UK Finance response to HM Treasury Call for Evidence on Payments Landscape

Date: 20 October 2020

Sent to: Paymentslandscapereview@HMTreasury.gsi.gov.uk

Introduction

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

Representing more than 250 firms, we act to enhance competitiveness, support customers and facilitate innovation. We welcome the opportunity to respond to HM Treasury's (HMT) call for evidence on the payments landscape.

In recent years, payments has become a diverse and complex industry that is evolving at rapid speed. Payments not only provides the foundations for the wider economy but continues to innovate and drive changes in technology and society. The UK payments industry continues to lead the way and enhance how customers and businesses interact, with major changes underway in all parts of the industry.

A number of changes in the UK are world leading and we anticipate they will allow for the development of new types of products and services that will become central to how we interact with banks and finance providers in the future. The UK is one of the most sophisticated, safe and innovative payments markets in the world, and this response sets out how we and our members believe it can remain so.

Of course, the world is experiencing rapid and unimagined change as a result of Covid-19. Changes that would otherwise have taken years to unfold have been compressed into a few months and are unlikely ever to be fully reversed. Couple this with wider societal changes we are seeing and the unstoppable move towards digitalisation across our economy, and there are a number of challenges that require the industry, government and regulators to work together in a more fundamental way than in the recent past.

Broadly, our response is split into key areas where we feel the industry and public authorities should work in partnership. Overall, our view is that there is a huge opportunity to set out a bold and coordinated strategy for the UK payments industry to succeed in the next ten years. This can be best achieved through our work on 'Payments Futures,' which is a cross-industry thought leadership initiative convened with the purposes of producing a report that will:

- Define the **long-term vision** for the industry that continues to provide benefits across the diverse range of payment services
- Inform **engagement with public authorities**, such as the proposed Payments Landscape review by HMT, for appropriate and proportionate responses to challenges
- Make **recommendations** to the industry based on a cohesive view of policy areas
- Establish a forum of payments experts that is **open, creative and collaborative** to share information and best practice

Our view is that the outcome report of the Payments Futures work should be carefully considered by both the industry and public authorities as it will make a number of key recommendations to ensure the UK remains world leading. All parties should then discuss key next steps that are required to ensure coordinated and targeted action.

In terms of our broad views of the Payments Landscape Review, as discussed above, our response is divided into the following key areas:

1. **The regulatory and industry landscape**. Customer perceptions across the UK and beyond are changing as part of the shift toward digital payments/e-commerce and the data economy such that geographic barriers and boundaries are becoming less and less relevant than in the past.

   Overall, there is a need for a fundamental look at how the UK will best work in future and how all of government, regulators and industry transform the industry and public authorities toward truly innovative and long-term choices.

   Most importantly, the UK needs to avoid an overly domestic approach to payments regulation, and we are of the view that public authorities should not only pay close heed to international developments (including beyond the EU) but also take a greater leading role in international fora as creating our own regulation in isolation is not enough. Areas to consider broadly within the regulatory landscape here are:

   - **Principles of regulation**: The same risks and activities should be subject to the same regulatory treatment irrespective of the nature and legal status of a service provider. We also observe that when legislators and regulators engage and converse actively with industry and set outcomes to achieve and then work in partnership with industry on a solution, it leads to the best long-term outcomes.

     We believe further work needs to be done to ensure that regulators are more accountable for their decisions to democratic institutions and under the law.

     Further assessments should also be made of the format of any interventions and discussed in detail with industry. Our consistent view is that a mixture of outcome- and objectives-based interventions (only where they need to be made) results in the best outcomes for customers.

   - **Partnership**: Our view is that the UK can do all this only through strong partnerships between the industry and public authorities. The implementation phase of Strong Customer Authentication (SCA) and the move to reform wholesale cash should be used as great examples of partnership with inherent trust built into the working models of outcome- and partnership-based regulation.

     While this is the case, leadership is needed on both sides in order for this to succeed. We have observed instances in the recent past where it is clear public authorities sometimes need to take the leading role, for example on the issue of the contingent reimbursement model (CRM) showed instances where some parts of the industry had clearly asked for clear mandates, where others supported alternative views. Greater regulatory support and leadership where consensus cannot be found would have been helpful. There is further work in this specific area needed which we discuss later in our response.

One area that would benefit greatly from a partnership based approach is in the area of digital inclusion and confidence where there a significant challenge in the industry and across government to address the confidence of customers across their normal and their financial lives to ensure no customer gets left behind. Increasing customer confidence and comfortability in using digital payments will be key to the success of a leading payments market.

- **Regulatory coordination**: Effective coordination between the multiple public-sector bodies that regulate payment firms is vital to ensuring financial stability and maximising benefits to consumers. The public authorities have taken welcome steps in the light of our response to HMT's call for evidence on Regulatory Coordination can be found here.

  The government must ensure a regulatory framework fit to deliver its objectives. Regulators must understand payments markets well enough to identify where – and only where – intervention is needed to meet those objectives. Industry must be able to compete and, where appropriate, to collaborate in end users' interests.

  The development of the UK's regulatory coordination merits further discussion and engagement on the mandate and direction of regulatory bodies. This should be carefully considered as should an assessment as to whether statutory objectives are being met. The Payment Systems Regulator (PSR) for example has made some helpful interventions in the market that has helped fundamentally change the payments industry. However, its recent focus on very targeted and tactical issues could be seen as overlapping with other regulators, rather than the broad and longer-term strategic remit we would expect.

- **Covid-19 learnings:** The recent Covid-19 pandemic has demonstrated the huge benefits of industry and public authorities working together. There has been a substantial need for the government to leverage industry solutions in many cases, for example though the disbursement of funds of the various government support schemes (i.e. payments reaching the intended beneficiary), following this call for assistance the industry quickly mobilised to ensure that the best interests of customers were delivered and that funds were quickly disbursed to the right place.

  The industry has also worked hard to ensure that changes have been made in advance of any regulatory rule changes, for example with the rise in contactless limits, which our own research shows is the most recognised intervention the financial services industry made in response to the pandemic. This demonstrates that the industry can pull together and does not necessarily need prescriptive requirements laid out by regulators to achieve the best outcomes and showed proactive leadership by the industry. The FCA, in particular, flexed quickly here to help industry with the cumulative limits needed to ensure customers needed to touch the pin pad less.

  The pace of change has also demonstrated that when incentives are aligned, the industry can pull together and make substantial and wide-reaching changes.

- **No legislation/regulation in isolation**: It essential that the UK supports the development of global standards and promotes regulatory convergence in regional and national standards. We strongly believe that the UK should also maintain and bolster involvement in global regulatory discussions through organisations such as the G20 Committee on Payment and Market Infrastructures (CPMI) and FSB. There should be a specific recognition by the public authorities of the importance of this. In this way, we need to adjust our way of working away from being good ‘rule-takers’, where we adopt EU rules and layer our own initiatives on top.

