

# FCA – CP21/3 - Changes to the SCA-RTS and to the guidance in ‘Payment Services and Electronic Money – Our Approach’ and the Perimeter Guidance Manual

## UK Finance Response to Contactless Payments

**Date:** 24 February 2021

**Sent to:** cp21-03@fca.org.uk

UK Finance is the collective voice for the banking and finance industry.

Representing more than 250 firms across the industry, we act to enhance competitiveness, support customers and facilitate innovation.

- 1.1. UK Finance welcomes the opportunity to respond to the FCA’s Consultation Paper (CP21/3) on Contactless Payments (Section 3.41 to 3.47). The other aspects of the consultation response will be shared with the FCA in due course.
- 1.2. Contactless payments are increasingly popular, with many customers taking advantage of the higher £45 spending limit introduced by the banking and finance industry last year. During 2019, card payments continued to grow as consumers and business increasingly used their cards to pay for things, whether online or in the ‘real world’. This growth saw card payments increase to the point of accounting for over half (51%) of all payments in the UK for the first time. Online and contactless payments continued to act as substantial drivers of this growth, with eight out of ten UK adults (79%) using contactless payments in 2019.
- 1.3. Contactless is one of a range of payment methods and the industry will also continue to work closely with the regulator to ensure that customers can pay in a way that suits them. In doing so, UK Finance has been consulting closely with our members as a result of the FCA’s proposed increase to the individual and cumulative contactless limits. We are of the strong view that any limit increase needs to be done for the right reasons and in the best interests of consumers across the UK.
- 1.4. We note that on a general level, contactless fraud remains incredibly low, with contactless losses falling 20 per cent to £8.2 million in 2019, with £8.2 million of losses compared to spending of £41 billion over the same period. This is equivalent to 2.0p in every £100 spent using contactless technology, a decrease from 2.7p reported in 2019. Whilst fraud appears to remain low, fraud data over the last year may not be representative due to the impacts of Covid-19 and will be important to closely monitor this as lockdown restrictions are lifted.
- 1.5. UK Finance managed a collaborative approach to changing the contactless limit from £30 to £45 in 2020. The UK review was expedited as part of the industry’s response to the Covid-19 pandemic to support consumers who choose to use contactless as a method of payment in these extraordinary times. The new £45 limit took effect from 1 April 2020, with the industry

observing an increase in the uptake of the new limit. From 14 March 2020, all firms processing contactless card transactions are required to have made every effort to have appropriate systems and controls in order to ensure that all contactless payments meet the conditions of the permissible SCA exemption.

- 1.6. As a result of the ongoing pandemic, on 31 March 2020 the FCA published updated guidance to firms in which they acknowledged these unprecedented times and the expectation on firms to protect consumers from risk, including the risk of unauthorised transactions and fraud. Regulatory flexibility was provided to firms not applying Strong Customer Authentication when the cumulative amount of transactions values exceeding €150 or five contactless transactions, provided firms sufficiently mitigate the risk of unauthorised transactions. These measures are being kept under constant review but are well used by firms.
- 1.7. UK Finance has taken into account these previous changes and in order to form our view, we have undertaken a significant data exercise with members to understand the volumes of contactless transactions as well as the fraud that currently occurs across all card payment transactions versus those in various contactless value ranges (bands). We have also commissioned and undertaken consumer research on attitudes to a potential increase to the contactless limits on both individual and cumulative contactless payments.
- 1.8. It was previously reported in the media that UK Finance had asked for an increase in the contactless limit to £100, this was not the case. UK Finance previously produced a position paper which asked for a potential review of the limits in the next two years as well as regulatory flexibility allowing the industry to set its own rates (as was the case before the Regulatory Technical Standards (RTS) on Strong Customer Authentication (SCA) came into application).
- 1.9. Overall, the industry remains of the view that a more flexible approach is merited, and the industry should be free to set its own rates through a central UK Finance process, which takes into account consumer demand, fraud prevention, security and convenience.
- 1.10. On the individual contactless rate, UK Finance's view is that there are two separate processes to consider, one is the maximum ceiling on the contactless limit allowed under regulation and the other is the harmonised industry operational limit which is agreed between the payments industry in close consultation with retailers and other sectors and guided by consumer demand.
- 1.11. The regulatory ceiling on the contactless limit provides the parameters within which industry can operate. The level at which the limit is implemented, and the time at which an increase is made, within those parameters, should be determined by those firms who bear the financial risk, the relationship with customers and who possess the expertise to undertake a rigorous assessment of previous and future limit changes. As has been the case since contactless was first introduced in 2007, there should continue to be a single consistent limit applicable across all retail sectors and environments. Appropriate and rigorous governance around making decisions on the limit is provided by UK Finance to make this decision.
- 1.12. We are therefore of the view that the maximum regulatory ceiling on the contactless limit should increase to £100 but that discussions on the industry operational individual limit would continue throughout 2021 with UK Finance fully considering member views, consumer views

