

Written evidence submitted by Mastercard

OVERVIEW

The UK's digital payment systems are amongst the most advanced in the world, and at Mastercard we provide the technology that keeps the UK's payments moving safely and securely, for individuals, businesses, charities and all levels of government. Both the card and account-to-account payment systems that we run, are integral to the functioning of the UK's economy day-to-day and intrinsic to the economic and social wellbeing of the UK. They help individuals receive their salaries, pay for their utility bills, pay family or friends, whilst helping businesses make and receive payments from consumers and other businesses, and help both charities, and government collect and disperse funds.

And now, under the current challenging and unprecedented circumstances, these systems are also underpinning much of the response to the COVID-19 pandemic and the continued functioning of the economy.

- Payments innovation, from contactless cards to instant account to account payments, have been a foundation of the growth of the UK's economy for many years; and will be one of a number, of catalysts, for driving economic growth in a post-COVID-19 environment
- The pandemic has demonstrated the importance of the UK's digital economy and highlighted how important it is that businesses and individuals are able to operate in it. Digital payment systems are not only critical to underpinning the digital economy, but on a broader level, an efficient, digital payments system is essential for ensuring that the UK economy – online or bricks and mortar - is afforded every possible opportunity to recover and continue to grow.
- The investment that Mastercard has historically made - and continues to make - in innovation and the resilience of our systems in the UK and globally, has allowed us to meet numerous urgent challenges posed by the COVID-19 pandemic head on. From helping to disperse critical financial support to individuals, businesses and charities through prepaid cards and the Bacs and Faster Payments systems; through to helping SMEs adapt to the changing commercial environment and providing our data insights to help inform the Government's response.
- As such, Mastercard believes that as HM Government considers how the economic recovery can be assisted, that it considers the role of digital payments, i.e. the movement of money, as a key foundation of future economic growth.
- Throughout the pandemic, our priority has been to keep the economy moving, and to do so in a way that is as inclusive as possible, appreciating that not everyone is able to use digital payment systems. In addition to this, we are proud to be partnering with organisations on the front line of the COVID-19 response, to support their efforts to help those most in need, for whom the crisis has also exacerbated financial and digital exclusion.
- We've teamed up with the NHS and the Royal Voluntary Service to launch a digital prepaid card, which NHS volunteers are using to provide essential on-the-ground support for clinically vulnerable individuals who are unable to buy essential goods for themselves.
- We have also partnered with the Good Things Foundation to help disadvantaged UK households gain access to digital devices and services and develop crucial digital skills during this period.

- We played a leading role in driving the industry to increase the contactless card payment limit from £30 to £45. This has proven to be extremely popular amongst consumers since its launch in April, reducing the need for physical contact between individuals when paying for goods.
- We are continuing to work on a number of initiatives to ensure that small and micro businesses are able to accept card payments. For instance, Mastercard has been working with Square to offer small and micro-businesses low cost, flexible and mobile card acceptance devices.
- However, we appreciate that cash remains important to some businesses, as it does for some individuals. As such, in order to help the availability and recycling of cash in local communities, we will soon be launching a service that will encourage retailers to offer cashback at the point of sale by offering them a fee of 12 pence every time they dispense cash to a shopper paying with a Mastercard debit card. This is in addition to our ongoing running of the infrastructure that underpins the LINK ATM scheme; and our technology that enables bank account access at Post Office branches.

Mastercard operates a global payments technology network, and invests in innovations that enable and protect consumers, businesses and the government as they make and receive payments. We provide the infrastructure and technology that help banks and other payment service providers make and receive card payments on behalf of consumers and businesses.

Vocalink is the operator of a significant element of the UK 's account to account payments infrastructure – processing over 11 billion transactions with a value of £6 trillion – or 3.7 times the UK's GDP a year. We run the Bacs, Faster Payments and LINK ATM switching network – so we process your salary payments, your standing order, the UK's instant payments system, and the network that allows you to take cash out of any one of the UK's 70,000 ATMs.