  While not a requirement of the government we also believe industry, through UK Finance, other industry bodies and financial institutions, should maintain close relationships with European peers and industry-wide infrastructure or fora such as SWIFT and ISO.

  To ensure the UK remains as competitive and safe as possible we will also need to think in detail about how we view inbound European regulation or changes as there are many areas we might want to continue to adopt/align toward. Without clarity, this risks fragmentation and interoperability issues, because there will be impact on firms’ ability to implement on time and results in a lag due to the industry response being delayed as a result of a lack of clarity, this has happened most recently around the Cross Border Payments Regulation.

- **The Single Euro Payments Area (SEPA)**: It is of upmost importance that both industry and the government ensure the continued alignment with the functional equivalence criteria of the EPC[1] to ensure the UK’s continued participation. Based on our informal research, this supports payments of over €1 trillion per year between the EU and UK and remains a key conduit for trade between the UK and EU, even in a post-Brexit environment.

- **Remaining clarifications in onshoring EU rule sets**: There are some important areas of clarification that still remain when considering the full onshoring of the EU acquis in the form of Guidelines and Opinions from the European Supervisory Authorities (ESAs) where it is unclear how firms should apply these in future. The vast majority of issues should be addressed through the FCA’s revised approach document, but there are still remaining issues surrounding the interpretation of rules across a number of key issues.

2. **Are consumer protections fit for purpose** and does the industry need to set out a bold vision to ensure consumers are protected in the best way? The industry is currently discussing how best to ensure a level playing field in relation to protections, and we believe this is rightly ambitious and aspirational, but there are many challenges to consider, namely:

   - The commerciality of the level playing field for consumer protections needs to be fully understood. If there is not a commercial model, it will not work.

[1] https://www.europeanpaymentscouncil.eu/document-library/other/criteria-participation-sepa-schemes

- A level playing field in relation to consumer protections needs to be considered alongside emerging future payments developments and we need to understand the economic models that will underpin this.

- We are, incrementally by individual initiative rather than by deliberate design, building a situation where expected responsibilities of the sector on preventing fraud and the balance of liability between PSP and customers is out of kilter with legislation and regulation. On APP scams we are approaching an expectation of a near strict liability system by default rather than design.

- We need to consider how to enable consumers understand the various protections available. We believe the majority of customers have an awareness of the protections offered with card payments and direct debits. The next step is ensure there is an understanding of the level of protection in other areas.

- There are a number of customer protection initiatives from the industry and public authorities that are looking at issues in isolation. We believe HMT should take a greater leading role in coordinating this activity in partnership with us.

3. **The economics of the payment systems.** Payments cost money to provide. This is often something overlooked by regulators, but this oversight further entrenches the difficulty of new service providers to thrive, because in turn it can make services based on interbank payments prohibitively expensive to provide. If we as industry and regulators feel we need to engineer a 'level playing field' in terms of consumer protection outcomes, we may struggle to find a way to sustain it with pricing that restricts access and competition unless we can come up sustainable commercial foundations that balance service, cost and risk.

   The cost of doing business and creating new business models in the payments industry is increasing. This is not just the cost of innovating and implementing both mandatory and non-mandatory change, but ongoing costs for each transaction. Each payment itself is a cost, both for direct and indirect providers. However, on top of this, to be a competitive service, other ongoing and per transaction costs are layered on top such as a confirmation of payee (CoP). This is expensive enough for established providers, but for new entrants it can pose even greater challenge. Some regulators have recognised that providers should charge for services and indeed we have seen some enter the market that do, but there is significant pressure on many players and especially with the current low interest rate environment, higher costs for consumers may be inevitable unless more sustainable footing can be found.

   UK Finance fundamentally support customer protection, but it needs to be ensured in a sustainable, fair and equitable way that benefits the long term viability of the payments industry in the UK and gives better incentives to build innovation in a way that has customer protection at its core by having functionality to help detect and prevent fraud and economic crime designed in from the start.

   The interbank systems were never intended to do what they are doing today. Many of today's innovations and the services they provide would never have been seen when they were first created. This is all before significant bills to develop and implement the New Payments Architecture (NPA) and Real Time Gross Settlement renewal are in their most material stage. All of this requires long term and joined up thinking, as these developments do not happen overnight. The fragmented interventions we have seen have made the current models more complicated and less sustainable.

There are some fundamental questions that need to be answered by the industry and public authorities in the near term, such as how we make the sustainability and long term make-up of the payment systems as robust as possible, how payment services deemed essential by society can be provided in a way that is transparent, non-discriminatory and competitively neutral, how can ensure the long term protection of customers on a level playing field and how we structure these changes in the most fair and equitable way for customers.

4. **Further barriers preventing open access to participants or potential participants on reasonable commercial terms.** The provision of payment accounts to other institutions is a complex space with multiple actors and competing priorities, and there are significant competing considerations account providing credit institutions need to consider.

   We are of the view that a significant amount of work has been undertaken on barriers and access to payment systems/schemes and access to accounts by non-banks. This includes the doubling of the number of direct participants in the schemes, many new ways of connecting and a much simpler process for joining. We continue to monitor the ongoing work in this area and would strongly encourage HMT and regulators to ensure strong industry involvement in any actions taken.

   We are of the view that there is a great diversity of access to making payments that are available to firms depending on their business model. We would therefore encourage any further action taken to focus on greater regulatory coordination and simplification of competing priorities where possible, while giving firms choice as to whether a direct or indirect model is the best fit for their business.

   Following the recommendations from the Payment Strategy Forum, UK Finance has done what it can to ensure access to accounts. The UK Finance guidance on Access to Payment Account Services can be found here.

   The proportionality of interventions is also causing a significant issue for smaller players. While the same risk should entail the same regulation, the regulators should adopt a segment-focused approach to regulation to ensure solutions are proportionate to the size and business model of various players needs to be carefully considered.

   Small and mid-tier financial institutions play a critical role in serving customers by helping driving innovation and choice. But the current regulatory environment makes it difficult for small and medium organisations to differentiate on services, products and infrastructure.

   When taken together the increasing number of pricing interventions, the uneven distribution of the cost of infrastructure, the growing cost of regulation and the lack of proportionate regulation is hampering choice and competition in the payments market.

5. **Ensuring the success of open banking and for payments, a focus on payment initiation service providers (PISPs).**

   We are of the view there are two key questions that need to be considered before further action is taken on PISPs.

- Firstly, the industry and regulators need to consider the basis for the PISP model, closely aligning with work on customer protections. We are of the view that the underlying model should <u>not</u> simply replicate card payment schemes and that there should not be an exclusive focus on PISP payments for retail transactions, given the wide range of PISP use cases both domestic and cross-border, for example for donation, as an alternative to cash and for business-to -business payments. Card models are long-established and sustainable economic models which inherently work differently to Open Banking/the revised Payment Services Directive (PSD2). It is helpful that the CMA has invited the PSR and OBIE to consider this issue and in doing so that it is working with us and Pay.UK.

