engage with online banking services, they also value having a backup, currently cash, and may use a mix of methods for accessing banking services and making payments depending on the situation they find themselves in. They also, like most consumers, value the ability to talk to a real person from their bank if needed.

There are those who are working age and **just about managing** to stay on top of their finances. They may use digital or cash-based budgeting to do this. Some will control spending by limiting contactless and direct debits and using cash, and some will use digital banking frequently to keep on top of their finances. While credit helps some in this group to get by month to month, it is avoided by others. One key thing for those who are just about managing is that they need to be able to feel in control of their spending due to their financial constraints. They may decide to forfeit some level of convenience to achieve this, and may be reluctant to try anything new which may unbalance the control measures they have put in place. For example, they may opt to pay bills manually rather than by direct debit, or to limit their use of contactless payments and use cash instead for their discretionary spend.

There are people who are **less digital** in their approach to banking. These consumers tend to be older, but not exclusively. They rely on traditional banking channels, such as branches, and are more likely to make cash payments. This group has a comparatively greater need for ease of use, which is reflected in their preference for familiar products and services. They have a different interpretation of convenience to the mainstream majority, which centres on maintaining long-standing habits. They also have different methods of staying in control, such as cash-based and manual budgeting. This focus on the familiar also affects their attitude to innovative products and services. They tend to be more concerned than other groups about the security of such innovations and their ability to use them, which is linked to a lower level of digital capability and confidence.

Finally, there is a proportion of the population who would be considered **tech savvy**. They are generally younger and are excited by innovation. They tend to be early adopters of digital wallets and new banking brands offering enhanced services. This group places the highest priority on convenience and they expect products to be as quick and efficient as possible to use, including 'on-the-go'. Some in this group may also have problems maintaining control, but they are not always conscious of, or focused on, this.

What is particularly striking is that while the majority do use a mix of methods to bank, the segment of society that relies entirely on less-digital means of banking remains quite large (one in five), especially compared with those who are reliant on online and mobile banking for all their everyday finance needs (just one in 20).

The **Mainstream Majority** primarily use **online or app-based banking** services, though still visit the branch on occasion.

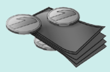
They mainly use **cards** - including contactless card and devices - to make payments but cash is an important alternative and backup.

7 in 10 adults use a mix of digital and in-person banking.

7 in 10 adults prefer to use either mobile or online banking.

Less Digital consumers are generally older and prioritise control and ease of use over convenience, as such. They are more likely to be reliant on a **bank branch**.

They are more likely to be using **cash** and are unlikely to use contactless to make payments.



1 in 10 Less Digital consumers would willingly to use contactless.

2 in 10 would not be confident checking their balance online, including half of over 65s.

Those that are **Tech Savvy** are generally younger and primarily use **apps** for banking.

They use **contactless cards and devices** for their payments. Generally they prioritise the convenience the methods offer.

1 in 20 adults have only used online or app-based banking in the past three months.

Almost all 18 to 35s would be confident checking their balance online or via an app.

Consumers that are **Just About Managing** use digital banking to keep track of spending.

They **prioritise control** over convenience and may use cash or avoid contactless to limit spending.

7 in 10 on lowest incomes are concerned tech makes it too easy to spend. This is compared with four in 10 on the highest incomes.

Conclusion One: Everyone must have access to core banking and payments services that meets their needs

The insight this work has given us is that consumers see some of the services provided by retail banks and payments firms as essential to the way they live their lives and akin to a utility, and there needs to be appropriate oversight of the market to reflect that. Consumers understand the importance of individuals having a range of options available to them that meet their needs. This includes being able to access a full range of essential services via a mixture of online and more traditional access methods.

The key challenge we face now that we have this information is how to ensure that a diverse population is able to maintain access to the products and services that are essential, in particular access to:

- a **bank account** to store money securely and to receive payments and deposits
- a **payments card** or widely accepted digital payment mechanism
- **cash** or a universally accepted and understood form of payment to act as a backup
- facilities that allow consumers to **set up and manage regular payments**
- **bank staff** when they need it, in particular when something goes wrong.