In May 2017, Mastercard acquired Vocalink. This new partnership brings together real-time bank account payments and the Mastercard payments network, providing services for consumers, businesses and the public sector all under one roof. Mastercard and Vocalink play a vital role in the economy as UK consumers use these services, whether they know it or not, every other day on average.

CONSULTATION RESPONSE

Job Protection Scheme and Self-employment Income Support Scheme

- **What problems (if any) are individuals facing in claiming support from the Job Protection Scheme and the Self-employment Income Support Scheme?**
- **How effective have these schemes been in maintaining employment and reducing job losses?**
- **Is the Government doing enough to ensure that businesses and individuals are claiming appropriately and that fraudulent claims are detected?**

The COVID-19 pandemic is not only a serious health issue, but also poses major cybersecurity and fraud challenges. It has triggered a notable increase in cyber-attacks as fraudsters look to take advantage of system vulnerabilities and changes in the new working environment. These types of attacks can result in significant losses. We have taken swift action to ensure the continued resilience of the payments ecosystem and to help governments, businesses and individuals cope with the crisis, as well as ensuring our fraud systems are on high alert.

With millions of extra payments made by the UK Government in response to Covid-19, as part of a partnership with Pay.UK, UK Finance, a cross section of banks and the Government, we have set up the Retail Payments Taskforce, and are playing a central role in identifying fraudulent claims and stopping government payments to fraudulent accounts. Key activities of the Taskforce include advising on the different payment options available and recognising the need to move at pace in the most effective way to safely and securely distribute a huge volume of payments to the right people in a concentrated period.

The Retail Payments Taskforce also worked closely with HMRC to ensure that necessary 'payment overlay services' were incorporated into the system architecture of the Self-Employment Income Support Scheme (SEISS). Additional support from both NatWest and SurePay ensured safe integration with elements of the Confirmation of Payee (CoP) name checker service and Vocalink's Mule Insights Tactical Solution (MITS), which plays a front-line role in identifying fraudulent mule accounts across the UK's retail banking system.

At such a critical time for the self-employed and to help ensure grant payments are distributed in the most straightforward manner, both these services were developed with HMRC at pace, within six weeks.

We have also provided our Corporate Fraud Insights which supports Bacs payments made by corporates and has been specifically enhanced to also support local authority outbound payments. This industry solution has the potential to help the over 400 local authorities and more than 70,000 businesses using the Bacs payment system in the UK who may not have in-house capacity to undertake anti-fraud work.

The work we have done to support the Government demonstrates the value of digital payments data in helping ensure payments are made to the right person and within the required time-frame, and this has never been more important than during these unprecedented times. It is vital therefore that Government continues to be open to working with industry and using data insights to tackle fraud and better inform Government strategy around dispersal of payments.

- **Has the Government struck the right balance between targeting support and making it easy to access?**
- **Where has Government support been too generous and where has it not been generous enough?**
- **How successful has the Government been in plugging the gaps in the schemes?**
- **What gaps in coverage still remain and are changes required to increase their effectiveness?**

- **How viable is it for the Job Protection Scheme and the Self-employment Income Support Scheme to be open for longer?**
- **How and when should the Government's support packages be wound up?**
- **How should the Government prioritise which continuing sectors and groups to support as time goes on and ongoing support is needed?**
- **What actions does the Government need to undertake to pursue to support a successful exit strategy?**

A key consideration for governments across the world when planning and executing their exit strategies has been balancing the safe easing of restrictions alongside stimulating economic activity.

Whilst the phased opening up of the physical retail infrastructure is already a key component of the Government's exit strategy, it is vital to consider continuing to encourage online trading and e-commerce. This may also help to minimise the risk of a second wave of infections as well as helping the clinically vulnerable, who, while not required to shield from 1 August 2020, may still wish to be cautious and minimise their contact especially in public places.