  This consideration around the model is important as the current PISP model does not provide a truly competitive service and given the low volumes still requires a substantial amount of 'bedding in' and take-up. A large advantage of PISPs from a merchant perspective is lower charges and faster settlement. However, that as a consequence also means a lower level of protections inherent in this system versus cards.

  It should be acknowledged that for merchants to make best use of a PISP model, it needs to be understood that the level of payment protection for customers will <u>not</u> be the same as for other methods. This needs to be explicit so that customers are aware of payment protections. Merchants need to also be aware of the difference in protection so merchants can consider what protection they may wish to offer. Many merchants offer their own form of protection on which they compete with other merchants; whilst this might lead to competition it may also lead to consumer harm if not well explained or understood.

  The consumer protections surrounding the PISP poses a risk in the future for consumer protections, this is most likely to materialise through a potential shock or unexpected event, such as the failure of a large travel company, similar to those we have seen in the recent past. These customer protection risks are currently being considered in multiple fora, but our view is the current proposed work will not fully resolve the underlying issue.

  At the moment, card payments lead in their use for a large part because they offer comprehensive protection, supported by established and sustainable commercial model all of which balances customer, merchant and provider needs in a way that has evolved over a long time. As in our earlier theme of the economics of the payment system, if we get the economics of a Faster Payment wrong, we may create a net negative effect if we stifle competition by only making it an exclusive service of the largest providers in the UK or threaten free banking at the point of use.

  Overall, we are of the view that there should be less focus on the 'free' model underlying the PISP setup. This works well by reducing merchant cost, but in the end increases prices for consumers as account providers seek to cross-subsidise their income streams. Consumers take for granted the protections afforded through cards and it is the responsibility of both industry and public authorities working in partnership to ensure that customers do not experience the detriment which could arise with the current models.

1. Secondly, the infrastructure underlying PISP based payments is still nascent and requires a bold strategy, vision and oversight to be provided by an industry entity without vested interests and with a broad vision of the payments industry. In this way, we need to consider what level of a PISP 'scheme' is needed. Our view is that this requires a strong oversight capability and additional regulatory mandates will only further hamper the use of PISP payments.

It is our view that with the broad themes identified above there are two timescale considerations as below:

- **In the medium term (1-3 years):** Broadly, we are of the view that the key foundations for the medium term have been laid and that no major changes are needed, which allows time for us to consider how we best address the underlying legislative framework and understand the long term way in which we structure the foundations for the industry. This period should also be used to set the foundations to support the longer-term strategy by developing the regulatory approach discussed in this response, while also continuing to engage in wider level (international) discussions.

  There is a huge amount of change already underway in the industry. Some has been delivered/is being finalised already (for example PSD2 and Open Banking) and some we are expecting over the next couple of years, such as the NPA and the renewal of RTGS. Our view is that during this window, focus should be given to a number of key tactical areas, for example, recovery from the Covid-19 pandemic, ensuring access to cash for those who need it and ensuring the industry can continue to connect as readily as possible in the post-Brexit environment.

- **In the longer-term (3-10 years):** There are significant societal, industry and technology challenges on the horizon beyond the next three years which require a different approach to that currently enjoyed by the industry and public authorities. These range from the competitiveness of the UK outside the EU, to ensuring customers have access to the most suitable payment mechanisms. There are also significant challenges that need to be addressed in partnership with other industries and government departments, such as financial and digital inclusion, digital identification and verification (ID&V), appropriate infrastructure for customers and many others. Long term, this will require a different view of the legislative framework and foundations, informed by HMT's parallel review of the future regulatory framework for financial services.

  The conclusion of the G20/FSB's work on enhancing global cross-border payments will also need to be taken into account when thinking about a future regulatory landscape for payments. The final FSB roadmap for cross-border payments, due to be published in October, should build on the building blocks set out in the CPMI report from July this year. There may therefore be aspects arising from global proposals that the UK should factor in to its own regulatory framework. However, this should not be done in isolation to other developments and domestic constraints, and breathing space should be provided to allow industry to adapt to the shifting and intense regulatory landscape as it is at the moment.

There is also significant complexity posed by developments already in train, by both the industry and public authorities, which poses a challenging environment to coordinate. Please see a non-exhaustive list of these below. We recommend the creation of a joint public/private horizon scanning WG for payments which can help ensure coordination of key activities in payments regulation to ensure they are in line with both industry and government long term objectives. It is important that industry is also involved in this work to ensure effective and robust conversations and output.

Other streams of work which require alignment or consideration:
HMT Financial Services Future Regulatory Framework Review
HMT Economic Crime Levy consultation
The independent Fintech Strategic Review
PSR new strategy for a changing world
FCA work on Open Finance
Bank of England work on Central Bank Digital Currencies (CBDC)
Euro Retail Payments Board (ERPB) SEPA API Access Scheme
The EPC's Request to Pay scheme
The Single Euro Payments Area and related developments
UK Finance work on Payments Futures
UK Finance work on Open Banking Futures
European Commission consultation on a retail payments strategy for the EU
European Commission consultation on new digital finance strategy for Europe
G20 roadmap to enhance cross-border payments
SWIFT gpi
Multiple infrastructure migrations to ISO20022 including RTGS, NPA, TARGET2 etc.
The European Payments Initiative

The rest of this response addresses the specific questions asked in the call for evidence. If you have any questions relating to this response, please contact david.song@ukfinance.org.uk

1. 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?

1.1. The payments landscape has experienced a number of big changes over the last 10 years. The Covid-19 pandemic and the collective industry response stands out as one of the greatest examples of payments networks operating for the benefit of end users. The speed at which industry and public authorities were able to act to support customers during the pandemic by ensuring security, convenience and adapting to consumer demand demonstrates where objectives have been met and collaboration succeeds.

1.2. Open Banking has also set the scene for future change. The UK has solidified itself as a world leader in Open Banking and, with solid backing from industry, Open Banking should continue to ensure that its full potential as a significant technological and regulatory initiative with clear benefits for consumers is realised.

1.3. In this vein, industry looks forward to what the NPA delivers, though we are of the view that it should be delivered now with greater speed and greater coordination with industry. This includes considering how to incorporate industry priorities, future regulatory needs and build in a substantive approach to economic crime, as per the commitment in the Economic Crime Plan for Pay.UK, with support of PSR, FCA, HMT, UK Finance and the Bank of England to consider how the payments systems can help tackle economic crime

1.4. In relation to any changes in regulatory systems, public authorities should be alert to the fact that there is a huge amount of change already underway in the industry. The Regulatory

Initiatives Grid identifies 111 initiatives in play over the next 24 months and while this goes beyond payments, it just touches the iceberg in considering overall changes. Substantial resources has been required to deliver legal, regulatory and mandatory change, which results in less funding being available for participant driven innovation. Industry should be given the space and time to innovate without constant regulatory change drawing investment away from this.