and those of the retail industry as well as the practical timescales that accompany this. If a limit increase from an industry operational level is then decided any changes would likely take place in 2022.

- 1.13. We would also strongly recommend any increase should come into effect after the Strong Customer Authentication deadline as this would provide industry with appropriate levels of operational capacity whilst recognising challenges that merchants and acquirers would have in implementing multiple regulatory initiatives with similar deadlines. As the FCA communicate out the increase in the regulatory level we would encourage transparency regarding the subsequent industry processes that would operationalise and 'make real' any increase to the individual contactless rate from a consumer and business perspective as this could be lower than the £100 proposed by the FCA and we don't want to encourage consumer or business confusion.
- 1.14. On the cumulative contactless limit, our view is that there needs to be an increase in these levels and that the proposed cumulative ceiling on the contactless limit should be higher to allow for individual banks and payment service providers (PSPs) to set their own cumulative limit based on their own risk appetite to help control their own contactless fraud levels. The cumulative limit should therefore be set at a maximum of £300 to allow for several transactions before a challenge is introduced. This gives firms the flexibility to then set a lower limit if their risk appetite and fraud levels require this. The majority of firms would set their cumulative limit below this and would only make use of this maximum limit as and when the industry operational individual limit is increased and rolled out to consumers.
- 1.15. We detail further rationale and data findings in our response below. Regarding our consumer research, there was broad consensus across industry to measure the impact that the increase to the limits would have on consumers and consumer behaviour. This was considered a significant factor in determining both the single upper limit and the cumulative limit, with industry agreeing that the resulting limit should be driven by the data.
- 1.16. As a result, UK Finance commissioned an online omnibus survey with YouGov, which provided a nationally representative sample of 2,057 UK adults (18+). The survey questioned both current users of contactless payments and non-users of contactless payments.
- 1.17. The survey only asks consumers that have a contactless card the following questions on the individual and cumulative contactless rates. When consumers were asked if they have a contactless enabled card, 94% had at least one contactless card which is the sample size asked about a higher individual and cumulative limit (1,934).
- 1.18. Of the consumers surveyed, 62% of current contactless users thought that the current limit of £45 of was about right, 20% thought the limit should be higher than £45 and 13% though the limit should be lower than £45.
- 1.19. UK Finance and members have also been conscious of the potential impact of this policy proposal on vulnerable customers. Under the FCA Guidance for firms on the fair treatment of vulnerable customers firms are required to:
  - Understand the nature, scale of characteristics of vulnerability in their target market and customer base

- Consider the potential positive and negative impacts of a product or service on vulnerable consumers. Design products and services to avoid potential negative impacts
  - Take vulnerable customers into account at all stages of the product and service design process (idea generation, development, testing, launch and review) to ensure the product meets their need)
- 1.20. UK Finance were cognisant of the impact the limit increase could have on vulnerable customers, potentially increasing the risk of financial exclusion for the visually impaired and consumers with mental health challenges being susceptible to over indebtedness and fraud scams.
- 1.21. Drivers of vulnerability and potential consumer harms were considered when undertaking the survey and the responses are comprehensive in its representation of vulnerable customers.
- 1.22. UK Finance will separately share data with the FCA regarding the views expressed by members, including aggregated industry data regarding fraud and transaction values that it wouldn't be appropriate to respond with in a public consultation document. We will also share additional data from the YouGov survey with the FCA.

