HM Treasury

Payments Landscape Review:
Response to the Call for Evidence

October 2021

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Introduction

1.1 The ability to make and to receive payments is critical to people, to businesses and to the economy and is an area which has seen major transformation over the past decade. Ten years ago, cash was the most used transaction method in the UK, Faster Payments was still in its early stages, and the strategy for the payments industry was being set by a self-regulatory body in a way which did not give sufficient regard to consumer and business outcomes. Ten years on, cards are the most used payment method in the UK and people are increasingly using contactless and mobile and electronic wallets to make payments. Faster Payments processed nearly 3 billion payments in 2020,[1] and the government and regulators have taken action across the entire regulatory framework creating the conditions for innovators and disruptors to thrive.

1.2 Given the rapid technological and regulatory change over the past decade, the then Chancellor announced in his 2019 Mansion House speech that HM Treasury would lead a review of the payments landscape in the UK.[2] In July 2020, the government published the 'Payments Landscape Review: Call for Evidence' ['Call for Evidence'] which set out the government's aims for payments networks in the UK and made a high-level assessment of how well these networks are delivering against the government's aims.[3] It asked questions about the opportunities, gaps and risks that needed to be addressed in the future in order to ensure that the UK maintains its status as a country at the cutting edge of payments technology.

1.3 The government received 68 responses to the Call for Evidence from a broad range of respondents, including banks, building societies, fintechs and other financial services firms, consumer groups, retailers, trade bodies and individuals. A list of respondents and a summary of these responses has been published as part of this document (see annexes).

1.4 This document sets out the government's response to the Call for Evidence, its vision for payments and priority areas and actions for government, regulators, and industry to deliver on this vision. It builds on numerous previous and live policy initiatives in this area, including the work of the Cryptoassets Taskforce, the government's consultation on the regulatory approach to cryptoassets and stablecoins, and the government's consultation on legislative proposals to protect access to cash.

[1] 'UK Payment Markets Summary 2021', UK Finance, June 2021

[2] 'Mansion House speech 2019', HM Treasury, June 2019

[3] 'Payments Landscape Review: Call for Evidence', HM Treasury, July 2020

The government's vision

1.5 The government's vision is for a payments sector at the forefront of technology and innovation. Underpinning this vision are the government's high-level aims for payments:

- UK payments networks that operate for the benefit of end users, including consumers
- a UK payments industry that promotes and develops new and existing payments networks
- UK payments networks that facilitate competition by permitting open access to participants or potential participants on reasonable commercial terms
- UK payment systems that are stable, reliable and efficient

1.6 In order to deliver this vision, the government has identified priority areas and actions for government, regulators and industry. These are:

- equipping Faster Payments for the future, supported by a New Payments Architecture that is world leading, and ensuring the right level of protection for consumers to address what happens when a payment goes wrong
- unlocking Open Banking enabled payments safely and securely to allow consumers to pay for goods and services in shops and online directly from their accounts, rather than using a debit or credit card, creating competition and choice between payments networks and enabling exciting opportunities for fintechs to build the next generation of payments
- enhancing cross-border payments so people and businesses can make and receive cross-border payments seamlessly, quickly and cheaply
- future-proofing the legislative and regulatory framework for payments to ensure it is agile and proportionate; promotes and fosters innovation; provides the conditions for technology to continue to drive enhancements in payments; and ensures consumer protection and that payments networks are resilient

Chapter 2

The Government's Response

UK payments networks that operate for the benefit of end users, including consumers

2.1 The government's decision to bring payment systems under formal regulation, through the creation of the Payment Systems Regulator (PSR), was informed by the government's view at the time that there was a need to improve the governance of the UK's payment systems. The Payments Council, which was a self-regulatory industry body responsible for setting the strategy for UK payments systems, had not been able to undertake its strategy setting functions in a way that was reflective of the needs of all stakeholders. As a result, UK payments networks were not delivering the best outcomes for end users (which refers to both customers and businesses who initiate and receive payments).[1]

2.2 Since the government's creation of the PSR, which became operational in 2015, there have been significant changes led by the PSR to the governance, ownership and regulation of payment systems. The PSR's programme of activity focuses on promoting innovation and greater competition within and between UK payment systems while ensuring the needs of consumers and businesses are fully considered when decisions are being taken on payment system developments. This follows from its mandate as an independent economic regulator, created specifically to promote effective competition, innovation in payment systems, and ensure that payment systems are operated and developed in a way that considers and promotes the interests of consumers. Meanwhile, the Financial Conduct Authority (FCA) is responsible for the day-to-day supervision of payment services and e-money firms, and the Bank of England regulates systemic payment systems and service providers to those systems.

2.3 Respondents broadly agreed that the creation of the PSR and changes to the governance, ownership and regulation of payment systems set out in the Call for Evidence have meant UK payments networks are better meeting the needs of businesses and consumers who are end users.