If we can define what is essential to consumers and understand how they access or prefer to access services now, then as a society we have two options to ensure consumers are able to maintain access to core services as the world of banking changes.

First, we can ensure that those who want to are able to participate in the market by minimising the barriers they face. Second, we can ensure that there remains sufficient support for those consumers who may be left behind by the changes in these markets. These options are not mutually exclusive and are discussed in more detail below.

The overarching risk now, however, is as branches close and access to cash gets harder and people are moved online, that the essential choice of services which allow people to bank and pay for things will be reduced to the extent that some people will struggle to access core services. It is essential that this does not happen, and that **access to the core banking and payments services which people need is protected**.

3.2 Engagement and Exclusion

People often use banking and payments services daily, whether simply purchasing things throughout the day or accessing their bank to check their balance or transfer money. In general, we know that people are fairly satisfied with the services they have access to, with few people in our research raising concerns about their ability to access the services they need for managing their everyday finances today.

However, as the markets change there will be more pressure on consumers to both start using online banking and digital payments services, and to share data and shop around online.

This presents a significant challenge in a market where consumers generally do not shop around and are not engaged. If consumer behaviour does not fundamentally change in response to the changes that we are beginning to observe, we could see large proportions of consumers failing to get the best outcomes.

We therefore need to understand both what barriers consumers may face to engaging, and what is currently encouraging consumers to engage.

Lack of perceived benefit

The first and clearest barrier to engagement is a profound **lack of perceived benefit**. There is a perception that everything is as good as it needs to be, which means that even when there are financial incentives to switch, for example £100 for switching current account, people generally do not see there being a significant enough long-term benefit to making a change or actively searching for better deals. They want banking and payments to function in the background of their daily lives and to be confident that when they need something or when something goes wrong they are able to access the services they need.

'How much faster and more convenient do we really need?'

This raises concerns about the expectation on consumers to start adopting new services made available through Open Banking and other technologies. A recent report on consumer priorities for Open Banking suggested that, depending on their situation, consumers could realise a potential financial value of between £72 and £287 over the course of the year (Reynolds, 2019). Given the fact that many consumers still do not switch current accounts despite the offer of clear financial incentives, it seems unlikely that many consumers will see a significant benefit from Open Banking that will lead to them choosing to engage with and adopt new tech.

When seen alongside other barriers to engagement, such as concerns about the security of financial data sharing, there is a strong chance that consumers will continue to see a lack of benefit from actively engaging in the market. Being asked to share financial data goes against the grain of behaviour and what consumers have been taught.

This issue is compounded by the fact that many consumers see new innovations simply as add-ons to the key services they need, and that these add-ons are there for the benefit of the banks, not the consumer. While technology that has made things faster or more convenient has been seen to provide a benefit, consumers expect diminishing returns from the changes anticipated and believe that banking services providers will be the true beneficiaries of innovations.

'I think they're add-ons… All these are extra things that tie up banks with shops. None of those things are things we mentioned as needs'

While consumers do not see the potential for changes to significantly improve banking, there is a sense that consumers are now starting to be 'nudged' in certain ways, such as towards digital-only methods and away from using bank branches and cash. Given that these changes do not necessarily reflect consumer preferences, it is adding to the perception that these changes are really only to benefit banks and not consumers.

'The thing I'm worried about is that all of this is being pushed by the banks. It's like they're making me do things rather than it being my choice'

In addition to this, when we talked to consumers about the potential for firms to use data to offer new services, they questioned whether the use of consumers' data would exacerbate power imbalances between consumers and businesses by increasing the information asymmetries. For example, consumers felt conflicted about banks targeting consumers with third-party marketing as standard, or providing consumers with access to personalised deals or credit assessments based on payments data. These asymmetries could make it significantly harder for consumers to be sure they are receiving services that are good value for money.

'They will know more about me than I do about myself'

One further concern is that there may be disadvantages as technology makes it easier to spend more money, either by reducing friction at the point of payment (eg contactless payments) or by making it easier to access funds to spend (offers of credit at the point of payments). This is adversely impacting some consumers' ability to manage their finances. Six in 10 people are concerned that technology makes it too easy to spend and move money, rising to seven in 10 for those on lower incomes. This could become worse for consumers if data is used to target them and encourage them to spend or borrow more.

