



Queen Margaret University

CONSUMER DISPUTE RESOLUTION
CENTRE

Consumer representation in financial services

Report into consumer representation in the
payments sector

Executive Summary

Date 20 October 2017

Carol Brennan, Jane Williams, Sarah O'Neill and Sally
Chalmers

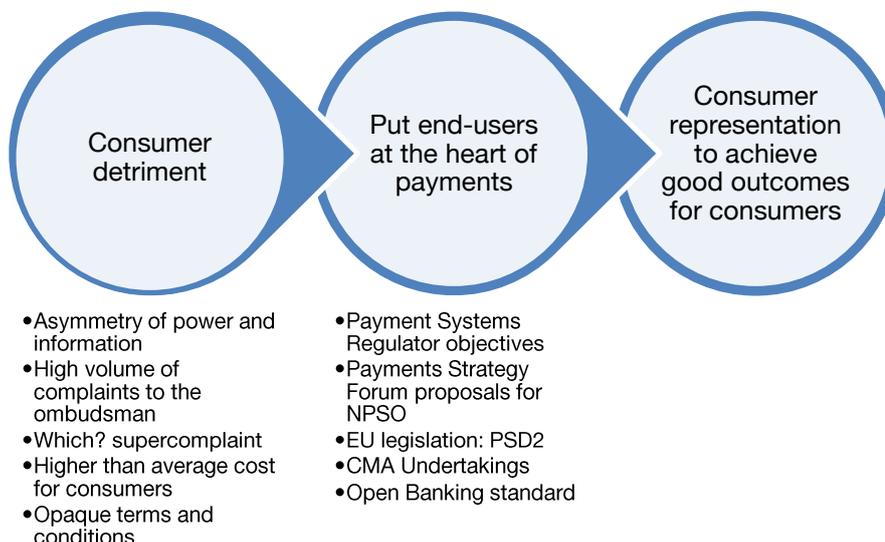
Executive summary

Context

The financial services market is complex and power is traditionally weighted in favour of providers. This asymmetry of power compromises the effectiveness of competition and can lead to consumer detriment. Effective consumer representation can help rebalance the asymmetry of power in the market, bring clarity about the issues faced by consumers and help prioritise strategies to address problems and forward plan effectively.

A number of recent developments have focused attention on how the interests of consumers can best be represented in the payments sector. These include the Payments Strategy Forum's proposals for the New Payment System Operator (NPSO); the introduction of the Payment Services Directive 2 (PSD2); and the Competition and Market Authority's requirements to introduce Open Banking and for the Current Account Switch Service to introduce consumer representation in its decision-making.

Drivers for consumer representation in the payments sector



The research

The aims of the research are to: (1) identify ways in which the availability and quality of consumer representation can be improved in the payments sector; and (2) ensure that good consumer outcomes remain at the centre of deliberations about how to develop, deliver and monitor the effectiveness of new products and services.

We defined a 'consumer' as 'anyone, whether they are an individual or an SME, that uses (or would like to use) the service provided'. In adopting this definition, we are including 'potential consumers' who do not have access to a service or have not yet

chosen to use it, and excluding price comparison websites, large corporates and government departments.

The research was conducted in four phases during June and July 2017: (1) literature review; (2) interviews and an online survey; (3) analysis; and (4) a roundtable event. Interviewees represented key consumer organisations in the UK. The research provided useful insights from consumer representatives which was then compared and contrasted with the literature.

Effective consumer representation

Principles

There are well established consumer principles which when used as a tool to assess the consumer interest result in a stronger consumer focus in policy, strategy and operational planning.¹

Additionally, the literature review, confirmed by interviews with consumer representatives themselves, exposed some key principles that underpin effective consumer representation.

Principles underpinning and contributing to effective consumer representation



The relationship between consumer representation and consumer engagement

The terms 'consumer representation' and 'consumer engagement' are often used interchangeably, but they are not the same. While they are both forms of consumer involvement, consumer engagement can be seen as broader than and encompassing 'consumer representation'. Consumer representation therefore may be viewed as part of an organisation's wider engagement strategy to take account of the interests of consumers.

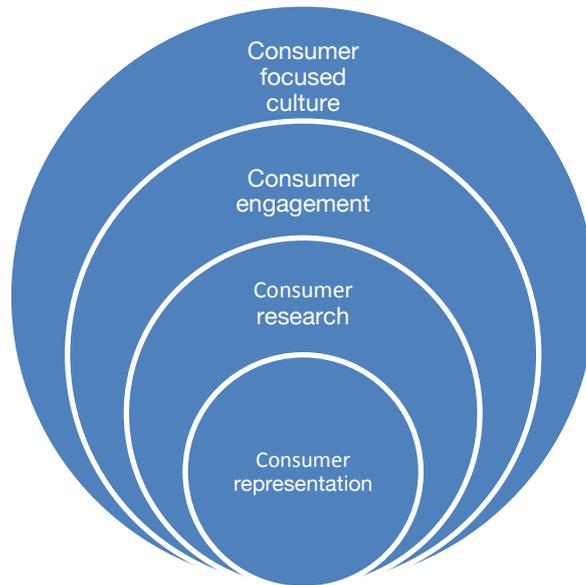
¹SCOTTISH LEGAL COMPLAINTS COMMISSION. 2017. *Reimagine Regulation: priorities for a consultation on legal services*. [online]. Available from:

https://www.scottishlegalcomplaints.org.uk/media/65853/1_reimagine_regulation_-_slcc_priorities_for_a_consultation_on_legal_services_regulation_v1.00.pdf.