1.5. As HMT notes, payments networks were brought within statutory regulation for the first time with the launch of the PSR in 2015. The PSR reviewed the market, found that end-users would benefit from enhanced competition and prescribed various remedies to achieve this and the PSR has driven forward many other beneficial changes in the industry.

1.6. There have been developments in relation to cards, with a cap on interchange fees in 2015 and the ending of surcharges for payments methods. We also note that the PSR is conducting a review of the supply of card-acquiring services to ensure the market works well for end-users.

1.7. There has also been significant activity in relation to preserving access to cash, with the PSR in 2018 requiring LINK (the UK's largest ATM network) to protect the geographic distribution of ATMs, while we and our members are working closely with public authorities on projects to maintain the availability and efficiency of the ecosystem. These include the Wholesale Cash Distribution Project, where we are supporting the Bank of England to develop proposals for a future wholesale distribution model. This project has been a great example of positive and proactive joint working between industry and the authorities. We are also involved with the work beginning under the PSR and the FCA on access to cash, as well as supporting the Community Access to Cash Pilots initiative.

2. 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?

2.1. Broadly, we are of the view that many of the historic issues around UK payment networks operating for the benefit of end users have been addressed. However, many of changes have been required of or initiated by the banking and finance industry and there has been little consideration of the 'elephant in the room' which is without appropriately considering the cost to doing business. Payments cost money to provide. This is something often overlooked by public authorities in their interventions in relation to payment networks.

2.2. In particular and linking to the themes discussed earlier, great care needs to be given to the macroeconomics of the payment system. This includes areas such as the cost/value equation around payments. As also discussed later in our response to questions around PISPs, if we as industry and public authorities feel we need 'level the playing field' in terms of consumer protection outcomes, we may find we have to sustain it with pricing that restricts access and competition unless we can come up sustainable commercial foundations that balance service, cost and risk.

2.3. The government must ensure a regulatory framework fit to deliver its objectives. Regulators must understand payments markets well enough to identify where – and only where – intervention is needed to meet those objectives. Industry must be able to compete and, where appropriate, to collaborate in end users' interests.

2.4. Our view is that the UK can further progress the objective of ensuring payment networks operate for the benefit of end users only through strong partnerships between the industry and public authorities. Good examples of this in the recent past include the implementation phase of SCA and the move to reform wholesale cash, both of which cases demonstrate partnership with inherent trust built into the working models.

2.5. While this is the case, leadership is needed on both sides in order for this to succeed. We have observed instances in the recent past where it is clear the public authorities sometimes need to take the leading role, for example, the issue of the APP CRM) showed instances where some parts of the industry had clearly asked for clear mandates, where others supported alternative views. Greater regulatory support and leadership where consensus cannot be found would have been helpful and we found that was not forthcoming from regulators. There is further work in this specific area needed which we discuss later in our response.

2.6. Effective coordination between the multiple bodies responsible for changes when they are agreed as needed by both industry and public authorities is vital to achieve the aims of ensuring financial stability and maximising benefits to consumers. The consequences of imposing unnecessary implementation and compliance costs on firms can be significant, including deprioritising investment in other – arguably more beneficial – service improvements for consumers.

2.7. For example, whatever the perceived and realised benefits of cheque imaging, its introduction has cost firms hundreds of millions of pounds, leading many in the industry to defer other payments initiatives and shifting millions of investment away from the development of other services. It is therefore important that public authorities look at policy developments holistically rather than individually and seek to prioritise and dovetail initiatives.

2.8. A good example of industry perception would be in relation to the respective roles of the FCA and the PSR which means that it is unclear which is responsible for what issue within payments policy. Their duties are neither contradictory nor wholly consistent, and nothing has been published that helps external parties understand which to talk to about what. Moreover, they do not regulate the same firms; indeed, the PSR regulates different firms depending on whether it is acting under the Financial Services (Banking Reform) Act 2013 (FSBRA), the Interchange Fee Regulation or its concurrent competition powers.

2.9. We are of the view that benefit would be gained from avoiding overlap between the PSR and the FCA, particularly where an issue should generally fit more naturally within the FCA’s statutory objectives around conduct and customer detriments. Our view is that the PSR should focus less on tactical consumer protection issues and more on the longer term challenges for the industry including helping building commercially sustainable, safe, resilient and competitive payment systems in the long term.

2.10. The UK is in the middle of a once in a generation change in its core interbank payment systems and we are of the view that in order to better facilitate innovation and choice that benefits end-users there is a significant need to move forward with more urgency on the NPA.

2.11. Given that the NPA will be a major infrastructure investment, the industry must look to future-proof and maximise its capabilities so participants are not faced with additional incremental calls for investment outside of the NPA. Moreoever, while there have been changes to payment systems governance, with Pay.UK as the overarching payments systems operator having an explicit mandate to take account of end-user needs, in practice this has not been realised and banks and non-bank providers alike lack a voice directly into the creation of one of the biggest infrastructure changes in the UK that directly affects their customers.

2.12. With respect to the NPA, there is a very significant concern about value for money including the concurrent issues of how the industry covers the topics of PISP customer protection, APP scams and CoP. We are therefore keen that Pay.UK and government help the industry to achieve this objective. We believe there could be a role for the PSR in overseeing efficiency and value for money to ensure the longer term objectives of the NPA are met in the most efficient way possible, which, linking to other aspects of our response, would be aligned to its statutory objectives. In our view, seeking the most efficient delivery of the NPA objectives, from the perspective of total cross-industry costs, will ultimately lead to better outcomes for end-users.

2.13. Wrapping around all of these changes, we also consider that public authorities should ensure the right level of focus of the various needs of end-users. Retail consumers are undoubtedly a key user of payments, but the needs and demands of retailers, utility companies and corporates need to be considered as changes are built and not as an afterthought. As an example, many of the challenges of implementing SCA came about because of the various difficulties around merchant implementation.

3. 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?

3.1. The UK's payments industry has continued to evolve and develop with ongoing changes to how consumers and businesses make payments. Over the last five years, dramatic shifts in the technology used to make payments can be observed, with the continued growth in contactless payments and mobile payments, through services bringing greater ease and convenience to consumers and businesses. Further, the ability for firms to be able to access the retail and wholesale clearing/settlement schemes continues to improve, enabling new entrants to develop and offer innovative services to the market. While the societal benefits of the Image Clearing System (ICS) are unclear, its implementation clearly demonstrates the industry's capability to invest great time and effort in utilising advances in technology to enable consumers to continue to make payments.

3.2. At the current time, the industry is facing a very congested change programme. Further investment is needed in order to enable the potential of changes already in train and the industry will need some breathing space to deliver that change and build the propositions and services that will come off the back of it. For example, Open Banking has been a positive development for the payments industry and has real potential to benefit end users if its potential is realised. However, players must be given the space, time and economic incentive to experiment and build new innovations. Adding numerous requirements will take investment away from developing new ideas and ultimately detract from the benefits that could be offered to end users.