Digital payments have been integral since the beginning of the lockdown restrictions, in helping many businesses either quickly move their operations online or upscaling their e-commerce capabilities. Both the card and account-to-account payment systems that we run are integral to the functioning of the UK's economy day-to-day. And now, under the current challenging and unprecedented circumstances, these systems are also underpinning much of the response to the COVID-19 pandemic and the continued functioning of the economy. They will also continue to be a cornerstone of the UK's economic recovery.

Not being able to operate online (from having a basic website to taking orders online to transacting online) has been an obstacle to growth for many SMEs and this has been especially highlighted by the impact of the COVID19 pandemic.

The Government's 2017 Digital Strategy highlighted that only 22 percent of SMEs in the UK use any form of e-commerce, which is behind many other European nations. A lack of online presence is reported to be one of the top three reasons for start-ups failing in the UK demonstrating the negative cost of failing to grasp the opportunity to transact in the digital economy. This also has an impact lag on the UK's productivity and we support the Government's position that enabling SMEs to transact digitally 'could play a crucial role in closing the UK's productivity gap with the G7 average'.

The cost of buying new software and equipment has been identified as one of the barriers to adoption by SMEs. Other international markets have a similar experience and have sought to address this challenge.

Encouraging the continued use of digital payment solutions, including online trading vouchers such as those used by the Irish Government (see below), should in this regard, be considered as a key aspect of the Government's exit strategy.

Recommendations:

1. *HM Government should consider continuing to encourage online trading and e-commerce where possible, both to continue to protect the clinically vulnerable and as a key aspect of the economic recovery.*
2. *HM Government should look to replicate the Irish Government's 'Trading Online Voucher Scheme' which launched in 2014¹. This programme offered a financial incentive to digitise where qualifying businesses would be issued with a voucher contributing toward the cost of the initial capital outlay of digitising. Businesses participating in the scheme reported an average sales increase of 20 percent, with an 80 percent jump in sales leads, 3 in 5 exporting for the first time² and 35 percent reporting an increase in employment³.*

The Irish Government has recently announced an extension to this programme as an essential part of supporting small businesses and key to their recovery response to the COVID-19 crisis. Under the scheme, small businesses can claim up to €5,000 in two grants worth €2,500 each. The scheme will also enable subscriptions to low cost online retailing platforms to quickly establish an online retailing presence. Total additional funding for the scheme in 2020 is €20m.

This is a very tangible demonstration of the value of digital payments to business and the wider economy and a blueprint for the UK Government to undertake a similar initiative as soon as is practicable.

Support to businesses and Financial services

- **How effective is the Coronavirus Corporate Finance Facility, Coronavirus Business Interruption Loan Scheme, and the Coronavirus Larger Business Interruption Loan Scheme? In particular, are these measures succeeding in preventing viable businesses from potentially going under during the Coronavirus lockdown?**
- **How effective has the Government support been so far in terms of coverage and speed?**
- **What gaps are there for businesses within the schemes?**
- **Is the financial sector supporting businesses enough? Are businesses getting the right advice on which grants/loans to access?**
- **What are the financial regulators and the financial sector doing to reduce the risk of people being taken advantage of by fraud at this time, in particular with regard to vulnerable groups?**

The COVID-19 pandemic, whilst being a major health issue also poses major cybersecurity and fraud challenges. It has triggered a notable increase in cyber-attacks as fraudsters look to take advantage of system vulnerabilities and changes in the new working environment. These types of attacks can result in significant losses.

¹ <https://www.localenterprise.ie/Discover-Business-Supports/Trading-Online-Voucher-Scheme/>

² <https://www.localenterprise.ie/Discover-Business-Supports/Trading-Online-Voucher-Scheme/>

³ <https://www.dccae.gov.ie/en-ie/news-and-media/press-releases/Pages/Support-available-to-small-business-Trading-Online-Voucher-Scheme.aspx>

We have taken swift action to ensure the continued resilience of the payments ecosystem and to help governments, businesses and individuals cope with the crisis, as well as ensuring our fraud systems are on high alert. The work we have done to support government also demonstrates the value of digital payments data in helping ensure payments are made to the right person and within the required time-frame, and this has never been more important than during these unprecedented times.