2.4 Moreover, respondents provided views on the opportunities, gaps and risks that need to be addressed to further ensure that UK payments networks operate for the benefit of end users. Key themes from the responses were:

- broad agreement that the government's creation of the PSR, charged with ensuring the needs of end users are considered when decisions are made

[1] 'Setting the strategy for UK payments', HM Treasury, July 2012

by payments systems, had been important to achieving more balance in decision making than the previous self-regulatory model

- recognition that the UK's interbank payment systems provide a range of important services for end users, from high-value or bulk processing through CHAPS and Bacs respectively, to real-time transfers through Faster Payments; this is in addition to a well-established card market, where card payments are the dominant payment method in shops and online in the UK
- bringing together the ownership and governance of the retail payment systems into a single payment system operator, Pay.UK, had been a positive development; however, Pay.UK should set out a strategy for UK payments systems and help to evolve the rules and standards that govern those systems for the benefit of end users
- broad consensus that further action is needed to improve consumer protections to address what happens when a Faster Payment goes wrong, with some differing views on how this should be addressed
- action by the government to cap interchange fees (the fee a consumer's card issuer charges the business' card acquirer) and ban surcharging had meant savings for businesses and consumers, though several respondents raised the cost of card transactions borne by businesses as an area of ongoing concern
- support for the PSR's market review into the supply of card acquiring services – which allow businesses to accept card payments – to ensure that the market works well for businesses and ultimately consumers; the PSR has since published its interim report and potential remedies to make it easier to search and switch to a new provider or better deal[2]
- the extent to which technological developments in the market would in time drive competition between and within UK payments systems for the benefit of end users; some respondents thought that the revenue large banks derive from card payments meant they are not incentivised to develop alternatives
- the need to support people and businesses to transition to digital payments to ensure changes do not leave people financially excluded; many highlighted the importance of protecting access to cash

Equipping Faster Payments for the future

2.5 **The government's view is that changes are needed to ensure the right level of protection for consumers using Faster Payments to address what happens when a payment goes wrong and equip Faster Payments for the future.** The Faster Payments system has been a great UK success story. The UK was one of the first countries in the world to launch a 24/7 real-time payment system and speeding up payments has had wide benefits for the UK economy. However, unlike other payments networks such as the major card schemes' chargeback processes, Faster Payments does not have comprehensive

[2] 'Market review into the supply of card-acquiring services: Interim report', PSR, September 2020

scheme rules to deal with how participants should collectively act to resolve disputes and assign liability when a Faster Payment goes wrong. This includes when there are scams in which consumers are tricked into authorising a Faster Payment from their account, known as Authorised Push Payment (APP) scams.

2.6 The government sought views on this issue in the Call for Evidence. There was broad consensus that further action is needed to improve consumer protections to address what happens in a purchase dispute; however, there were differing views on how this should be addressed. Some respondents were concerned that poorly applied consumer protection measures could damage innovation by removing opportunities for innovative services to provide tailored solutions for consumers and businesses, or by increasing barriers for firms to access Faster Payments. Others noted that adding a liability model into the system's rules could have implications for costs for consumers and businesses using Faster Payments.

2.7 The government is committed to tackling fraud and ensuring that victims of APP scams are protected. The government recognises the work the PSR and industry has undertaken to date, including the introduction of a voluntary reimbursement Code. However, the Code, while partially successful, comes with limitations, including disparity in how different payment service providers are interpreting their obligations under it, as well as its lack of comprehensive cover across providers.[3]

2.8 The government therefore welcomed the publication of the PSR's call for views on APP scams in February 2021, which set out various potential measures for reducing APP scams and improving customer outcomes, including new requirements on payment service providers to reimburse APP scam victims and publish APP scam data.[4]

2.9 **The government's view is that the introduction of Faster Payments rules setting out reimbursement and liability requirements on all scheme participants, alongside preventative measures, is the best possible solution to the issue of APP scams. The PSR's call for views has now closed, and the government is engaging with the PSR and industry on next steps, including considering what further actions may be necessary to make urgent progress on this issue.**

2.10 The need to ensure the right level of protection for consumers to address what happens when a payment goes wrong is not limited to APP scams; it also needs to be considered in situations where a Faster Payment is not processed as intended or is used to make purchases. Although the Payment Services Regulations 2017 provide a level of protection for unauthorised or wrongly executed payments, there are currently only a limited set of remedies available for disputes arising from payments made to purchase goods or services. The lack of protections for consumers is one factor that

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[3] 'Review of the Contingent Reimbursement Model Code for Authorised Push Payment Scams', Lending Standards Board, January 2021

[4] 'Authorised push payment scams – call for views', PSR, February 2021

may inhibit the increased use of Faster Payments for retail purchase and limit the ability of Faster Payments to offer an alternative to card payments.

2.11 The government expects the PSR to continue to work with industry to ensure that consumers are sufficiently protected when using Faster Payments. We expect Pay.UK, the Open Banking Implementation Entity (OBIE), and Faster Payments participants to reduce the level of harm to consumers both through preventative measures and reimbursement, and do not rule out that regulation may be needed to achieve this as the market develops. The PSR should continue to assess the level of progress made and the need for further action to be taken.

2.12 Confirmation of Payee is an example of an obvious protection for consumers being added to Faster Payments. It gives more certainty to users that their money is being sent to the right place by checking the name of who the payment is going to against the account details. The UK's six largest banking groups, representing around 90% of transactions using Faster Payments and CHAPS, were directed to adopt Confirmation of Payee by the PSR with the roll out commencing in July 2020 (Phase 1). A number of other financial institutions have also joined the service voluntarily. In May 2021, the PSR issued a call for views concerning Phase 2 of Confirmation of Payee and the potential policy actions it could take to ensure further participation in the service.[5]

2.13 In July 2021, the UK's six largest banking groups publicly committed to implement the necessary technical changes needed for this next phase by the end of 2021. These changes are necessary to allow more financial institutions to start joining the service in 2022, for example by extending the service to organisations that use secondary reference data to make payments, beyond the traditional account number and sort code.[6] The government's expectation is that by the end of 2022 there will be widespread adoption of Confirmation of Payee, with its protections being offered across the vast majority of UK payment journeys.

