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Dear Nikhil, David,

RECOMMENDATIONS FOR THE FINANCIAL CONDUCT AUTHORITY AND PAYMENT SYSTEMS REGULATOR ON PAYMENTS REGULATION

Growth is the defining mission of this government and is the only route to improving the prosperity of our country and the living standards of working people. The UK financial services sector has a fundamental role to play in delivering this growth, both as an engine for growth and investment throughout the economy, and driving UK prosperity in its own right as a world-leading, dynamic financial centre.

The financial services regulators are key to driving forward this mission: we must have proportionate, effective regulation that allows firms of all sizes to grow, creates a stable, attractive environment which encourages businesses to establish and expand in the UK, and adequately protects consumers. A thriving, internationally competitive financial services sector, regulated by independent expert regulators with a global reputation for promoting stability and facilitating innovation, is essential for creating the conditions for businesses and consumers to invest with confidence.

Payments are critical to the growth of the UK economy: the ability to make and receive payments is essential to our daily lives and underpins all economic activity, and the sector is also home to some of the UK's highest growth businesses. To support the sector in delivering economic growth, the government has today published the National Payments Vision – setting ambition and taking action to address issues across the ecosystem, in line with the central recommendation of the 2023 Garner Review on the Future of Payments.

The government's vision is for a trusted, world-leading payments ecosystem delivered on next generation technology, where consumers and businesses have a choice of payment methods to meet their needs.

The Financial Conduct Authority (FCA) and Payment Systems Regulator (PSR) play a vital role in achieving the government's vision for payments. The Garner Review noted that the UK

benefits from a well-developed regulatory regime, but also identified congestion across the regulatory landscape for payments, with multiple initiatives being progressed, sometimes in conflict, without clear strategic direction.

I recognise the good work that the FCA and PSR already undertake to provide a coordinated exercise of relevant functions under section 98 of the Financial Services (Banking Reform) Act, 'FSBRA', alongside the Bank of England and Prudential Regulation Authority. I welcome the joint commitment from the regulators to revise the Memorandum of Understanding on payments cooperation that is required under section 99 of FSBRA, in line with the Garner Review recommendation. However, more must be done to strengthen coordination and clarify areas of joint regulatory interest to deliver the government's growth mission.

I therefore welcome the FCA and PSR's commitment to drive forward action to achieve the government's vision for payments through participation in the Payments Vision Delivery Committee. The Committee is intended to ensure regulatory activity promotes innovation, competition and security within the UK's payments landscape. It will also drive coordination on the sequencing and prioritisation of initiatives to address regulatory congestion, whilst respecting each regulator's statutory objectives. The Committee will establish a Vision Engagement Group, including a clear mechanism for stakeholders across the sector to make representations.

Co-design is a cornerstone of this government's approach to policy development and delivery. We are therefore committed to working closely with you and other stakeholders, including industry and consumer groups, to deliver the government's economic policy. As part of this, the government is developing a financial services growth and competitiveness strategy, which will consider how to drive the growth of the sector over the next decade. I look forward to working with you as this strategy is developed.

This letter accompanies a separate letter I have written to the FCA, and is issued under section 1JA of the Financial Services and Markets Act 2000 and section 102A of the Financial Services (Banking Reform) Act. A copy will be laid before Parliament.

I look forward to continuing to engage with you on this important work as it progresses. I would be grateful for updates through your response to this letter and your ongoing regular engagement with Treasury Ministers and officials.

I am copying this letter to Dame Meg Hillier MP, Chair of the Treasury Select Committee, Rt Hon. the Lord Forsyth, Chair of the Financial Services Regulation Committee, Andrew Bailey, Governor of the Bank of England and Sam Woods, Chief Executive Officer of the Prudential Regulation Authority.

*Yours,
Rachel Reeves*

RT HON RACHEL REEVES MP
Chancellor of the Exchequer

Recommendations for the Financial Conduct Authority and Payment Systems Regulator

A. The Government's economic policy

The government's economic policy objective is to restore broad-based and resilient growth built on strong and secure foundations. Price and financial stability are essential pre-requisites to achieve this objective.

To achieve this objective, the government's economic strategy consists of:

- maintaining a stable macroeconomic environment, key to which is operationally independent monetary policy, responsible for maintaining price stability and supporting the economy;
- supporting investment through the effective management of public finances and overseeing sustainable taxes and borrowing, to deliver long-term growth and accelerate the transition to a climate resilient, nature positive and net zero economy;
- supply-side reform and targeted industrial strategy to remove the barriers to our productive capacity and increase productivity-enhancing investment, increasing access to high-quality jobs across the UK;
- growing the financial services sector and increasing its international competitiveness, while enhancing its role in financing growth, safeguarding financial stability and consumer protection, and supporting the transition to a net zero economy.

B. Matters about aspects of the Government's economic policy to which the Financial Conduct Authority and Payment Systems Regulator should have regard for payments policy

In considering the objectives, principles, duties, matters and relevant functions as appropriate in section 1JA of FSMA, in the case of the FCA, and in section 102A of FSBRA, in the case of the PSR, the FCA and PSR should have regard to the government's strategy to promote growth and international competitiveness.

The National Payments Vision represents the government's view on how to support the growth and competitiveness of the UK's payments sector, in turn supporting the growth of the wider economy. Within this, the FCA and PSR should have regard to the following government priorities;

- **Enhancing coordination to address congestion in the regulatory landscape**, including through the FCA's commitment to lead work on enhancing the management of overlaps between the FCA and PSR's exercise of their functions, including on fraud and Open Banking policy.
- **Supporting the development of Open Banking**. In this regard, the government welcomes the FCA's commitment to fulfil the function of the UK's regulator for Open Banking, whilst ensuring mechanisms to support cooperation with the PSR on matters related to designated payment systems.
- **Ensuring high standards of consumer protection and that people and businesses can make payments efficiently and safely**. In this respect, the government welcomes upcoming work from the regulators to examine data sharing initiatives

that help to prevent fraud across the financial services sector. The government also welcomes the PSR's commitment to commission an independent review of the new authorised push payment fraud reimbursement rules after 12 months of implementation.

- **Driving an agile approach to delivering the UK's retail payments infrastructure needs**, including through work of the Payments Vision Delivery Committee to examine and refresh the requirements for the UK's retail infrastructure and the governance and funding arrangements required to deliver this.