3.3. The NPA is a significant programme of change and efforts should be made to steer this back on track. While there is no big appetite for any further major infrastructure projects apart from those in the pipeline, the NPA should be used as vehicle to future proof further legislative programmes and should focus on efficiency and lowering excessive costs. By involving industry in the structuring of the NPA, there will be better oversight and involvement with this process.

3.4. We and our members believe that an open, competitive and economically beneficial market is the optimal environment for firms to innovate and develop existing and new payment systems. While the ability of public authorities to galvanise industry in delivering specific pieces of network functionality is important in certain circumstances (for example, CoP or the Open Banking ecosystem), they should support the commercial benefit to firms of participating in these markets if they wish firms to innovate. As already mentioned, the rising requirements for firms to offer customer protections, additional anti-fraud functionality and technical overlays could threaten the ability of firms to build sustainable business models without an appropriate economic model. Government and industry also needs to consider how the legislation and regulations adapt to keep pace with how criminals seek to exploit legitimate new and emerging technology and payments.

3.5. We encourage this objective of an open, competitive and economically beneficial market as the long term, strategic goal for public authorities. This is particularly important in relation to declining payment methods, such as cash and cheque payments. While the investment into ICS has helped to enable customers to continue to use this payment method, it is unclear to the industry whether the cost resulted in an appreciable societal benefit. It would be unfortunate if similar tactical adjustments prevented firms from enabling innovative services, particularly as the need for international engagement becomes more prominent and the UK needs to begin to compete and collaborate far more with wider European and international markets.

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

4.1. There are some fundamental questions that need to be answered by government, regulators and the industry in the near term, such as how we make the sustainability and long term make-up of the payment systems as robust as possible, how can payment services deemed essential by society be provided in a way that is transparent, non-discriminatory and competitively neutral, how can we ensure the long term protection of customers on a level playing field and how do we structure these changes in the most fair and equitable way for customers.

4.2. We believe that further promotion and development of payments networks is best achieved through competitive markets. Public authorities should intervene only where they can address market failures in the interests of end users, however, one significant area of assistance should be in the form of clarity and certainty from government and regulators on long term approaches and the vision for the UK's payment markets.

4.3. We further believe there are a significant amount of regulatory changes in the market and the Regulatory Initiatives Grid has captured 111 of these changes across financial services, firstly this only scratches the surface of the number of changes ongoing across the industry and secondly, this leaves little space for innovation in the market, a large portion of these changes either directly or indirectly affect payment markets. This means a significant amount of innovation and development budgets are taken by mandatory and regulatory change. For payment networks to further develop better coordination and dialogue needs to take place between regulators and industry.

4.4. An awareness of what is happening in Europe and beyond the EU will also be crucial in the future, not least as the UK looks to reshape its relationship. The European Commission's digital finance and retail payments strategy contains some significant proposals, many of these merit further investigation as to whether they are interesting from a UK perspective. The UK should also be well aware of changes afoot in European industry through the European Payment Initiative (EPI) and we believe UK regulators should monitor this with keen interest.

4.5. Cross border networks and how we move funds cross border have been identified by our members as an important and emerging future development. We're seeing an increase of cross border, regional payment networks being built from scratch, these range from multi-currency clearing solutions, such as P27 to the use of Central Bank Digital Currencies (CBDCs) in Asia. Whilst not all of these developments are suitable for the UK they should remain of key interest.

4.6. Open Banking was seen in the world as the UK being at the forefront of looking at the topic and engaging with industry at early stage through the Open Banking WG and work following the Fingleton report. Since 2016 the UK has been developing a world leading open banking ecosystem. The Open Banking Implementation Entity (OBIE), overseen by the Implementation Trustee, has played a key enabling role in developing the standards, providing operational and technical services (such as the Directory), and generally supporting the open banking community.

4.7. It is clear that whilst the UK has a world leading open banking infrastructure, there is still work to be done to improve the technical performance of the open banking ecosystem, the usage of all the functionality including payments and the production usage by third party providers. A significant proportion of third party providers registered on the open banking directory have yet to deploy service using the open banking APIs.

5. 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?

5.1. We are of the view that a substantial amount of progress has been made toward the government's objective of facilitating competition by permitting open access to participants or potential participants on reasonable commercial terms. This is split generally into two areas: access to payment systems and access to accounts by non-bank payment service providers (PSPs) in order to do business.

5.2. There are now many ways in which participants can access the payments schemes and their infrastructure. The number of direct participants has substantially increased – for example, at the end of 2019 there were 34 direct participants in the FPS, up from seven in 2010.

5.3. Indirect access continues to be a key area of focus for the PSR and industry with the PSR requiring the four main sponsor banks / providers of indirect access to publish certain access-related information including their indirect access propositions and any eligibility criteria. The industry has also published a voluntary code of conduct for sponsor banks as well as a website that provides guidance for prospective entrants to the payment schemes.

5.4. There are also now many more ways of participating directly in the provision of payment services and interventions and industry change as a result of the Payment Services Directive (PSD) and the Electronic Money Directive (EMD). Most recently, the PSD2 has given rise to a further type of payments provider – PISPs – which enable payments to be made via customers' underlying payment accounts through the Open Banking infrastructure in the UK.

5.5. In the space of access to accounts by non-banks there has also similarly been a lot of progress by the industry and public authorities. PSD2 has again helped by ensuring that access is made simpler and assessments are made under the POND (proportionate, objective, and non-discriminatory) principles. Further to this, the industry has published a good practice guide, aimed at both credit institutions providing access to payment account services and applicants seeking access to such an account within the UK. However, the provision of payment accounts is a complex space with multiple actors and competing priorities.

5.6. As mentioned, we believe a large amount of progress has been made and we are very supportive of open and fairer access, but our view is this should not come at the expense of higher risks. With all this change, in the recent past, payment chains have become even more complex, which brings benefits for customer choice and competition but also poses many risks, for example to participants in the direct participant space through the withdrawal of a direct participant. This had a significant effect on all others within the direct and indirect participant space.

5.7. Our view is that any further enhancements in the access space should be market driven, for example, a bigger market in sponsorship services. However, this comes with a substantial number of issues, including the underlying economics.

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

6.1. We answer questions 6 and 7 together, below.

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

7.1. We are of the view is that a great diversity of access in making payments is available to firms depending on their business model.

7.2. As discussed, our view is that a huge amount of progress has been made, from doubling the number of direct participants in the payment schemes themselves, to standardisation of account access by non-banks. The progress in the area of access to payment schemes and systems should not be underestimated in particular as there is now a huge amount of competition in this space.