With millions of extra payments made by UK Government in response to COVID-19, as part of a partnership with Pay.UK, UK Finance, a cross section of banks and the Government, we have set up the Retail Payments Taskforce, and are playing a central role in identifying fraudulent claims and stopping government payments to fraudulent accounts. Key activities of the Taskforce have included advising on the different payment options available and recognising the need to move at pace in the most effective way to safely and securely distribute a huge volume of payments to the right people in a concentrated period.

The Retail Payments Taskforce also worked closely with HMRC to ensure that necessary 'payment overlay services' were incorporated into the system architecture of the Self-Employment Income Support Scheme. With additional support from both NatWest and SurePay we have ensured safe integration with elements of the Confirmation of Payee (CoP) name checker service and the Mule Insights Tactical Solution (MITS), which plays a front-line role in identifying fraudulent mule accounts across the UK's retail banking system.

We have also worked with the NHS and Royal Voluntary Service, to develop a prepaid card solution to support the 1.5 million clinically vulnerable people required to self-isolate due to COVID-19. The prepaid card is issued by Prepaid Financial Services (PFS) and transactions processed by Mastercard. Any clinically vulnerable person can apply directly to PFS for a card, load funds onto them (of up to £100 at any one time), and then give it to an NHS volunteer to do their shopping for them. This will significantly reduce the risk of fraud associated cash in these situations and allows individuals who want to do their shopping online to do so securely.

We played a leading role in driving the industry to increase the contactless card payment limit from £30 to £45. This has proven to be extremely popular amongst consumers since its launch in April and has reduced the need for physical contact between individuals when paying for goods. Additionally, this is an important innovation for people who are self-isolating with no friends or family nearby to help with shopping and essentials. It will allow carers or NHS Volunteers to make payments up to £45 on essential goods on behalf of the cardholder, without PIN information having to be shared.

Other government intervention

- **Should the Government intervene more actively in redeploying staff and resources to certain sectors of the economy (health/food delivery)?**
- **Should the Government intervene more actively in terms of state aid, bail-outs and its industrial strategy?**

Economy, public finances and monetary policy

- **What economic challenges may arise as the public health and social distancing policies are lifted and the economy begins to recover? What preparations can be made to manage these challenges? For example, could there be difficulty in restarting sectors**

of the economy quickly, a risk of a spike in inflation, or pressure on the UK balance of payments?

- **Is the economy's recovery likely to be shallow or sharp?**
 - **How long is the shock likely to last?**
 - **Which sectors are likely to be impacted by economic scarring?**
 - **Which sectors are doing best?**
- **What will be the economic impacts of the coronavirus outbreak and the social distancing measures in terms of sectors and regions and how temporary/permanent will they be?**
- **What will be the impact on inequalities within society and how should the Government address inequalities that may have been exacerbated by the crisis?**

This crisis is for many vulnerable individuals, exacerbating digital and, in turn, financial exclusion and inequalities. Many who rely on being able to pay for goods and services using cash, and who may already be digitally excluded because of limited or no access to digital devices or services, have been unable to easily access essential online services. And with jobs lost across all sectors of the economy, those with no, or limited, digital skills have not been able to adapt to the changing environment and crisis, including being able to gain other employment, as quickly as those with better digital skills and know how.

During the pandemic, digital inequalities are also reducing financial resilience and economic wellbeing. Around 11.9m adults across the UK lack the full set of essential digital skills which the UK government believes are necessary for life and work in the UK⁴. Many are 'limited users' - reflecting limited access and/or limited digital skills. There are 1.9 million households who don't have any access to the internet at a time when access to devices and free WiFi in community centres and libraries is no longer possible. Below 65 years - the strongest predictors of digital exclusion are poverty and low educational attainment.⁵ As public services shift to being digital-first, people in poverty who need support are being locked out.

By contrast, those who are digitally included benefit financially (from better deals online, online banking, free money guidance) and in many other ways (access to mental health and wellbeing support, staying connected with families and friends, access to training and jobs).