Protecting access to cash

2.14 The government recognises that cash has ongoing importance to the daily lives of millions of people across the UK, particularly to those in vulnerable groups and has made commitments to protect access to cash for those who need it and ensure that the UK's cash infrastructure is sustainable for the long term.

2.15 In July 2021, the government published a consultation setting out proposals for new laws to protect cash access for the long term.[7] The consultation sought views on the creation of geographic requirements for the provision of cash withdrawal and deposit-taking facilities across the UK, and on establishing the FCA as the regulator responsible for overseeing and enforcing these requirements.

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[5] 'Confirmation of Payee – Phase 2: Call for views', PSR, May 2021

[6] 'PSR's open letter to Specific Direction 10 banks and UK Finance - July 2021', PSR, July 2021

[7] 'Access to Cash Consultation', HM Treasury, July 2021

2.16 The government's proposals seek to support the continued use of cash in people's daily lives, including by enabling local businesses to continue accepting cash through reasonable access to deposit facilities. Responses to this consultation will help to inform legislation that will be brought forward as soon as parliamentary time allows.

A UK payments industry that promotes and develops new and existing payments networks, with networks that facilitate competition and fair access

2.17 There have been major developments in payments networks over the last decade. Following the introduction of Faster Payments in 2008, the UK has continued to be at the forefront of innovation in payments, spurred by greater competition in payments networks.

2.18 Respondents broadly agreed with the developments in UK payments networks set out in the Call for Evidence and highlighted several areas of development to:

- enhance payments systems, including:
  - the Bank of England's programme to modernise the Real Time Gross Settlement (RTGS) service, the core settlement infrastructure in the UK, to enhance resilience and innovation
  - the PSR requiring the largest banks to introduce Confirmation of Payee, a name-checking service for Faster Payments and CHAPS payments, to prevent scams and accidentally misdirected payments
  - the delivery of a cheque imaging system, following government legislation, speeding up cheque processing and eliminating the need to physically transport cheques; and
- enhance payments services, including:
  - the introduction of contactless card payments and swift action by government, regulators and the industry to increase the spending limit for contactless card payments from £30 to £45 following the onset of the Covid-19 pandemic, and again to £100 in 2021
  - the adoption of digital wallets to make mobile payments in shops and payments online more convenient
  - the rise of 'payment facilitator' firms providing handheld card machines and payments software with simplified fee structures, enabling small businesses to accept card payments more easily
  - the roll-out of Request to Pay, a service which gives a more flexible way to pay bills and invoices
  - some services emerging that use Open Banking technology to allow consumers to pay for goods and services online, directly from their accounts, rather than using a debit or credit card

2.19 Most respondents also agreed that considerable progress has been made to increase levels of competition within UK payments networks, spurred by government and regulator action to:

- create the first economic regulator of payments systems in the world, the PSR, which initiated and oversaw a change in the way the main UK retail payment systems, and the infrastructure provider to those systems, are owned and governed
- enable non-bank payment service providers to open settlement accounts at the Bank of England in order to allow direct access to payment systems
- require greater transparency of terms for direct and indirect access to payment systems, and to make access cheaper and easier

2.20 Respondents provided a wide range of views on the opportunities, gaps and risks that need to be addressed to further promote and develop new and existing payments networks and facilitate competition. Key themes from the responses were:

- the critical need for Pay.UK to make swift progress on the New Payments Architecture to provide a modernised core clearing and settlement infrastructure in a way that will catalyse innovation in payment services and support global payment system interoperability
- broad industry consensus that longer clearing cycles provided through Bacs provide unique benefits compared to Faster Payments, with some responses noting the potential for the New Payments Architecture to enable future payments services to deliver customised clearing cycles to meet preferences
- Open Banking enabled payments could be a key driver of future competition between UK payments networks, but the adoption of Open Banking enabled payments was still in the early stages, predominantly being used to make one-off payments (for example, paying for goods and services online only)
- further functionality and standards would be required to improve reliability and ease of use for such services to be adopted more broadly, including the right consumer protections if a payment goes wrong; there were mixed views on whether the adoption of an Open Banking trust mark would encourage take-up
- the importance of appropriate future governance for Open Banking following the completion of the Competition & Market Authority's (CMA) mandated roadmap to provide strategic direction and to overcome potential vested interests
- support for the opportunities a digital ID could present for payment services
- the importance of the UK's ongoing participation in the Single Euro Payments Area (SEPA)

- broad agreement that there is a need to enhance cross-border payments to make them faster, cheaper and more transparent, and support for the G20 work to enhance cross-border payments

Unlocking Open Banking enabled payments

2.21 **The government's vision is for a payments sector at the forefront of technology and innovation in which the full potential of Open Banking enabled payments is unlocked safely and securely.** In the UK, debit and credit cards are the dominant payment method in shops and online. Whilst there has been considerable innovation in payments services, these innovations have tended to rely on cards, for example enabling payments to be made by cards held in digital wallets and card processing making it easier for businesses to accept card payments. Whilst there have been some examples of services in the UK seeking to provide payments methods that do not rely on card, such as Paym and Pay by Bank, these to date have been slow to be adopted.