People also have concerns about the impact using technology has on spending

72% on low incomes are concerned **vs.** **43%** on high incomes are concerned

Case study: Mona

Mona, 22, is a single mum of a two-year-old girl and receives Universal Credit. She's recently left home to live in a flat and feels she is struggling financially. She's been in arrears on her rent and has taken out a loan, both of which she is in the process of paying back, and has little money left after household bills are taken into account. Mona uses direct debits and a mixture of a contactless card and digital wallet on her phone to pay for things. She also has access to her mother's bank account from which she borrows when needed.

Although a user of digital and mobile banking, Mona feels she could benefit from additional 'friction'. She sometimes struggles to know where she stands with her money as updates are not 'real-time'. She finds it's hard to know just how much money she has when she can see 'pending payments' in her account. While she doesn't like using branches, preferring to do things herself online, she's noticed that many of the branches near her are closing and that it's harder to find a free ATM.

'(Contactless is) easy to use. Too easy. You don't remember how much you're spending unless you're clever enough, but it's easy enough to forget. You don't realise how much you're spending, because, as I said, it takes days to come off using Apple Pay.'

Mona is concerned about a low-cash future. She's not confident cards are always fit for purpose, as she is aware that if you make too many transactions in a day your card may be blocked. She always keeps cash on her as a result.

Mona is similarly concerned about changes to banking that will result in her losing control or giving more control to a third party. While she has a bank account with a challenger brand, she did this largely for the overdraft, rather than more innovative money management tools. She feels she needs to physically make apportionments in order to feel in control. She also feels proud that she has put in the work to create a system which works for her.

In order to use newer money management tools, Mona feels she would need to be very sure that they were secure and from a legitimate brand, as opposed to a scammer. However, Mona had mixed feelings about innovations which might provide her with targeted deals and offers. While she could see the appeal of getting financial benefits through receiving offers and discounts, she was concerned about putting too much trust in algorithms and artificial intelligence. It may mean people taking less responsibility for their own decisions, becoming less engaged with their finances and making poor decisions as a result.

Ability to engage digitally

The second major barrier to engagement is the **ability to engage digitally**. The reasons for consumers not adopting services offered through new technologies vary, with most concerns have some concerns about digital security, connectivity and digital footprints. These concerns are not without merit: in 2019, 7% of adults suffered fraudulent debit or credit card use from using the internet in the 12 months prior (ONS, 2019a).

Almost everyone has concerns about the future of banking and payments. There is a risk people will not be able to engage digitally and they will be excluded

94% have concerns linked to **digital connectivity**

92% have concerns linked to **safety** and security

83% have concerns about the size of their **digital footprint**

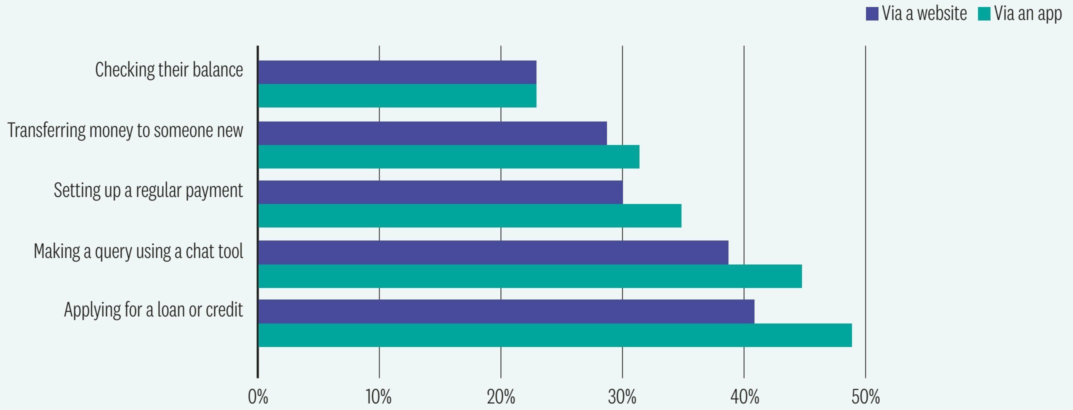
Apart from concerns about banking security, there are two key barriers consumers face that prevent them from engaging with new products and services:

Many consumers are not confident in their ability to use online banking services. Our work found that one in five people did not feel confident in their ability to check their balance online, rising to more than one in four people for transferring money or setting up regular payments.