7.3. There are multiple commercial models for access and a number of ways in which firms may gain the necessary regulatory permissions to offer payment services to UK consumers, for example:

- Direct participation in the UK's various clearing and settlement schemes (including CHAPS, FPS, ICS, the card networks etc.).
- Indirect participation through various sponsor models into the clearing/settlement schemes.
- Provision of payment services through a 'payment account' made available by a connected participant.
- Provision of open banking (PSD2) based payment initiation services.
- Provision of payment services based on other esoteric payment instruments or networks (e.g. through cryptocurrencies).
- Provision of e-money to consumers through online stores or walled garden marketplaces.

7.4. To support this, regulation has established several means by which firms can access all or part of the methods outlined above, such as:

- Money Service Businesses (MSBs) – regulated by HMRC https://www.gov.uk/guidance/money-laundering-regulations-money-service-business-registration
- Gaining an electronic money (EMI) licence from the FCA.
- Gaining a payment institution (PI) licence from the FCA.
- Gaining a PSD2 payment initiation licence from the FCA.
- Access to account services under section 8 of the Payment Services Regulations 2017, incorporating Regulations 103, 104 and 105 when an authorised entity.

7.5. This diversity in access methods and regulatory means is perhaps the biggest barrier in public policy to drive forward activity to firms gaining access to payment services on reasonable commercial terms, through both providers of infrastructure and firms providing access to central infrastructure. It is often left to industry to 'police' the requirements for providing access to other PSPs and often this is due to a mismatch between the regulatory model and practical implications of various business models.

7.6. We are of the view that high standards are the basis of a successful market and therefore that a clear threshold of standards for market entry should apply to include financial and service resilience as well as compliance to ensure that there is a standard for new market entrants to adhere to that is not just industry-led. This must be carefully balanced, as onerous standards could also have the effect of preventing efficient market entry, but strong standards will help encourage and improve access.

7.7. Indeed, recent adjustments by the FCA in relation to the safeguarding requirements on firms that have access to payment services (and particularly that provide e-money and other similar products) due to Covid-19, continued supervisory activity from HMRC for MSBs and work that we understand the PSR is currently undertaking to rationalise the guidance that it provides to the market based on the application of section 8 of the Payment Services Regulations all indicate that there is ongoing consideration of access to payments by the three regulators named earlier.

7.8. The above is just a snapshot of where these different public authorities have differing priorities in the regulation of access to payment services. It is often difficult for firms to balance the requirements of each, and while we believe there is a great diversity of access means, the landscape is complicated for both account service providers and non-bank institutions required to balance considerations from a broad range of authorities and across a significant number of topic areas, ranging from safeguarding to AML, KYC and sanctions.

7.9. There is also a significant need for public authorities to consider unintended consequences and carefully balance technical requirements and access when introducing changes. A good example of this is CoP, a valuable overlay service that is only mandatory for the six largest PSPs. Its introduction has created an unintended market differential and barrier and has further provided monetary pressure on smaller PSPs, who for competitive reasons have largely introduced it, but in a way that has not been cost-effective for smaller PSPs to invest in. We need to be careful to ensure the market can provide answers to 'access' questions like these, e.g. via affordable vendor solutions and the way CoP was introduced was not conducive these issues.

7.10. Security and consumer protection standards can inspire trust in payments but if they are prohibitively expensive to provide due to significant infrastructure costs (not just in the centre, but the distributed costs for PSPs to integrate to them), this may inadvertently restrict the market to larger players. A careful balance needs to be struck as it is of key importance to customers that sufficiently high standards apply consistently across the industry no matter the size of the provider. The industry and public authorities therefore need to consider how to be more creative and fair with the costs of payment services and overlays moving forward.

7.11. We strongly encourage public authorities in any follow up action to avoid an overly UK-centric approach. While we acknowledge this could be helpful, we do not believe that domestic only action can always practically solve issues related to correspondent and agency related services. This is also true of a post-Brexit policy context.

7.12. Overall, we also strongly recommend greater regulatory coordination and simplification where possible.

7.13. We have done what we can to ensure access to accounts through our response to the Payment Strategy Forum's recommendations on access to accounts. Our guidance on Access to Payment Account Services can be found here and summarises the considerations account providing credit institutions will need to consider in a complex space with multiple actors and competing priorities. The industry recognises that things should improve further, but this would need reform and massive simplification to make any meaningful difference.

7.14. We understand that the PSR is considering reviewing its guidance to access and looking to harmonise Regulation 105 requirements with obligations for access made under FSBRA and outlined within its General Direction 2.

7.15. We continue to monitor the ongoing work in this area and would strongly encourage public authorities to ensure strong industry involvement in any actions taken.

8. 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?

8.1. We are of the view that, broadly, the government's objective for the UK payment systems to be stable, reliable and efficient has been met, although there is always room for improvement. It is vital the UK remains a safe, innovative and safe place to do business as the financial landscape and how payment providers interact with customers and each other changes over the next ten years. This is particularly true of API based services and CBDCs, where more substantive work is required to understand the full ramifications for PSPs.

8.2. From a domestic perspective, the UK's interbank and card services in the retail and corporate space have been highly resilient. Service continuity and recovery have proven themselves well over many years and the financial controls around reserves and liquidity are strong. However, modern payments messaging and standards should enhance interoperability and at the same time should also be highly resilient through the use of a number of decentralised services using cloud technologies, such as CoP.

8.3. In transitioning to new infrastructures and overlays, and in exploiting the potential of open banking APIs and cloud solutions, we are pushing new boundaries within and between participants in the payments ecosystem. Therefore, while resilience has so far been something that has largely been met, we should collectively evaluate what our next steps are for sustaining resilience as we introduce the payment systems, and services, of tomorrow.

9. 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?

9.1. Public authorities need to set clear, stable requirements with which industry should comply, whether in competition or in collaboration.

9.2. We are of the view that there needs to be a forward-looking risk assessment of the UK's payment systems and services as they evolve technically and offer potentially quite complex developments. For example, there will undoubtedly be competition and innovation opportunities arising from ISO 20022 messaging in payment interactions, but there will also potentially be a risk associated with managing more complex data. As payments become more than simple transactions for the exchange of monetary value, it is prudent to consider the implications for effective controls on issues like the data we will begin to exchange and how we protect end users by complying with legal and regulatory requirements, but at the same time create the conditions for competition and innovation.

9.3. Great thought needs to be given by the government about how best to enable the ecosystem of legislation, regulation and ambition to support the UK's design, build and deployment of areas like digital ID&V solutions within transactions as a key foundation for the next steps the industry will take and for their innovation and service potential across financial services and into wider society over time.

10. 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?

10.1. In the recent past there has been a significant amount of discussion surrounding disputes and liability when things go wrong with a Faster Payment. We of course support action being taken in this area, but it is complicated to solve in any permanent way.

10.2. This is likely to be a highly sensitive topic on the political, industry and regulatory agenda in the near term and there is a strong risk that discussion around strategy here will turn rapidly into policy given the significant pressure coming from a number of sources. Caution should therefore be exercised before taking action to minimise the risk of very significant unintended consequences if any approach is not carefully and fully thought through.