2.22 Unlocking Open Banking enabled payments safely and securely would allow consumers to pay for goods and services in shops and online directly from their accounts, rather than using a debit or credit card. This would create competition and choice between payments networks, enabling exciting opportunities for fintechs to build the next generation of payments with new innovative services offering cheaper and more tailored payments. The government supports the PSR's view that having a viable alternative to cards is necessary to address long-term risks to competition in payments networks.[8]

2.23 There are barriers that must be addressed to achieve these ambitions. The payments system which would underpin Open Banking enabled payments, Faster Payments, needs to be fit for purpose. As set out in the preceding chapter, the government's view is that the right level of protection for consumers to address what happens when a payment goes wrong needs to be actioned. In addition, it will require looking at what changes are required to Faster Payments infrastructure to support real-time account-to-account payments for retail purchases. The government's view is it should be the role of the payment systems operator in the UK, Pay.UK, to set the strategic direction for the development of Faster Payments and to drive these changes. It will be important that the New Payments Architecture is built to enhance competition and innovation in payments.

2.24 This vision will also require improvements to the technology underpinning Open Banking enabled payments to ensure reliability and the necessary functionality and ease of use. The CMA has set out the final steps of the implementation phase of Open Banking and their assessment of what is required to support Open Banking enabled payments, including functionality for reverse payments such as refunds and for variable recurring payments such as regular purchases from the same merchant.[9]

[8] 'Our proposed PSR Strategy', PSR, June 2021

[9] 'The future oversight of the CMA's open banking remedies', CMA, May 2021

2.25 The government is clear that the right future governance and regulatory oversight of Open Banking is critical to the future development of Open Banking enabled payments. The government, FCA and PSR agree on this goal, and aim to ensure that Open Banking continues to support competition in the interests of consumers.

2.26 The PSR has set out its own strategy and the work it will undertake to support the development of Open Banking enabled payments to enhance competition and improve outcomes for end users. This includes overseeing improvements to consumer protections within interbank payments and strengthening Pay.UK's governance.

2.27 The government itself has an important role to play in the adoption of payments leveraging Open Banking technology. HM Revenue and Customs is already harnessing Open Banking enabled payments to allow taxpayers to submit payments directly from their bank accounts, rather than through a debit or credit card. This is making it easier and more efficient for taxpayers to make their payments.

Enhancing cross-border payments

2.28 **The government's ambition is for an open and global financial hub in which people and businesses can make and receive cross-border payments seamlessly, quickly and cheaply, whether it is to or from family or friends, or when trading, buying or selling goods and services across borders.** To achieve this, the government will support the timely and effective implementation of the G20 roadmap to enhance cross-border payments.[10] The government is working closely with the Bank of England on the G20 roadmap and will continue to support and monitor the progress of this work to keep the UK at the forefront of efforts in global fora to enhance cross-border payments. The government also recognises the importance of ensuring the domestic regulatory framework responds to developments in cross-border payments at the international level.

2.29 The government recognises the important role of setting targets to ensure the timely and ambitious implementation of the G20 roadmap. The government therefore welcomes the Financial Stability Board's targets for addressing the challenges of cross-border payments (namely their cost, speed, access and transparency).[11] In order to realise the full benefits of changes being implemented through the G20 roadmap, it will be necessary for industry as well as central banks to make necessary investments to upgrade legacy infrastructure and to adopt new standards.

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[10] 'Enhancing Cross-border Payments: Stage 3 roadmap', Financial Stability Board, October 2020

[11] 'Targets for Addressing the Four Challenges of Cross-Border Payments: Consultative document', FSB, May 2021

UK payment systems that are stable, reliable and efficient

2.30 The UK is host to stable, reliable and efficient payment systems, and respondents attributed this to robust and mature industry practices and effective oversight as a result of government action to establish a regulatory system in which the stability and resilience of the most important payment systems can be assured by the Bank of England. This has ensured consumer confidence in UK payment systems, including through the Covid-19 pandemic, in which the operational resilience of payments systems was tested.

2.31 Beyond payment systems, the government noted in the Call for Evidence that over the last 10 years new payment services firms, including non-bank firms, have entered and transformed the payments landscape, facilitated by pro-competition legislation. In many cases these firms have used new technology to provide new services and functionality, taking over some of the functions previously performed by other parts of the payment network in the UK. As the Bank of England's Financial Policy Committee (FPC) has set out, the typical 'payment chain' (the set of activities necessary for a payment to be made) is therefore being fragmented and at times lengthened, with new activities being offered; some activities are regulated by the FCA or overseen by the PSR, where others are unregulated.

2.32 These changes to payments chains could bring significant benefits for end users, including increasing choice, lowering costs and improving security and convenience. However, these changes could also bring risks if the end user does not understand the protections that apply, the activities that fall outside of regulation, or if an activity is insufficiently resilient. The FPC also set out its assessment that some firms in payments chains could become systemically important.

2.33 Respondents broadly agreed with the trends in payments chains identified in the Call for Evidence. Key themes from the responses were:

- government and regulators should ensure payments regulation is agile and proportionate in order to support innovation and firms to grow, whilst also managing risks
- some respondents were of the view that regulation is overly prescriptive and burdensome; others were concerned about the ability of regulation to adequately address risks as firms grow and more consumers and businesses rely on their services, and highlighted the important role some firms and activities play in payments chains that fall outside of regulation
- support for the concept of 'same risk, same regulatory outcome'
- that there has been a period of intensive regulatory implementation placing significant demands on the payments industry
- the fast-changing nature of the payments landscape, with developments in private sector digital currencies and consideration of central bank digital currencies having the potential to dramatically change the future of payments

2.34 The UK's pro-competition policies, legislative framework and innovative regulatory environment have created the conditions for innovators and disruptors to thrive and transform the payments landscape, creating greater choice for consumers and businesses for how they make and receive payments. As existing payments innovations mature, other innovations are on the horizon and, having left the EU, the government is committed to evolving its legislative framework and regulatory environment to create the conditions for the UK to maintain its status as a country at the cutting edge of payments technology while ensuring protection, resilience and stability.