'See, I did download [a budgeting app] and everything, but I just wasn't comfortable putting my details in that one. I wasn't sure if it's reputable, to put my bank details and everything into that.'

Not all consumers are confident banking online

The proportion of consumers who *would not* be confident using online banking to do the following:



Around 11 million adults *would not* be confident checking their balance online

Many consumers cannot use them as they don't have access to the necessary infrastructure. For example, they may not have a mobile phone, may not have reliable internet or may shop in a location that only accepts cash.

The cost of engagement and lack of reliable infrastructure are barriers for some people

25% would need financial assistance to pay to get online for banking

26% agree that the internet or mobile network in their area is too unreliable to depend on their smartphone or smart device to make payments

Some factors help facilitate engagement with new products and services, such as recommendations by peers and a desire to try out new tools. Yet there remain significant barriers to engagement in a market where there is little demand for change. This could result, at best, in some consumers missing out on a useful service. At worst, it could result in a proportion of potentially vulnerable consumers having to absorb the cost of not being able to get online or use digital banking services as the relative cost of providing offline services continues to rise.

In addition to this, a number of consumers will require workarounds to access everyday financial services. Some already report experiencing harm, either as a lack of digital access had resulted in them having to develop complex workarounds to maintain control of their banking, or because less friction in the payments system has impacted their ability to stay in control of their finances.

Case Study: Stan and Marge

Eighty-year-old Stan lives near Leeds with his wife Marge. Stan has been poorly lately, having had a stroke and several falls which have reduced his mobility and ability to process numbers. They rely on their family to help them bank and make payments: their daughter takes Marge to the supermarket to do shopping and their grandson buys their insurance online, as they do not have a computer, smartphone or internet access.

Stan and Marge use cash for most of their day-to-day banking needs, using a debit card for larger purchases like their weekly grocery shop. Stan occasionally goes to his local bank branch to make large payments. He says he gets 'special' treatment as he has no idea what his Pin is. The staff know him there and they make sure he can access his account anyway. They say they've never considered switching banks as they know and like their bank manager. They say the only thing which would make them consider switching would be if their local branch closed. They would then switch to a bank that had a local branch.

For the most part, Stan and Marge felt innovations were for the next generation and that *'it will be the grandchildren doing it for us'* as they do not have smartphones or internet access. They were very concerned about the pace of change, and that older people and the digitally-excluded would end up at a disadvantage.

'We're happy as we are now. Don't push it too far – the whole system will blow up.'

Conclusion Two: People must not face unnecessary barriers or experience harm when engaging with digital banking and payments.

Some people are reluctant to shop around or bank online, and this is expected to continue as we move to a more complex, data-driven world of online banking. Therefore, it's likely that the pace of digitisation and a greater expectation of online engagement will result in some people either being unable to get online safely, or finding it harder to make informed or sensible decisions when it comes to managing their day-to-day finances.

A combination of a lack of desire to engage and increased complexity of the market means there is a significant risk that competition and innovation alone will not ensure a functioning market that delivers for all consumers.

The **government**, **regulators** and **industry** need to work to ensure that:

- **consumers can bank, manage their finances and make payments, both offline and online, without finding themselves paying unfairly high prices or using unsuitable products**
- ensure there is **sufficient digital infrastructure** so that consumers who want to can use online banking and digital payments
- **offer all consumers the opportunity to learn the necessary digital skills** to be able to engage, bank and pay securely when they are using digitally enabled banking or payments.

While some consumers can gain new skills and connectivity can be improved, we also risk a situation where proportions of the UK population without sufficient digital skills or without reliable connectivity have to rely on an ever-decreasing physical banking infrastructure.