#### International use cases:

- 1.23. UK Finance has also been exploring the experience in other jurisdictions of raising the contactless limit, the reception to this, any increases in fraud and the general context of the market e.g. heavy contactless use, comparable security etc. please find the aggregate findings below:
- 1.24. **Canada:** In Canada, there is a mixture of international and domestic card schemes (the domestic card scheme is called Interac). Generally, Interac facilitates debit card transactions in Canada, with the international card schemes serving the credit market. 96.8 million Visa and MasterCard cards are in circulation in Canada<sup>1</sup>. It should be noted that Canada has significantly higher interchange fee rates than the UK which helps encourage higher contactless rates as banks and other providers can absorb higher losses.
- 1.25. Prior to April 2020, all credit and debit card contactless limits were \$100CAD. In April, Visa and Mastercard raised their contactless limits to \$250. As noted for debit, Canadian issuers generally use Interac, which only recently approved changes to their contactless limits (from \$100 to \$250) in January 2021 which is still being operationalised.
- 1.26. There are a number of reasons that credit networks increased their limits while Interac did not (at least, immediately). Technical capabilities, volumes, interchange models and fraud/chargeback models all played a role in this.
- 1.27. **Australia:** Most debit cards issued in Australia are dual-network cards, these cards support both an international scheme (Visa or Mastercard) and the domestic eftpos network and therefore have an international scheme logo on one side and the eftpos logo on the other. Australia has slightly higher interchange rates than the UK.

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<sup>1</sup> CBA credit card statistics as of January 2021 <https://cba.ca/credit-cards>

1.28. Australia temporarily increased the contactless card PIN limit from \$100 to \$200 which was progressively introduced and remains under review as to whether the rate remains permanent.

**5. Q5: Do you agree with our proposed amendment to increase the cumulative threshold of the contactless exemption from £130 to £200? If not, please explain your rationale, including supporting data where applicable.**

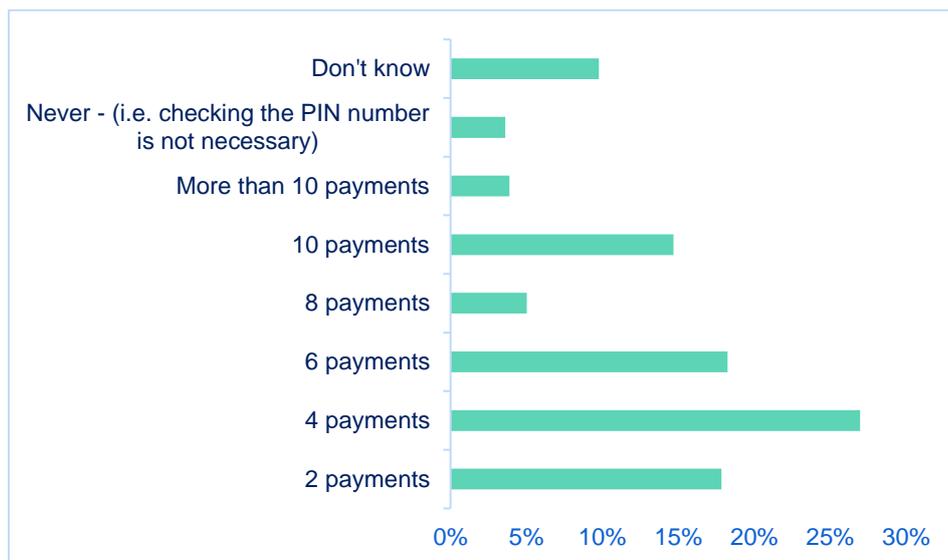
5.1. UK Finance's view is that there needs to be an increase in these levels and that the proposed cumulative ceiling on the contactless limit should be higher to allow for individual banks and payment service providers (PSPs) to set their own cumulative limit based on their own risk appetite to help control their own contactless fraud levels. The cumulative limit should therefore be set at a maximum of £300 to allow for several transactions before a challenge is introduced. This gives firms the flexibility to then set a lower limit if their risk appetite and fraud levels require this.