Future-proofing the legislative and regulatory framework for payments

2.35 **To deliver the government's vision for a payments sector at the forefront of technology and innovation, the government will act to future-proof the legislative and regulatory framework for payments.** The government wants to ensure a regulatory framework for payments that is agile and proportionate; that promotes and fosters innovation and provides the conditions for technology to continue to drive enhancements in payments (both domestic and cross-border) and that ensures consumer protection; and that payments networks are resilient.

2.36 **The government's Future Regulatory Framework Review proposes transferring responsibility for firm-facing requirements in areas of retained EU financial services law to the regulators; the government expects this will include retained EU payment services law.** Payment services legislation, such as the Payment Services Regulations 2017 and Electronic Money Regulations 2011, is one area of financial services legislation where the EU's approach to the regulation of financial services has resulted in detailed regulatory standards being set in UK legislation and preserved through the 'onshoring' of EU legislation. This means in several areas of payment services legislation, the primary responsibility for designing and maintaining regulatory standards is removed from the expertise that is concentrated in UK regulators. In addition, as regulatory standards are set in legislation, it is difficult to flex or update these standards quickly in order to respond to the changing payments landscape. For example, some respondents to the Call of Evidence called for clearer requirements on how funds should be safeguarded, which currently cannot be amended without primary legislation.

2.37 In October 2020, the government published a consultation on the Future Regulatory Framework of financial services. The objective of the Future Regulatory Framework is to build on the strengths of the UK's existing regulatory framework to achieve an approach to financial services regulation in the UK which meets the specific regulatory needs of UK firms, markets and consumers. Under the proposed framework, responsibilities for designing and implementing the specific requirements that apply to firms will be delegated to the appropriate expert, independent regulators, while operating within a framework established by government and Parliament. The government will publish a second consultation on the Future Regulatory Framework in Autumn 2021.

2.38 **In addition, in response to the increasing use of digital payments and innovations in payments chains, the government will consult on bringing systemically important firms in payments chains into Bank of England regulation and supervision in the first half of 2022.** Under the Banking Act 2009, the Bank of England can currently supervise systemically important payment systems, and firms which provide services to systemic payment systems, to manage the risks that those systems could pose to UK financial stability. The Act allows the Treasury to recognise payment systems, bringing them into the Bank's supervisory regime, if the Treasury is satisfied that any deficiencies in the design of the system, or any disruption of its operation, would be likely to threaten stability or confidence in the UK financial system, or have serious consequences for business or other interests throughout the UK.

2.39 The increasing use of digital payments and innovations in payments chains, which have resulted in payments activities no longer being conducted primarily by banks and payment systems, mean it is the government's view that other firms have the potential to become systemically important firms in payment chains and may warrant Bank of England supervision. The bar for systemic importance and Bank of England supervision would remain high, as it is for payment systems at present.

2.40 **The government has also announced its intention to create a Senior Managers and Certification Regime for Financial Market Infrastructures supervised by the Bank of England**, including payment systems recognised under the Banking Act 2009 and specified service providers to these recognised payment systems, to strengthen risk management, and therefore their safety and soundness. The government is consulting on these proposals.[12]

2.41 **The government has consulted on proposals to ensure the UK's regulatory framework is equipped to harness the benefits of new forms of digital money, so-called stablecoins, supporting innovation and competition, while mitigating risks to consumers and stability.**[13] Stablecoins, if appropriately regulated, could pave the way for faster and cheaper payments, making it easier for people to pay for things or store their money. The Bank of England has also published a discussion paper on New Forms of Digital Money, which includes consideration of possible regulatory models for systemic stablecoins.[14] Where possible HMT will look to ensure consistency, in the spirit of 'same risk, same regulatory outcome', between regulation applied to stablecoins and comparable payments activities.

2.42 **HM Treasury has also established a Central Bank Digital Currency (CBDC) Taskforce** with the Bank of England to coordinate exploration of a possible UK central bank digital currency.[15]

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12 'Senior Managers & Certification Regime (SM&CR) for Financial Market Infrastructures (FMIs): consultation', HM Treasury, July 2021

13 'UK regulatory approach to cryptoassets and stablecoins: Consultation and Call for Evidence', HM Treasury, January 2021

14 'New forms of digital money', Bank of England, June 2021

15 'Terms of Central Bank Digital Currency Taskforce: Terms of Reference', HM Treasury, April 2021

Annex A

Detailed Summary of Responses

UK payments networks operating for the benefit of end users

Question 1: To what extent do you consider that the government's objective that UK payments networks operate for the benefit of end users has been met?

Question 2: What do you think industry, regulators and government should do in order to further ensure that UK payments networks operate for the benefit of end users?

A.1 A large number of respondents noted that the government's objective that UK payments networks operate for the benefit of end users has been completely or largely met. The reasons given for this assessment varied among respondents.

A.2 A number of respondents noted that the UK has an efficient digital payments infrastructure by international standards. Respondents indicated that the UK is recognised as an attractive environment in which to do business, with London continuing to be seen as the global centre for financial services. Further, it was noted that the vibrant payment market in the UK is built on strong legal foundations, good institutions and infrastructure.

A.3 Respondents highlighted the specific benefits that CHAPS, Bacs and Faster Payments provide, meeting a diversity of needs for consumers, businesses and financial institutions.