3.3 Supporting consumers through change

One finding which stood out from our research was consumers' belief that it is essential to include everyone when we consider the changes taking place in the way we can manage and access our everyday finances. There was widespread concern for those who may be left behind by changes, whether because of limits on digital capability or poor connectivity.

People were concerned that people will be left behind because:

- people aren't good at **technology** and will struggle to use it **safely**
- people are without access to **mobile phones**
- people don't have reliable **internet**.

'Some people will still like to do things the old way. It's progress but there should not be people excluded.'

This means ensuring that there remains a physical or personal banking presence with which customers are able to engage. There are still around 8.4 million consumers who prefer to bank online and around 11 million adults who did not use any online web-based or app-based banking in the past three months.

around 11 million

adults (22%) did not use any online bank in the past three months

We are already seeing consumers increasingly rely on alternatives to bank branches, with more than one in 10 people using the Post Office for core banking services in a three-month period, despite just 1% of people expressing a preference for Post Office banking.

8.4 million

adults (17%) still prefer to bank at a branch

But there is a further challenge of offering support for those who may be able to get online and engage with newer banking and payments technologies. Our research has given us some idea of the support consumers need, ranging from advice on how to stay safe, to training, to financial assistance.

More than eight in 10 people say they would need some form of support if they had to interact with their bank using a computer, tablet or smartphone. People most commonly wanted help when something goes wrong with their online or mobile banking. Outside of something going wrong, however, consumers are in need of more general support. More than half have support needs linked to their own digital capability.

85%

of consumers identified at least one support need

Consumers would need support

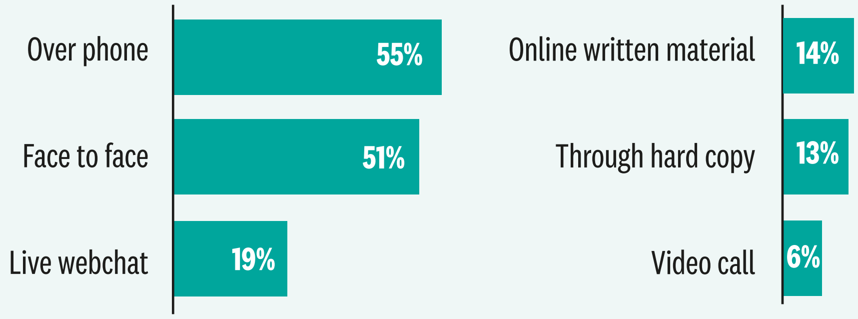
78% if something went wrong

56% to gain the digital capability necessary to bank digitally

50% to stay safe when banking digitally

We also found that, for the most part, consumers want to get support from a real person. Consumers who need support most commonly want to receive this support directly from a 'real' person.

People would want to receive support from appropriately trained staff



'Real-world' support is generally preferred by older consumers (66%), those on the lowest incomes (67%) and those with no internet access (82%) or who are occasional internet users (74%).

A further way the industry could ensure that people feel supported through change is by ensuring new technology is designed to take into account the needs of those consumers who are less digitally able, or who may have limited access to the internet. This is particularly the case for consumers who are vulnerable.

Case Study: Sian

Sian lives alone and has complex health needs that leave her housebound. Not having a mobile phone or internet connection, she relies heavily on her family to manage her everyday finances and works mainly with cash. Sian's pension is paid into her bank and her children and grandchildren take the money out for her. Her daughter pays all her bills on her behalf with direct debits, and Sian pays her back with cash. She gets paper statements and keeps these in a filing cabinet.

Sian sees digital technology in general as something for younger people: *'The grandkids have asked me to have the internet but I don't want it; I think it's for the younger generation.'* Although she recognises that *'the world is going a different way'*, she hopes that she can continue to use her current banking methods, and feels it's not fair to be expected to change.

'This won't be any good for elderly people. It's not fair as they're used to dealing with branches. They're not used to all this new stuff that's coming out.'

That said, Sian quite liked some of the aspects of digital banking tools and innovations that were shown to her during the research, and would be interested in trying them. She says if she could learn to use them she would gain more independence. While she knows her family would help her, she also thinks that her bank could offer more support to people like her so that she could get online.