5.2. There are a number of reasons for this suggestion, including taking into account member views, the suggested individual limit increase, consumer research and the issue of walk outs from a merchant perspective.

5.3. A number of merchants have raised some limited instances of 'walk-outs' by consumers, where when they shop, consumers haven't realised that their issuer has stepped up their transaction and they are required to enter their Chip & PIN. We are of the view that a higher cumulative limit goes some way to addressing the issue, whilst allowing individual issuers the ability to control their own fraud rates with a lower cumulative limit where needed. We note that UK Finance and many members are in direct contact with retailers to work together on addressing this issue.

5.4. As noted above, we would like any changes to be well backed by data and to this end, UK Finance commissioned an online omnibus survey with YouGov, which provided a nationally representative sample of 2,057 UK adults (18+). The survey questioned both current users of contactless payments and non-users of contactless payments. Please find some of the results to this below.

5.5. When current users of contactless were asked for their views on how many consecutive contactless payments they should be able to make, based on the current single limit value of £45, before being asked to enter their PIN number, the overall weighted average response was 5.75 payments (noting that in addition to this some respondents did not feel that there should be any limit whatsoever). The distribution of responses was as follows:



**Figure 1.** Base: 1,934 contactless cardholders

- 5.6. Figure 1. shows that a large majority of consumers (72%) would be comfortable with a cumulative limit of 4 or more transactions. From a more detailed perspective, 45% believe the cumulative contactless limit should be set at between every four and six payments (currently £180-£270) a large minority of 22% believe the cumulative limit should be 10 payments or more (£450) and 18% of consumers believe the cumulative limit should be set at every two payments (currently £90).
- 5.7. Of the consumers surveyed, 62% of current contactless users thought that the current limit of £45 of was about right, 20% thought the limit should be higher than £45 and 13% though the limit should be lower than £45.
- 5.8. Of the 20% of contactless users who thought the limit should be raised, the weighted average limit they would prefer was £91.94 (noting that in addition to this some respondents did not feel that there should be any upper value limit whatsoever).
- 5.9. The 20% of current contactless users who thought that the limit should be higher than £45 were asked, based on their preferred upper limit for an individual payment, how many payments they should be able to make before being asked to enter their PIN. The overall weighted average number of transactions stated by respondents was 5.6 payments (noting that in additional to this some respondents did not feel that there should any upper limit). The distribution of responses is shown in the table below.

Preferred contactless value limit stated by respondents	Average number of payments respondents want to be able to make before being asked for their PIN
£55	6.9
£65	5.9
£75	5.3
£85	4.5
£100	5.6
£120	5.7
None - i.e. there should be no upper limit	6.0

**Figure 2.** Base: 385 UK Adults who have a contactless card and think the limit should be £45 or higher

5.10. As the value limit increases, some people choosing that new higher limit tend to select a slightly lower number of successive transactions before having to enter their PIN number. At the same time, there are also those who have a relaxed attitude to risk and would be happy with a high value limit and a high number of transactions before being asked for their PIN. Also, there are those who believe that there should be no limit on the value AND no limit on the number of contactless payments you can make.

5.11. It is important to note that this question was only put to people who thought the limit should be raised, that is, only 20% of contactless users. As a result, the number of responses relating to some of the cells in the above table is small, since only 385 respondents in the survey believed that the limit should be higher than £45. As a result, care should be taken when considering the breakdowns in the table. Further research would be needed if we wanted to explore these views in detail.