A.4 Beyond this, the government's decision to move power away from the self-regulatory Payments Council, and its decision to bring payment systems under economic regulation with the formation of the PSR, was seen as a good outcome for end users by a number of respondents. It was noted that while the PSR has made clear progress towards its objective to ensure that payment systems are operated and developed in a way that considers and promotes the interests of all the businesses and consumers that use them, its consultation processes need to ensure appropriate weight is given to business and consumer views as well as those of the financial industry.

A.5 It was noted that the UK has led the charge regarding how the main UK retail payment systems are owned and governed, consolidating the ownership and governance of the payment systems under a single payment system operator, Pay.UK. This ensures that the key strategic decisions on the payments landscape are no longer driven only by the agenda of the large UK banks.

A.6 Greater need for competition in the card payments market and tackling the high cost of card transactions was highlighted as an area of concern by many respondents. In particular, a large number of respondents noted that while the introduction of the European-wide interchange fee cap had brought significant benefit to large merchants, this was not the case for the small and medium-sized merchants where merchant acquiring businesses' fees had not changed significantly. There were differing views on how this issue should be tackled. Some respondents felt that it should be made easier for SMEs to research and compare the card acquiring pricing options available to them. The PSR will be publishing its final report on the Card Acquiring Market Review later this year.

A.7 Some respondents expected that the market would in time drive new payment initiatives and consumers and merchants should be able to choose appropriate payment solutions for themselves in response to the best value services available. Others felt that market pressures alone were unlikely to resolve this issue given the dominance of two card schemes in the UK and the potential vested interests of the large players in the market to maintain these revenue sources.

A.8 Despite cash not being the focus of the Call for Evidence, several respondents raised the importance of access to cash and that further work was needed to help aid users' transition to digital payments. It was noted that cash remains the most cost-effective payment acceptance channel for retailers; it remains important for many people; and that there are issues with provision, including in remote or deprived communities. It was noted that a report by the National Audit Office expressed concern at the lack of a single body with responsibility for the performance of the cash system. The government's 2020 Budget commitment to legislate to protect access to cash was welcomed by many respondents.

A.9 Respondents were keen for the government and regulators to consider the payments ecosystem holistically, including access to cash, card schemes and central bank digital currencies, recognising the interdependent nature of the system at-large, in that changes to one payment system can have a knock-on impact on others.

A.10 Finally, on the transition to digital payments, some respondents called for a comprehensive transition programme to ensure as many people as possible are equipped to sign up for and use electronic payments. Some respondents said that the private sector has a limited appetite or capacity to cater for the needs of the financially excluded. Respondents called for greater clarity on the question of whether HM Treasury, the PSR or the Bank of England should have ownership and accountability over financial inclusion and associated targets.

UK payments industry that promotes and develops new and existing payments networks

Question 3: To what extent do you consider the government's objective for a UK payments industry that promotes and develops new and existing payments networks has been met?

Question 4: What do you think industry, regulators and government should do in order to further promote and develop new and existing payments networks?

A.11 A number of respondents said that either the UK is a world leader in this area or that considerable progress has been made in developing existing payment networks. A number of developments to both payment systems and services were highlighted to support this view. For payment systems this included: the inception of Faster Payments; the opening-up of Bank of England settlement accounts to non-bank payment firms and modernisation of its Real Time Gross Settlement service; the introduction of cheque imaging; and the roll out of Confirmation of Payee. On the payment services side, many respondents noted: the increase in the contactless limit as part of the sector's response to Covid-19; the increased convenience made possible by widespread use of digital wallets such as Apple, Google and Samsung Pay; and the development of Open Banking led interbank payments such as Request to Pay.

A.12 Some respondents noted that the delivery of the New Payments Architecture was behind schedule. It was also emphasised that the New Payments Architecture, when delivered, should be fit for purpose and drive competition and innovation in the UK payments market, and not merely provide upgrades to existing legacy systems such as Bacs and Faster Payments.

A.13 Some respondents called for the government to explore and develop a digital identity strategy for open finance. Responses noted a single electronic identity that could be used by UK consumers and businesses for access to all regulated financial services could reduce friction and improve adoption of Open Banking services and should form the foundation of open finance initiatives. Many respondents noted that the benefits of a single digital identity could go beyond open finance initiatives and serve the wider financial services industry.

Facilitating competition by open access

Question 5: To what extent do you consider the government's objective to facilitate competition by permitting open access to participants or potential participants on reasonable commercial terms has been met?

Question 6: Are there further barriers preventing open access to participants or potential participants on reasonable commercial terms?

Question 7: What do you think industry, regulators and government should do in order to remove these barriers?

A.14 A majority of respondents noted that either this objective had been met or good progress has been made in facilitating competition by permitting open access. A few respondents noted that the UK was a world leader in this space. Reasons given for this assessment included: improved access to Faster Payments and CHAPS; the opening up of settlement accounts at the Bank of England; the implementation of the Payment Services Regulations 2017; and the creation of Open Banking.

A.15 A few respondents called for better application of anti-money laundering measures in the UK.

A.16 Respondents also raised the issue of "de-risking" in the UK. De-risking is the term used to describe the trend of banks terminating, restricting or denying banking services from certain types of customer, purportedly in order to reduce exposure to risk.

A.17 Some respondents highlighted that the design of the current prefunding model used by certain payment systems is costly and could be a barrier to entry, in that liquidity is effectively doubled for settlement purposes. It was also acknowledged that changes proposed under the New Payments Architecture could address this issue.