10.3. In particular and linking to the themes discussed earlier, great care needs to be given to the economics of the payment system and in particular the potentially significant macroeconomic issues to be considered. This includes areas such as the cost/value equation around payments. As also discussed later in our response to questions around PISPs, if the industry and public authorities feel the need to 'level the playing field' in terms of consumer protection outcomes, we may find the industry have to sustain it with pricing that restricts access and competition unless we can come up sustainable commercial foundations that balance service, cost and risk.

10.4. We also must have integrity in our promise here. Over the past two years or so the payments community, including regulators and consumer representatives, have tried and not fully succeeded in making payments better for end users. We have a voluntary APP CRM and a partially mandatory CoP service alongside– where we have already seen evidence of how fraudsters are changing their tactics to circumvent CoP. The result is that we have an inconsistently applied 'no blame' reimbursement fund and patchwork participation in this patchwork type approach.

10.5. A more fundamental discussion is required to ensure the best protections are found for customers in the long term. The substantial risk as it stands is of tacking protections onto, often at odds the legislation and regulations, to schemes and systems that were never intended to operate in the way they are. Ultimately this needs the industry, government and regulators to decide the right balance between competing tensions on competition, security, speed and protection. The government then needs to legislate accordingly to set out what is required and where liability sits. However, this is also another example of potentially increasing the costs to PSPs if they wish to participate in the UK payments market.

10.6. We note there could be some improvements in the Credit Payment Recovery (CPR) process which is not always understood or applied consistently.

10.7. Among these issues, the challenge of scams is most impactful on society today. It needs to be addressed in a variety of ways, certainly including our treatment of the Faster Payment proposition itself, but by no means should this be the sole target for action in fighting APP scams. For example, the personal and payment data often used in scams can be harvested from data control failures by major players outside the banking and finance industry, which poses significant issues and increases in fraud for account providing institutions and the wider payments ecosystem. More generally, we need not only to focus on redress after the event but also to go further in prevention. This may mean putting far more emphasis on the receiving side of inbound payments and using the capabilities of infrastructure providers to their maximum potential on controls like transaction data analytics.

10.8. As the government will be aware, the APP CRM Code was launched in May 2019. This was developed on a voluntary basis by firms together with consumer groups and commits signatories to reimburse victims of APP scams provided they have met the standards expected of them under the Code. This represented a milestone in establishing stronger customer protection standards and has more than doubled the proportion of APP losses being refunded.

10.9. While we agree that a voluntary code may potentially not be appropriate longer term, its administrator needs to be given time to bed the code in and extend its signatories, perhaps with an amended code to accommodate different firm models, before considering anything stronger. UK Finance and our members are now of the strong view that introducing scheme rules is not the answer. Schemes rules are not an appropriate route to deal with how participants should collectively act to resolve disputes and assign liability when a Faster Payment goes wrong. This is because scheme rules work well for a closed system where all parties are involved, but many of the drivers of APP scams sit outside of the sector and are driven by vulnerabilities in other sectors, including number spoofing, scam adverts and recruitment of money mules are exploited by fraudsters.

10.10. In practice, the Code has not worked as intended. We and Code signatories agree that regulatory decisions on APP compensation cases have gone beyond what was intended or understood by the industry in favour of the customer when the Code was published. Therefore, we consider that amendments are needed to the Code to:

- make it clearer where liability sits, expectations on all parties, and how liability should be addressed,
- enhance definitions to better reflect all types of APP scams to ensure a more consistent approach, and
- enable wider participation.

10.11. The Lending Standards Board is also conducting a full review of the effectiveness of the Code and its impact on consumers and the industry and has yet to publish its findings following consultation close on 30 September.

10.12. The PSR's own analysis is that it does not have the necessary powers to make the Code part of mandatory regulation and to mandate that APP victims receive compensation under the terms of the Code.

10.13. Agreement to the Code was on the basis that the PSR and HMT would work with the industry to find a long-term solution to sustainable resourcing solution to compensate no-blame customers. To date, it has not been possible to reach such a solution on this issue. Banks and direct participants alone are not responsible for this.

10.14. For the reasons set out above, our view is that legislation is needed in the longer term. This would produce better, more predictable outcomes for customers, industry and law enforcement. This position has been agreed with the Code signatories. Legislation supported by appropriate statutory instruments and enabling powers would need to address the standards expected of the industry and customers, the liability issue and the development of a government endorsed funding solution for the compensation of victims.

10.15. It is also important to recognise that the Code is focused on dealing with circumstance when APP fraud has been committed. APP fraud losses fund even more damaging crimes such as terrorism, drug trafficking and people smuggling. In tandem, the banking and finance industry continues to take action on all fronts to stop these crimes from occurring in the first place, working with law enforcement and the government to protect customers and prevent stolen money from going to criminals. These efforts would be greatly enhanced by including economic crime in the scope of the new regulatory framework for online harms.

11. 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?

11.1. We are of the view that the industry has deployed many effective solutions to ensure person to business payments are as secure as they can be, though this has been at cost to the industry with the wrong incentives put in place which discourages investment of account to account payments as a product for effective competition

11.2. CoP has now been introduced by some PSPs, which is a new way of checking account details to give customers (both personal and business) greater assurance that they are sending payments to the intended recipient, helping to avoid misdirected payments being sent to the wrong account as well as offering another important tool to help in the fight against fraud. We believe that this goes a long way to helping with the issue of person to business payment. Even so, the industry does believe further work can be done to further automate payment processes to ensure that there is less need for customer intervention which will help with prevention of these frauds that may discourage use of interbank payments.

11.3. As noted above, the industry has also invested heavily in ensuring that those subject to APP scams are reimbursed. The industry has also invested heavily in ensuring that those subject to APP scams are reimbursed. However, it has left the industry bearing the cost of frauds where government, law enforcement and consumer groups have acknowledged that neither they nor the customer could have prevented – the so called 'no blame' cases. There is blame in these cases, but they sit in other sectors outside the financial sector who do not have to tackle vulnerabilities that are exploited by fraudsters. The vulnerabilities that help lead to fraud range from data breaches to number spoofing to the ease of advertising fake goods and services online[2].

11.4. This being said, the key missing element to ensure successful person-to-business payments lies in the fact that there is an inherent lack of long term viability for account to account payments, unless greater focus on the commerciality of these types of payments is addressed by both industry and public authorities.

11.5. We would strongly encourage authorities not to view scheme rule changes (in and of themselves) as enough to enable and encourage growth in and competition from FPS as an alternative payment service to cards. As discussed earlier the oversight that payments cost money to provide further entrenches the difficulty of new service providers to thrive, because in turn it can make services based on interbank payments prohibitively expensive to provide.