If banks and others are going to be successful in bringing consumers with them in this transition, they are going to have to offer the support consumers need and also design products for all customers. The fact that 10% of personal current account holders account for 60% of the income generated by current accounts means firms have little incentive to innovate for those who generate less for the bank – or who even cost the bank money. These customers, more often than not, are those who do not have a large balance and who do not want to rely on credit for their spending.

Conclusion Three: People who cannot – or may struggle to – adopt newer banking and payments technology must have access to appropriate products, services and support.

We know that consumers will need support if they are to use online banking and digital payments. To protect these consumers, **banks need to make sure that the online products they develop are as accessible as possible for consumers. They need to ensure that the necessary support is in place for all consumers to help them bank digitally. This will require in-person and over-the-phone support**.

Support and innovative solutions may well be part of the answer. However, industry, regulators and government will need to recognise that support that relies on engaging consumers does not always work. Many will simply continue to struggle to engage with digital banking and payments. As such, actions taken to support consumers banking online, though helpful for many, will not be sufficient to negate the need to take action to ensure that essential banking and payments services remain accessible offline for consumers.

3.4 What consumers want

While industry, regulators and governments wrestle with the issues of competition, innovation and pricing in the retail banking and payments markets, it becomes easy to overlook what consumers actually want from banking. Our research makes it clear that many consumers feel pessimistic about the future, especially those who are less digitally able. This includes 74% of those with only basic digital skills are pessimistic about the future compared with 48% of the general population.

The changes we are experiencing – the rise of digital and the decline of high street banking – leave consumers with mixed feelings about the future:

Protecting Choice

A key concern for people is maintaining access to a bank account that enables them to: use a payment card and cash, set up and manage regular payments, and speak to bank staff when they need to.

Consumers expect to have a choice of payment methods and to be able to access their banking services both online and offline.

As previously mentioned, people believe it is essential to protect cash as a choice of payment method. In terms of banking more generally, consumers feel it is important to maintain the choice of accessing their account both online and offline.

6 in 10
say the option to access and manage their bank account without having to go online is important

7 in 10
say the option to manage their account online through a website or mobile app is important

WWW

83%
say the choice to speak to a real person when in need is of great importance

Maintaining the choice to be able to speak to a real person when in need was considered of great importance to most consumers. Four fifths of consumers say it is important, and over half say it is extremely important.

Having the choice of banking offline and online and the option to speak to bank staff enables consumers to use services that meet their needs as they experience them in their day-to-day lives, and to ensure they are able to feel in control of their everyday finances.

'I don't want to go completely cashless. I'm happy if they add more choices to what we have but I think they are removing choice.'

Free-if-in-credit banking

Consumers want and expect everyone to be able to have this choice of how they access core banking services free of charge.

A key challenge for the industry remains how to fund banking services. This is a particular challenge as banks provide a range of core services to all customers, but generate the majority of their incomes from a small proportion of their customers. Any change to the current funding model will be difficult because consumers in the UK have had access to a free-if-in-credit model of banking for so long.

Reflecting the utility status of core banking issues:

97% **of consumers feel it is important that everyone can access a bank account for free**

79% **of consumers feel that cross-subsidising to fund 'free' current accounts is fair**

Our research suggests that people believe, in principle, that cross-subsidising in order to provide free-if-in-credit banking is fair. In addition, most (78%) believe it is fair for banks to use the money they make from all customers to fund bank branches, regardless of whether they are more reliant on non-digital forms of banking.

The overwhelming perception among consumers that everyone should be able to access a bank account for free raises serious questions around the fairness of current and emerging retail banking business models. Consumer perceptions of fairness is a major issue that the government and regulators will have to grapple with as banking business models change, and further work will be required to understand what consumers believe is fair. Our findings suggest that as a starting point many people believe a degree of cross-subsidisation is fair if it is being undertaken to ensure all consumers have access to essential banking and payments services. This would be consistent with the findings that consumers perceive essential banking and payments services as being similar to other utilities, that consumers expect everyone to have fair access the essential services that meet their needs and that consumers believe that no one should be excluded.