A.18 It was noted that there is a balance at play as some of the barriers in place for new entrants are needed to ensure that the UK's payments systems are safe, stable and resilient.

A.19 Most respondents who answered these questions supported common standards and better interoperability, citing them as crucial for helping new entrants enter and get a foothold in the market. Some noted that the PSR specifically has a vital role to play in ensuring that there is fair direct and indirect access for new entrants.

UK payment systems that are stable, reliable and efficient

Question 8: To what extent do you consider the government's objective for UK payment systems that are stable, reliable and efficient has been met?

Question 9: What do you think industry, regulators and government should do in order to further ensure UK payment systems that are stable, reliable and efficient?

A.20 There was general agreement by respondents that UK payments systems are stable, reliable and efficient. It was noted that UK industry has invested heavily in payments systems, and that regulators have placed a strong emphasis on ensuring stability and reliability to match.

A.21 There was recognition that industry must not only focus on investment in front-end innovation, but also invest in the "invisible" underlying infrastructure that make payments possible.

A.22 It was also noted by some respondents that the payments sector risks becoming more fragmented as new participants and payments chains enter the market, presenting new risks. In this, it was felt that regulators must keep pace with these changes, citing Wirecard in Germany as an example of gaps in regulation presenting risks to the sector's stability.

A.23 On the New Payments Architecture specifically, a few respondents noted that there are a number of potential challenges to ensuring its successful delivery, and without strong leadership at Pay.UK it will be difficult for the programme to meet its objectives.

Faster Payments

Question 10: What is the impact of not having comprehensive scheme rules to deal with how participants should collectively act to resolve disputes and assign liability when a Faster Payment goes wrong?

Question 11: Are additional scheme rules needed to ensure opportunities for person-to-business payments over the system can effectively compete with major card schemes? If so, how could scheme rules achieve this?

Question 12: Why are payments with a longer clearing cycle still used and what are the barriers to moving these payments to a platform with faster clearing, e.g. Faster Payments?

A.24 Respondents noted that Faster Payments is and was seen as a world leading development, having launched in 2008. Since then, many jurisdictions have moved to implement systems like Faster Payments across the globe.

A.25 Some respondents highlighted that a lack of comprehensive rules for Faster Payments causes certain problems, such as a lack of clarity around liability. Most respondents wanted the area of consumer protection to be looked at in more detail. Conversely, some respondents also noted that substantial scheme rule changes to Faster Payments presented risks, and would need to be considered carefully, balancing increased cost with better consumer protection, ensuring the business model of the service is protected, and innovation not stifled.

A.26 Some respondents believed that greater intervention and change is needed to scheme rules to improve consumer protection and help competition in the retail market. These respondents acknowledged that changes to scheme rules are complex and do not want costs being passed on to consumers or businesses.

A.27 While there was broad consensus that improving consumer protection is necessary, respondents had differing opinions around how these improved consumer protections should manifest themselves. Some felt that consumer protection should be an area on which firms should be able to compete. These respondents did not favour scheme rule changes to Faster Payments as they felt it might stifle competition. Some felt that if Faster Payments was to compete with card schemes, it should happen organically and not through changes to scheme rules.

A.28 Where it relates to fraud and scams, there were differing opinions on mandating the Contingent Reimbursement Model (CRM) Code and Confirmation of Payee across the industry. Most respondents did support CRM as a way of preventing Authorised Push Payment scams and improving consumer protection. Some felt it was unnecessary and could increase costs and harm some business models. Some respondents suggested that improving public awareness of both these initiatives was enough.

A.29 There was unanimous consensus that longer clearing cycles through the likes of Bacs provide unique benefits compared to Faster Payments. Respondents generally felt that they were popular, giving consumers security and allowing for larger payments. In relation to clearing cycles and the future of the New Payments Architecture, some respondents were positive about the use of overlay services to deliver functionality to customise clearing cycles to meet individual or business preferences.

Open Banking

Question 13: What is required to enable Payment Initiation Services to take off in the UK in a way which is safe and secure for the consumer?

Question 14: How does the advent of Payment Initiation Services through Open Banking interact with your answer in the last section as to whether additional rules are needed as part of Faster Payments?

Question 15: Will Open Banking deliver (and go beyond) the developments in account-to-account payments seen internationally? What are the lessons from international experiences that should be adopted in the UK, and what are the costs and benefits of doing so?

A.30 Respondents were generally supportive of increased levels of competition in the UK by encouraging the adoption of Open Banking payments and noted that while the UK was a world leader in this area, the full deployment of the Open Banking market was still nascent.

A.31 Respondents offered many ideas to improve the take up of Payment Initiation Services in safe and secure ways. The introduction and widespread use of new features such as variable recurring payments, reverse payments and the decoupled authentication of payments were all seen as important steps towards Open Banking payments taking off.

A.32 There were mixed views on whether the adoption of an Open Banking trust mark would encourage people to trust Payment Initiation Services, and in turn increase uptake. A common ask from fintechs was to amend the Payment Services Regulations 2017 to remove the requirement for mandatory re-authentication after 90 days, and to look again at the definition of re-authentication.

A.33 The ease of use and authentication process as well as the reliability of Open Banking APIs for Payment Initiation Services again came up as an issue, and something industry would like to see improved believing this would help Open Banking payments take off.

A.34 With the CMA's original mandate on Open Banking having been met, respondents stressed the importance of ensuring effective and appropriate future governance of Open Banking to ensure that progress can continue to be pushed forward.