See also LEGAL SERVICES CONSUMER PANEL. 2014. *The consumer interest: using consumer principles* [online] Available from:

<http://www.legalservicesconsumerpanel.org.uk/ourwork/ConsumerEngagement/documents/UsingConsumerPrinciples2014.pdf>

Relationship between consumer representation and consumer engagement



Research participants recognised the ‘catalytic’ impact consumer representatives could have in driving wider engagement but they also noted the company must take responsibility for embedding the consumer strategy within its operations. This requires a consumer-focused culture.

Facilitating effective consumer representation

Setting objectives and evaluating outcomes

It is important that the objectives for consumer engagement are clear and articulated. This helps ‘frame’ the consumer representative role. It also enables an evaluation of the organisation’s contribution to good consumer outcomes and an assessment of the representation model adopted.

The International Association for Public Participation depicts a spectrum for public engagement which provides a helpful template for firms and consumer representatives to agree goals for working together. This spectrum ranges from approaches to informing participants to strengthen their understanding of the problems to, at the far end of the spectrum, empowering participants by placing the decision in the hands of the public.

Public participation spectrum²



Getting the structure right

The literature exposes two dominant structures for consumer representation which are also reflected in the approaches to consumer representation within the New

IAP2. 2017. IAP2’s Public Participation Spectrum [online] Available from: https://c.ymcdn.com/sites/www.iap2.org/resource/resmgr/foundations_course/IAP2_P2_Spectrum_FINAL.pdf

Payment System Operator, Current Account Switch Service and Open Banking Implementation Entity:

- (1) individual consumer representation where a single representative is, for example, a member of a governing body; and
- (2) some form of collective forum consisting of consumer representatives such as a consumer panel, consumer expert group or consumer council.

A mix of both representatives on boards and a collective forum can provide for influential consumer representation. But consumer experts suggested that what was central to success was having a consumer-focused culture.

Attracting consumer representatives to the industry

Interviewees noted that payments was not an area that consumer organisations had traditionally engaged with to any great extent. Recruiting consumer representatives to the industry is likely to require searching out transferable skillsets rather than specific subject matter expertise, using both a wide, open advertisement policy, combined with a more direct approach.

Helpful guidance on appointment criteria for consumer representatives in government and industry has been produced by the Commonwealth Consumer Affairs Advisory Council³. They also recommend that representatives are paid a sitting fee or, depending on the body, an annual salary.

Training and resourcing

Payments is a fast moving industry. A large part of the work in payments focuses on the 'plumbing' of payments, which has an indirect impact on consumers. The technicalities of payments can be difficult to get to grips with. Given the challenges in the payments sector, 'processes' that support capacity building and training are therefore essential.

Interviewees highlighted that there is a significant amount of activity by industry in this sector which can be difficult for consumer groups to match, which placed them at a serious disadvantage. Resourcing these appointments not only involves paying the representative but also providing for an appropriate research budget and administrative and technical support.

Conclusions

On the basis of the research findings, we have reached the following six conclusions as to how good systems of consumer representation might be developed for the payments sector:

1. Consumers should be put at the heart of all decision making. Consumer representation should be viewed as part of a company's broader consumer engagement, communication and advocacy strategy. Consumer values should be at the heart of service providers' culture and strategy.

³ COMMONWEALTH CONSUMER AFFAIRS ADVISORY COUNCIL. 2005. *Principles for the appointment of consumer representatives: A process for governments and industry* [online] Available from: http://archive.treasury.gov.au/documents/994/PDF/consumer_reps.pdf

2. Consumer representation should ideally be structured to include both board and collective forum representatives and supplemented by direct outreach to other consumer groups.
3. Consumer representation structures should be adequately resourced to rebalance power between the industry and the consumer. The consumer engagement strategy must include the allocation of resources to attract and pay consumer representatives, enable research and provide administrative support.
4. The role and way of working of consumer representatives should be transparent and influential. In order to promote transparency, key representative objectives, performance information, minutes of meetings and annual reports should be made publicly available.
5. It is important to appoint and develop effective consumer representatives. Training and capacity building should be provided.
- 6: The effectiveness of consumer representation should be evaluated. Clear, measurable objectives should be set for the organisation's approach to consumer engagement and consumer representation.

About the Centre

The Consumer Dispute Resolution Centre (CDRC) is a Centre of Excellence for continuing professional development (CPD), research and knowledge exchange in dispute resolution, complaint management and consumer policy. This Centre contributes to the evidence base for policy and practice, providing world leading multidisciplinary research. Through the provision of high quality CPD and consultancy, our research and knowledge exchange activities contribute to the professionalisation of complaint handling throughout the UK and internationally. Our activities influence policy and practice to enhance the consumer experience of dispute resolution. We contribute innovative thinking and analysis for policy makers and academic networks.

<https://www.qmu.ac.uk/cdrc>

For further information, please contact cbrennan@qmu.ac.uk

© Queen Margaret University Consumer Dispute Resolution Centre 2017

Queen Margaret University, Edinburgh, Scotland, EH21 6UU

Queen Margaret University, Edinburgh is a registered charity: Scottish
Charity Number SC002750