A lack of digital skills and gaps may also, both in the short, and long term, affect investment by employers into upskilling their workforce if the burden is perceived to be too great. Those seeking to bring business investment into the UK may also be deterred if digital skills gaps between the UK and other countries are perceived to be too large.

Having adequate digital skills and access to digital services, will also be increasingly important as employers adapt and change their ways of working, creating a new normal, in the post COVID-19 economic recovery. A greater understanding of digital tools, and payment methods, will also help create a sustainable and well-functioning gig economy for workers and employers, which is only set to grow over the next decade.

⁴ Lloyds Banking Group Consumer Digital Index (2019)

⁵ Good Things Foundation with the University of Liverpool, Digital motivation: exploring the reasons people are offline (2019)

That's why we have partnered with the Good Things Foundation (GTF), which aims to respond to the emergency needs of, and provide immediate support to, people in poverty in the UK who are digitally and financially excluded. Over the next six months, it is giving households in poverty access to digital devices and/or data, plus basic digital support. This project is also helping adapt existing ways of providing money guidance support (helplines or workshops) to the current lockdown situation.

Together with other leading FinTech innovators, Mastercard has also set up The Inclusion Foundation, a not-for-profit community interest company. Its mission is to support the 1.23 million unbanked and the 13 million underserved adults in the UK, by enabling access to payment methods that better meet their needs. This builds on Mastercard's previous work as a founding supporter of the Financial Inclusion Commission.

We support the continued availability of cash for those that require it, and indeed have contributed to efforts to ensure this is the case. In order to help the availability and recycling of cash in local communities, we will soon be launching a service that will encourage retailers to offer cashback at the point of sale by offering them a fee of 12 pence every time they dispense cash to a shopper paying with a Mastercard debit card. This is in addition to our ongoing running of the infrastructure that underpins the LINK ATM scheme; and our technology that enables bank account access at Post Office branches.

We also continue to innovate in order to drive financial inclusion through digital payment methods. For example, prepaid cards provide a bridge for individuals and businesses that want to realise the benefits that digital payments can afford them over cash, without having to open a bank account. Prepaid cards are now playing an increasingly important role in quickly getting funds to vulnerable individuals whose access to cash may have been affected by the pandemic.

Recommendations:

Financial exclusion is inextricably linked to digital exclusion and the pandemic has served to further highlight this link; and so there is an urgent requirement for government policy to reflect this link rather than just focusing on the financial exclusion element and education and support programmes such as those run by the Good Things Foundation, to be afforded adequate support to reflect the size of the problem they are seeking to address.

Currently at every level – policy, regulatory, provision – the link between digital and financial exclusion is a blind spot. If HM Government, working with industry, can join the dots, the effects could be transformative. As such we would recommend that over the remainder of 2020, Government, industry, and civil society, work together to define what 'good' looks like in providing effective digital financial inclusion, and design better ways of bringing digital and financial support together.

- **What will be the impact on the public finances?**
 - **What are the potential future implications for tax and spending?**
 - **What are the implications for the Government's "levelling up" agenda announced in the Budget/infrastructure strategy?**
- **What will be the impact of high levels of Government debt on market interest rates, private investment, capital formation and future productivity?**

- **What has and will be the impact on global growth and what shape is the international recovery likely to take?**
 - **Are there international examples of economic policymaking that we can use?**
 - **How is the UK Government co-ordinating with other governments to boost global growth?**
 - **How are countries coordinating their efforts to assist the global recovery?**
- **What will be the impact of the outbreak on the Government's economic, customs and financial sector priorities in its negotiations with the European Union?**
- **What are the differences and similarities between this shock and the Great Financial Recession of 2008 and also the economic demand management and demand suppression policies pursued during the Second World War? What lessons can be learnt from these past shocks and the recoveries that ensued?**
- **What are the lessons that society can learn for the future e.g. reducing carbon emissions, increased home working, business resilience?**

In these unprecedented times, many everyday things, like being able to shop for things in store whenever we want, have had to change, and we have had to adapt, quickly, to make ourselves and others around us safe. To keep the economy moving, to get essential goods and services to us all and for businesses to survive, many retailers have had to either quickly move their operations online or have had to quickly upscale their e-commerce capabilities. Digital payments have been vital in enabling this shift to occur quickly and seamlessly.