Even if competition and regulation begin to erode profits, there will remain significant pressure on account providers to continue to offer these services via a free-if-in-credit model. While there needs to be a recognition that banks have to make money to sustain their business model, steps need to be taken to determine whether free-if-in-credit banking can be supported in a way that's fair for all consumers and does not cause harm by reducing or charging for access to core services for some groups of consumers. Whatever the outcome of changing business models it is vital that access to core services is protected in a way that is fair to consumers and delivers what consumers want and need.

Conclusion Four: People must have a choice over how they access essential banking and payments services and be able to access them at a fair price.

Consumers feel like industry is driving the changes we are seeing, with new innovations either targeting those who have money and are profitable for banks, or aimed at reducing banks' costs.

Consumers want to make sure they have a choice of how they bank and pay. This includes protecting cash and the option to bank offline. This choice extends to finding ways to ensure that even the most vulnerable consumers can bank and pay securely, in order to make sure no one is left behind. There is also a widespread belief among consumers that everyone should be able to access these services for free, and that it would be unfair for some people to have to pay to access services when others do not. Given the expected move away from free-if-in-credit banking, steps must be taken to consider what is fair for consumers.

To ensure consumers' demands are met, industry must not remove bank branches or cash until consumers are fully ready. In addition, regulators need to ensure that market changes resulting from innovation and regulatory change do not reduce choice, and do not force consumers to adopt digital banking or payment methods that are not suitable for them. To achieve this, **regulators, the government and others should work to encourage the industry to innovate and to develop sustainable business models that continue to meet the needs of all consumers**. In addition, **regulators will need to set out minimum protections for consumers and ensure that no consumers are unfairly treated or discriminated against when accessing core banking services**.

4. Conclusions

The UK already has some protection in place to ensure that all consumers are able to access a basic bank account. These accounts, which the nine largest UK banks are required to offer, ensure that consumers have somewhere to store their money, somewhere to receive payments, a debit card, and the ability to set up direct debits and standing orders.

While this is undoubtedly a positive policy for consumers, the Treasury Select Committee has already raised a number of ways in which the provision of these accounts could be improved. This includes standardising the documentation required to access them, and ensuring banks and bank staff do more to promote their availability (TSC, 2019).

The provision of basic bank accounts does not, however, address two key concerns for consumers:

The ability for consumers to be able to access cash. Cash machines in the UK are increasingly becoming pay-to-use, especially in low-income areas. While the basic bank account provision ensures customers have the option to withdraw cash, there is no requirement for account providers to maintain sufficient access points. This means that people, particularly those on lower incomes, may find access to a key payment method restricted. As such, Which? is already calling on the government to introduce legislation to guarantee people have reasonable access to cash free of charge (for more details see Which?, 2019c).

The ability to access core account services. While the services that have to be offered as part of a basic bank account are protected, there are no requirements for account providers to maintain premises through which consumers can access them. A third of people would not be confident setting up a payment online and a fifth of consumers do not even feel confident that they would be able to check their balance online or via an app. We must make sure, as bank branches continue to close, that these people have the ability to access all the core services they need.

In addition to these concerns, our research has highlighted that we need to take into account the needs of consumers as we transition to a more digital world of banking and payments. For many consumers, this will mean the government continuing to work with industry to ensure that a sufficient digital infrastructure is in place in the UK. However, it will also mean ensuring:

- people have the option to develop the skills they need to bank and pay online
- new business models don't increase the risk of consumer harm
- people who cannot easily use online banking and digital payments have access to the services and support they need
- people have access to a choice of services at a fair price.

Our first conclusion – Everyone must have access to core banking and payments services that meets their needs – will require action from government, regulators and industry. Together they will need to explore ways to protect access to core banking services. It may mean regulators need to be given a direct responsibility to ensure reasonable access is protected for all consumers.

By doing this we can hope to ensure that:

- For as long as there is a need for cash as a universally accepted payment method, people are able to access it and pay with it.
- All consumers are able to get a bank account with essential features on a free-if-in-credit basis, and are able to access and use it securely both online and offline.
- Consumers are able to access their bank account securely both online and offline, and are able to speak to a real person when they have questions.