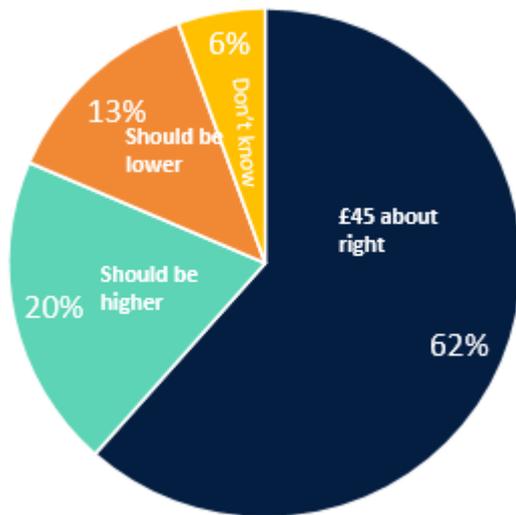
5.12. Summary:

- Consumers that use contactless payments recognise a need to increase the cumulative limit beyond the regulatory cap of £130.
- Based on the current single value limit of £45, the majority of consumers feel that the cumulative limit should be set between £180 and £270. We therefore feel a maximum £300 cumulative regulatory limit takes into account any future potential increases to the industry operational individual contactless rate.
- Whilst we have offered views on the value counter, we believe the volume counter should remain at 5.
- Whilst in the minority, consumers that think the individual limit should be set higher than the current level of £45, tend to favour a higher cumulative limit. This could be reflective of their riskier nature or it could indicate that they have confidence in the security controls of their bank, or their awareness of consumer protections.
- It may be pertinent to note that due to the current forbearance issued by the FCA, many banks have not enforced the regulatory cap of £130 and this may have an effect on the views provided by consumers on the cumulative limit.

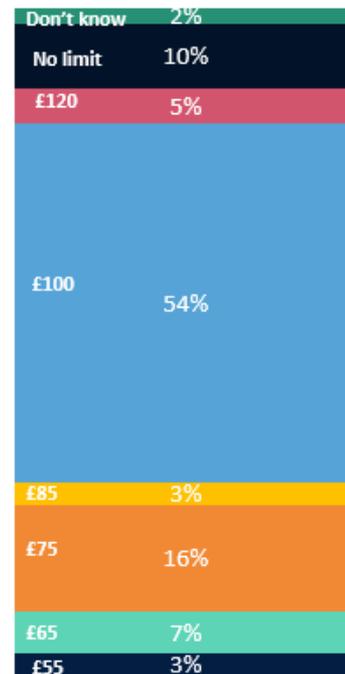
- 6. Q6: What is your view on increasing the current regulatory contactless (single) threshold limit of £45 to £100 (or potentially a maximum of £120) Please explain your rationale, including supporting data and new threshold where applicable. If your response identifies potential risks and benefits, please provide evidence in support of your response.**
- 6.1. On the individual contactless rate, UK Finance's view is that there are two separate processes to consider, one is the maximum ceiling on the contactless limit allowed under regulation and the other is the harmonised industry operational limit which is agreed between the payments industry in close consultation with retailers and other sectors and well guided by consumer demand.
- 6.2. The regulatory ceiling on the contactless limit provides the parameters within which industry can operate. The level at which the limit is implemented, and the time at which an increase is made, within those parameters, should be determined by those firms who bear the financial risk, the relationship with customers and who possess the expertise to undertake a rigorous assessment of previous and future limit changes. As has been the case since contactless was first introduced in 2007, there should continue to be a single consistent limit applicable across all retail sectors and environments. Appropriate and rigorous governance around making decisions on the limit is provided by UK Finance to make this decision.
- 6.3. We are therefore of the view that the maximum regulatory ceiling on the contactless limit should increase to £100 but that discussions on the individual limit would continue into the summer with UK Finance fully considering member views, consumer views and those of the retail industry as well as the practical timescales that accompany this. If a limit increase from an industry operational level is then decided in 2021, this likely wouldn't be operationalised until 2022.
- 6.4. We would also strongly recommend any increase should come into effect after the Strong Customer Authentication deadline as this would provide industry with appropriate levels of operational capacity whilst recognising challenges that merchants and acquirers would have in implementing multiple regulatory initiatives with similar deadlines. As the FCA communicate out the increase in the regulatory level we would encourage transparency regarding the subsequent industry processes that would operationalise and 'make real' any increase to the individual contactless rate from a consumer and business perspective.
- 6.5. Many members remark that the primary way many of them control their fraud rates are to increase or decrease the cumulative counter. As in our answer to question 5, our view is that a higher cumulative limit gives the flexibility for firms to then set a lower limit if their risk appetite and fraud levels require this.
- 6.6. We also note that according to our research, a small but significant number of customers want an increase of the contactless rate and would like to see a much higher rate. A smaller increase allows those customers to benefit from a higher rate, whilst not raising the limit too high for those that are more conservative.