The UK's world leading digital payments ecosystem, which includes cards and account to account payment systems, which has been integral to the functioning of the UK's economy day-to-day, has now also, under the current challenging and unprecedented circumstances, been underpinning much of the response to the COVID-19 pandemic and the continued functioning of the economy.

Digital payment products, such as pre-paid cards, have also been vital in getting much needed funds to vulnerable consumers, including those clinically vulnerable and unable to leave their homes.

As such a key lesson that can be learnt for the future is that digital payments products can be inclusive and can be developed for use by a cross section of society. Digital payments will also be a cornerstone of the UK's economic recovery, as it may be both safer and more costs effective for some businesses to continue to trade online only, and for others, it may have shown that digital payment solutions can help their business grow by connecting them to markets across the UK, and indeed the world, rather than just within their local region.

Facilitating greater digital capability amongst small businesses, and business more generally is of critical importance for future economic growth. There are of course a number of facets to this challenge, but two key areas that HM Government should look to address as a priority are:

1) Prioritising digital inclusion and digital skills

The COVID-19 pandemic has both further exacerbated digital exclusion and highlighted the importance of digital skills, in particular for vulnerable consumers and young people, including those living in poverty. Many who rely on being able to pay for goods and services using cash, and who

may already be digitally excluded because of limited or no access to digital devices or services, have been unable to easily access essential online services. With jobs lost across all sectors of the economy, those with no, or limited, digital skills have not been able to adapt to the changing environment and crisis, concluding being able to gain other employment, as quickly as those with better digital skills and know how.

During the Covid-19 crisis, digital inequalities are reducing financial resilience and economic wellbeing. Around 11.9m adults across the UK lack the full set of essential digital skills which the UK government believes are necessary for life and work in the UK⁶. Many are 'limited users' - reflecting limited access and/or limited digital skills. There are 1.9 million households who don't have any access to the internet at a time when access to devices and free WiFi in community centres and libraries is no longer possible. Below 65 years - the strongest predictors of digital exclusion are poverty and low educational attainment.⁷ As public services shift to being digital-first, people in poverty who need support are being locked out.

By contrast, those who are digitally included benefit financially (from better deals online, online banking, free money guidance) and in many other ways (access to mental health and wellbeing support, staying connected with families and friends, access to training and jobs).

Financial exclusion is inextricably linked to digital exclusion and the pandemic has served to further highlight this link; and so there is an urgent requirement for government policy to reflect this link rather than just focusing on the financial exclusion element and education and support programmes such as those run by the Good Things Foundation, to be afforded adequate support to reflect the size of the problem they are seeking to address.

A lack of digital skills and gaps may also, both in the short and long term, affect investment by employers into upskilling their workforce if the burden is too great and those seeking to bring business investment into the UK. Having and using digital skills and access to digital services, will also be increasingly important as employers adapt and change their ways of working, creating a new normal, in the post COVID-19 economic recovery. A greater understanding of digital tools and payments methods will also help create a sustainable and well-functioning gig economy for workers and employers, which is only set to grow over the next decade.

Recommendations:

A key lesson that can be learnt for the future is that digital payments products can be inclusive, and digital payments will also be a cornerstone of the UK's economic recovery,

Currently at every level – policy, regulatory, provision – the link between digital and financial exclusion is a blind spot. If HM Government, working with industry, can join the dots, the effects could be transformative. As such we would recommend that over the remainder of 2020, Government, industry, and civil society, work together to define what 'good' looks like in providing effective digital financial inclusion, and design better ways of bringing digital and financial support together.

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⁶ Lloyds Banking Group Consumer Digital Index (2019)

⁷ Good Things Foundation with the University of Liverpool, Digital motivation: exploring the reasons people are offline (2019)