The current protections are not enough. ATM provider, Link, should not be having to rely on members and industry to support temporary initiatives to keep free-to-use ATMs in locations where they are needed. The basic bank account offering does not address issues around how consumers access services. The Access to Banking Protocol is insufficient if it recognises that closures are a commercial decision, but does not place a requirement on the industry to protect access to core banking services.

The current model of banks operating individual bank branches may not be sustainable. If that is the case, banks may need to explore options for shared banking locations to ensure people are not left without access to branch services. There is potentially a significant role for the Post Office, which currently provides core services for most UK banks (cash withdrawals and deposits, balance checking and cheque deposits). But even here the recent decision by Barclays to remove the option of Post Office cash withdrawals from its customers – albeit a decision that was reversed under pressure – shows that an industry agreement cannot be relied on by consumers.

Our second conclusion – People must not face unnecessary barriers or experience harm when engaging with digital banking and payments – will require action from the government, regulators and industry to ensure that:

- consumers can bank, manage their finances and make payments, either offline or online, without paying unfairly high prices. They should be able to avoid using unsuitable products, in a world where complex data and personalisation can make it harder to make fully informed decisions. This will require regulators to continue to monitor market changes, both as new business models emerge and consumers continually find themselves able to share financial data with third-party firms.
- there is sufficient digital infrastructure so that consumers who want to can use online banking and digital payments. This will require the government to continue efforts to improve the UK's internet infrastructure, and to address any barriers consumers may face in trying to access affordable, good-quality internet.
- all consumers have the opportunity to learn the necessary digital skills to be able to engage, bank and pay securely when they are using digitally enabled banking or payments. This will require industry, government and third-party stakeholders to collaborate to explore ways of helping consumers who are willing and able to engage and improve their digital skills.

Our third conclusion – People who cannot – or may struggle to – adopt newer banking and payments technology must have access to appropriate products, services and support – will require action from industry, who will need to continue exploring the needs of all of their customers to ensure that they are developing products and services that are truly accessible. There is a risk that without pressure from consumer bodies and government, industry will focus on providing for only the most lucrative customers. In doing so, they may fail to develop services that take into account the needs of less-digital consumers, or those who are just about managing and need help building financial resilience.

It will also mean that banks and other core service providers will need to ensure that the necessary support is in place for all consumers to help them bank digitally. This will require in-person and over-the-phone support.

Our fourth conclusion – **People must have a choice over how they access essential banking and payments services and be able to access them at a fair price** – will require pro-active action from government and regulators, who must recognise the changes we are seeing have the potential to fundamentally change the way consumers are expected to engage with an essential market. They must work with industry to find a way to keep access to non-digital banking and payments services available for consumers, at a fair price for as long as consumers need it. This will likely mean setting out minimum protections for consumers, and ensuring that no consumers are unfairly charged to access core banking services.

Regulators, the government and others should also work to encourage the industry to innovate, and to develop sustainable business models that continue to meet the needs of all consumers.

Any remedies or policies introduced in retail banking and payments markets must recognise that consumer engagement is very low, because, in general, consumers currently have access to a range of basic products that meet their needs. They feel there would be little benefit from further improvements or innovation.

It’s clear that while retail banking and payments are unlike most markets, they are as important to the way we live as other core utilities such as gas and electricity. As such, there is a perception among consumers that there should be some level of oversight and protection that will ensure good outcomes for all consumers, even those who are less engaged.

Consumers must not be left without access to core banking and payments services. It is essential, throughout this transition to digital, that the government and regulators recognise the roles they have to play in looking out for the needs of consumers.

5. Next steps for industry, government and regulators

This work has so far supported Which?'s work to protect consumers' access to cash through our Freedom to Pay campaign. It has also supported our engagement with a number of external stakeholders including the Treasury, the Bank of England, the Financial Conduct Authority, and the Payments Systems Regulator.

We hope this research will be the start of a conversation with government, politicians, regulators and industry about how to ensure that consumers continue to have access to the core products and services that meet their needs for the foreseeable future and beyond.

For more information visit *which.co.uk/everydayfinances*

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