**UK Finance consumer research:**

6.7. Of the total consumers surveyed, 94 per cent either had a contactless enabled debit, credit card or both. When consumers were asked, compared to their contactless usage before the Covid-19 pandemic, had their proportion of payments changed during lockdown, 52 per cent confirmed that they now use contactless for a greater proportion of payments, whilst 38 per cent of felt that they use contactless for about the same proportion of payments as prior to the pandemic.



**Figure 3.** Base: 1,934 contactless cardholders

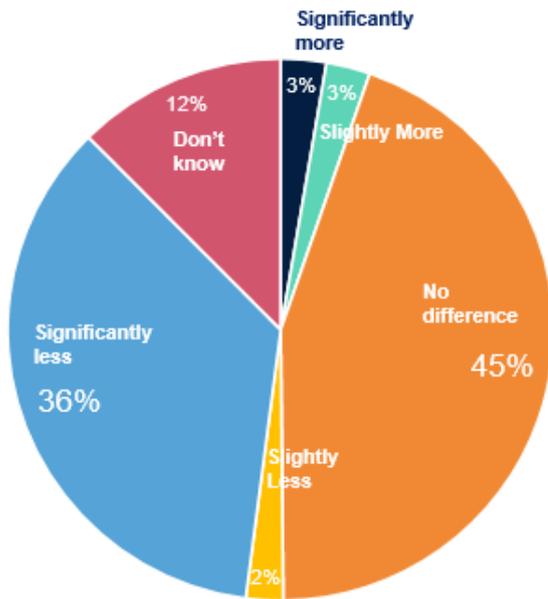


**Figure 4.** Base: 385 adults who thought limit should increase

6.8. When current users of contactless cards were asked for their views on whether the limit for an individual contactless card payment should be changed, the majority, 62 per cent, felt the limit was about right, 20 per cent agreed it should be higher and 13 per cent felt the limit should be lower.

6.9. Of those 20 per cent that agreed the single value limit should be higher than the current contactless limit of £45, 54 per cent agreed that the limit should be raised to £100, 5 per cent £120 and a liberal 10 per cent of consumers thought there should be no limit at all. All views on the appropriate limit are displayed in **Figure 4**. **It is important to note, however, that in terms of current users of contactless, fewer than 11 per cent expressed the view that the contactless limit should be raised to £100.**

**6.10. Non-users of Contactless:** When non-users of contactless payments were asked if the single contactless payment was raised from £45 to £100, would this make them more or less likely to start to use contactless payments in the future:



**Figure 5.**

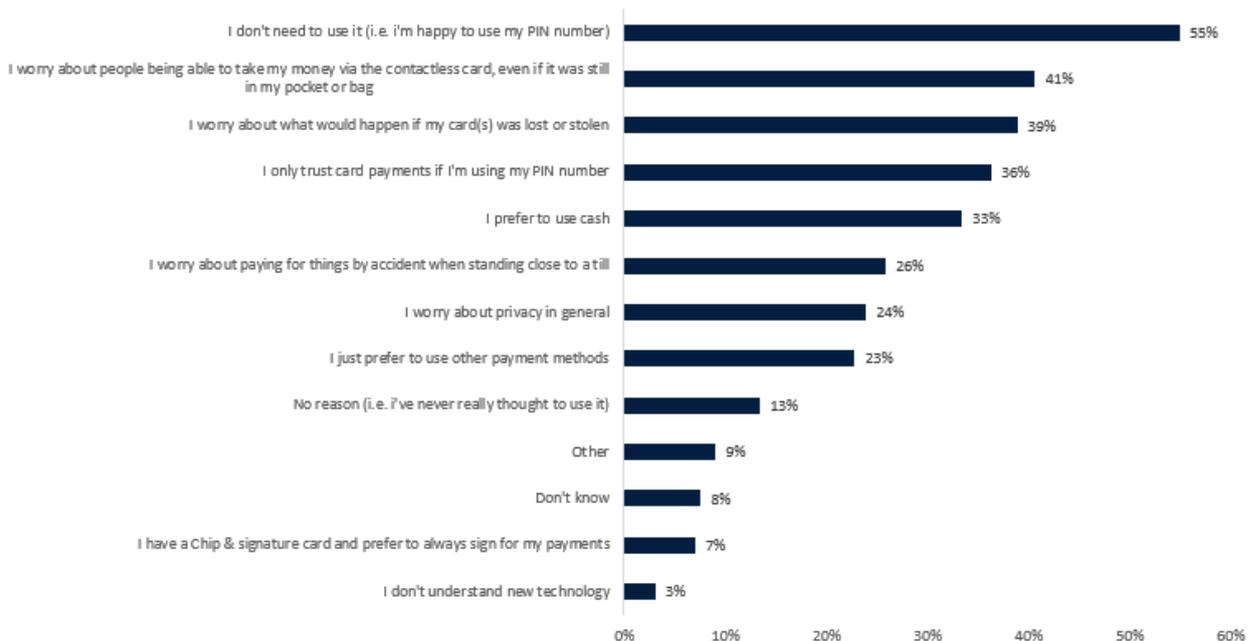
Over a third, 36 per cent, of non-users of contactless said they would be significantly less likely to use contactless payments in the future. Whilst almost half felt that it would make no difference and only 6 per cent agreed that it would make them more likely to use it.

**An increase in the contactless limit would not result in an uplift of contactless payments from non-users.**

6.11. It is important to note, however, that these findings are indicative only and not representative of all those who don't use contactless, due to:

- (a) small sample size; and
- (b) the online method excludes people who don't use the internet, who are also more likely to be non-users of contactless.

**Figure 6.** When non-users of contactless payments were asked which reasons had contributed to them not using contactless payments:



6.12. The main reasons for not using contactless payments appear to point to three main themes: preference for another payment method; concerns around security; and a general contentment to enter the PIN.

6.13. The majority of non-users, 55 per cent, are happy to use their PIN number, whilst 36 per cent only trust the payment if the PIN is entered. A third of non-users cite cash as their preferred payment method.

6.14. Summary:

- From analysing the results of the survey, there is no significant demand from consumers, including both contactless and non-users of contactless, to increase the single value limit above £45.
- Current contactless users are content with a more conservative single value limit, indicating that £45 is more than sufficient for their basket size at present. It may be interesting to conduct a further review as lockdown eases, where their position on the limit may change depending on their needs and demands in a post-pandemic climate.
- The notion of an increase for non-users reinforces their scepticism around the risk of fraud.

If you have any questions relating to this response, please contact **Robin Bwalya**, Manager, Payments Policy ([robin.bwalya@ukfinance.org.uk](mailto:robin.bwalya@ukfinance.org.uk)) or **Laura Hewerdine**, Manager, Card Payments ([laura.hewerdine@ukfinance.org.uk](mailto:laura.hewerdine@ukfinance.org.uk)).

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