A.35 Regarding international comparisons, some respondents highlighted that cultural behaviours could have an important role to play in the uptake of Payment Initiation Services, and that this will take time to change (comparisons were made to the exponential uptake of contactless cards in the UK). Some respondents also cited the importance of context in comparisons abroad. The UK, for example, has a historically well-developed card market, compared to the Netherlands where interbank payment models have flourished in their place.

New payments services and payments chains

Question 16: Do you agree with the trends in new service providers and payments chains identified?

Question 17: What further trends do you expect to see in payments chains in the next 10 years?

Question 18: What opportunities and/or risks do these trends in new service providers and payments chains pose?

Question 19: What do you think industry, regulators and government should do in order to realise these opportunities and/or address these risks?

Question 20: Do you think any changes are needed to payments regulation to ensure it keeps pace with the changing technological landscape?

A.36 Respondents generally agreed that payments chains are being unbundled (lengthened and fragmented) and suggested that the current e-money and payments regulations are not flexible or scalable enough to meet the increasing size of these firms. Some stakeholders have set out the need for enhanced safeguarding arrangements and some have said the regulatory perimeter for firms in payments chains needed to be reviewed, in particular for systemic payments firms.

A.37 The potential future introduction of a central bank digital currency was cited as a development which could carry both significant opportunities and risks. Respondents were eager to see how this would develop in the future.

A.38 Respondents hoped that these new trends will mean that payments become cheaper, quicker, more efficient and show greater stability and resilience. The New Payments Architecture and next chapter of Open Banking were often cited as crucial for realising these future opportunities.

A.39 Respondents had differing opinions regarding changes to regulation. There was broad consensus around the principle of 'same risk, same regulatory outcome', as set out by the Bank of England. Some respondents did not believe that any new regulation was needed in the short-to-medium term as there has already been a period of significant regulatory development in the form of the Payment Services Regulations 2017. Others suggested that regulators and government should monitor new participants and critical third-party providers in payment chains and work reactively, where required, to ensure that any future risks are mitigated.

A.40 Respondents highlighted that regulatory principles should lead with agility and adaptability in mind to meet this rapidly changing sector. They also wanted to make sure that new regulation did not stifle innovation. Respondents were keen to feed into HM Treasury's Future Regulatory Framework Review for Financial Services.

Cross-border payments

Question 21: What further trends do you expect to see in cross-border payments in the next 10 years?

Question 22: What do you think industry, regulators and government should do in order to improve the functioning, speed and cost of cross-border payments for end users, taking into account the G20 work?

Question 23: Are there other opportunities and risks not captured by the questions elsewhere that you wish to highlight? If so, what do you believe the role is for government, regulators, and industry in responding to them?

A.41 Respondents highlighted a number of initiatives already underway regarding cross-border payments and how they could be improved. Respondents would like to see a move towards real-time cross-border payments which are lower in cost, more transparent in terms of cost and status of payment, and more reliable and richer in data.

A.42 SWIFT's 'gpi' (global payments initiative) was also cited as being able to contribute to the overall improvement of cross-border payments. Respondents also expected to see an overall increase in the volume of cross-border payments, continued growth in global e-commerce and an increase in choice in payment methods for cross-border payments.

A.43 Some highlighted the importance of working internationally on anti-money laundering, counter-terrorist financing and know your customer (KYC) frameworks, to ensure security is maintained whilst not hampering the speed of payment and settlement.

A.44 Many respondents noted the structured work being undertaken by the G20 to enhance cross-border payments, where there is broad sector support. Respondents wanted the UK to take a leading role in advancing this work.

A.45 A number of respondents noted the importance of maintaining access to the Single Euro Payments Area (SEPA) and the need for continued alignment with the European Payments Council's geographical scope criteria. More generally, being part of international payments systems was seen as a key factor for payment service providers with an international reach.

A.46 Some respondents highlighted technological developments they expect to see in the future. Central bank digital currencies were often cited as having the potential to improve cross-border payments and provide more competition to current cross-border payment providers.

A.47 Respondents expected to see greater interlinking of Faster Payments and its international equivalents on a cross-border basis, such as that seen through the Nordic P27 and the European Payments Initiative, over the next 10 years.

Annex B
List of Respondents

The following bodies responded to the Call for Evidence:

Bank of England
Financial Conduct Authority
Payment Systems Regulator

4 Keys
Accenture
American Express
Apple
Association of Convenience Stores
Association of Independent Risk and Fraud Advisors
Association of UK Payment Institutions
Barclays
Bottomline
British Retail Consortium
Citi
ClearBank
Confederation of British Industry
Curve
Department for Work and Pensions
Ecospend
Electronic Money Association
Emerging Payments Association
Financial Data and Technology Association
Financial Markets Law Committee
Financial Services Consumer Panel
FIS
GoCardless
Government Banking Service
HSBC
Innovate Finance
Institute and Faculty of Actuaries
JP Morgan
Jeremy Light
Laybuy
Lending Standards Board
LINK
Lloyds Banking Group
Mastercard
Modulr
Money and Pensions Service
Nationwide
NatWest
Open Banking Implementation Entity
Open Banking Consumer and SME Representatives
Ordo
Pay.UK
Plaid
R3
Revolut
Ripple
Santander
Scottish Grocers' Federation
SPRITE+
Square
Standard Chartered
Stripe
SWIFT
techUK
Tesco
The Chartered Institute of Credit Management
The Coalition for a Digital Economy
The Global Legal Entity Identifier Foundation
Transpact
TrueLayer
UK Finance
Virgin Money
Visa
Which?
Whitechapel Think Tank
Wise
Yapily
Zephyre

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