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[2] NCA Strategic Threat Assessment 2020

11.6. Card and interbank schemes are inherently different models, not least in their governance, financial and pricing models. These factors do not prevent the ambition from taking off, but we should carefully consider and analyse the economics that sit behind the issues to promote solutions that are truly viable and can be sustained. It is not the role of the public authorities to pick winners but rather to create the conditions in which winners can emerge.

11.7. We understand the public authorities' view that Faster Payments for person to business are desirable as they provide greater choice for end users and merchants. But we should consider the consumer demand as well as the supply side with use cases and economic analysis of the supply chains of different payment types. For the benefit of the UK as a whole and for customers in particular, we need to identify where net value can be created and then passed on.

11.8. A large advantage of interbank type payments from a merchant perspective is lower charges and naturally, the lower level of customer protections. It should be acknowledged that for merchants to make best use of an interbank customer to business model, it needs to be understood that the level of protection for customers will not be the same.

12. 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?

12.1. We are of the view that accommodating a variety of payment types is beneficial to UK plc and customers more generally. Each payment type has a use depending on the circumstances, and corporates in the UK generally value longer clearing times so they can plan and to ensure that errors can be corrected.

12.2. Generally, businesses and consumers see Direct Debits as beneficial[3], but there are areas in which greater control could be afforded to consumers. We feel the best way to achieve this would be to ensure that more options are available to consumers in the way they pay things like utility bills. This is often difficult to achieve, but incentivisation for both merchants and consumers would help in providing a wider suite of option to consumers.

12.3. We are of the view that a variety of options for payments is beneficial and the UK has a spectrum of interbank options for payment processing that supports both individual near real time transactions and bulk, scheduled transactions.

12.4. There is real value in direct credits offering a 'pre-clearing' layer of opportunity to package and manage scheduled payments. There are also benefits from the processing cycle enabling in-flight adjustment that can be done very efficiently by managing exceptions, for example using targeted manual interventions supplemented with automation. These controls include file limits, referrals, reversals and recalls, plus the automated Bacs 'A services'.

12.5. Another consideration is of course the investment and operations already invested in scheduled, non-real time bulk payments, including by the government and of course vast numbers of Bacs Direct Credit and Direct Debit service users and the associated supply

[3] https://www.bacs.co.uk/DocumentLibrary/DD_Consultation_outcomes_annexes.pdf

chain partners. Theoretically it is possible to reconfigure these longer cycle legacy services to become near real time with some advantages such as the possibility of Direct Debits being payable right up to the end of a payment window, such as a late month mortgage repayment.

12.6. However, Direct Debits and Direct Credits, in their current mature state are both highly resilient and very well trusted with protections built in to varying degrees. So bearing in mind the concerns we have with near real time, individual payment processing, we should think carefully about the costs and benefit of such a change and bear in mind that these legacy payment services are still evolving and so will be capable of adaptation into ISO 20022, for example.

13. 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?

13.1. We all tend to reach for the payment methods that we are accustomed to using, forming habits over time that can be quite strong. Once we have found a set of payment methods that we are comfortable using and that help us to manage our finances effectively, it can take a great deal for us to change consumers to a different way of doing things. Couple this with the networked industry of payments and it takes time for consumers to adopt new payment mechanisms.

13.2. It also needs to be understood that the UK has not been on the same journey as other countries. Models that have flourished in the Netherlands and elsewhere are held widely as good examples of person to business payments but were borne out of very different circumstances.

13.3. PIS will be a longer-term proposition, and we observe that many solutions are coming through at the moment but we have not yet seen the scale needed for PISP to fully take off and our view is that it will not be leveraged by larger financial services entities in the same way as other methods until the economics and commerciality help build the right incentives for investment and innovation.

13.4. We are of the view that two key questions need to be considered before further action is taken on PISPs.

13.5. Firstly, the industry and regulators need to consider the basis for the PISP model. We are of the view that the underlying model should not simply replicate card payment schemes which are supported by long-established and sustainable economic models.

13.6. The exclusive focus for PISP payments is not on retail (as evidenced by the range of use cases that are live in the market across the various models in industry). However, the Open Banking/ PSD2 goal has been to drive more competition in the payments market and enable more security for all ranges of transactions. In order to be competitive in the market and build an ecosystem around PISP Payments, there are some functionalities that customers are used to and merchants expect – even outside of retail – that will need to be brought to life.

13.7. This is important as the PISP model as currently held does not provide a truly competitive service and still requires a substantial amount of ‘bedding in’. A large advantage of PISP from a merchant perspective is the lower charges and naturally, the lower level of customer protections. It should be acknowledged that for merchants to make best use of a PISP model, it needs to be understood that the level of protection for customers will not be the same and we are of the view this poses a key risk in the future for consumer protections. This is most likely to materialise through a potential shock or unexpected events, such as the failure of a large travel company. These customer protection risks are currently being considered in multiple fora, but our view is current proposed work will not resolve the underlying issue.

13.8. Overall, we are of the view that there should be less focus on the 'free' model underlying the PISP setup. This works well by reducing merchant cost, but in the end increases prices for consumers as account providers seek to cross-subsidise their income streams. Consumers take for granted the protections afforded through cards and it is the responsibility of both industry and public authorities working in partnership to ensure that customers do not experience the detriment which could arise with the current models.

13.9. How the market achieves what the industry and authorities feel is needed in terms of the level of consumer protection and further building of trust with PISPs needs to be considered. We recognise that the approach needs to strike the right balance between achieving an appropriate level of consumer protection and such measures not inhibiting development of the PISP market or stifling innovation while also ensuring that it remains viable from a long term perspective.

13.10. Secondly, the infrastructure underlying PISP based payments is still nascent and requires a bold strategy, vision to be provided by an industry entity without vested interests and with a broad vision of the payments industry. In this way, we need to consider what level of a PISP 'scheme' is needed. Our view is that additional regulatory mandates will only further hamper the use of PISP payments. Nevertheless, there needs to be operational continuity in the short and long term so that issues around certifications, dispute management, registration and directory services are not impacted.

13.11. One example of an area where further development is required is the absence of a mechanism to resolve problems when fraud occurs. There are also no incentives for PISPs to be involved in dialogue/solutions with their customer when fraud has occurred. Customers are most likely contact their bank or ASPSP when they detect fraud. We acknowledge that seeking to replicate consumer protections of card schemes for TPPs is unlikely to be a compelling or appropriate solution. However, it is not a sustainable economic model and does not focus on the right incentives for the market that the majority of fraud liability rests with account holding institutions where fraud vulnerabilities have stemmed from the PISP or merchant and they should be required to have appropriate controls in place to help identify and mitigate fraud.

13.12. Many businesses accept manual bank transfers today already – including but not limited to travel and ticketing, particularly high value season tickets, and education. The same protection issues exist for these payments today. If it is deemed that these payments should include protections similar to card schemes then these should be considered regardless of whether they are initiated directly by the consumer or via a PISP. There are certain protections in place that exist outside the card payment schemes, such as ATOL, that would support customers using PISP payments in the travel sector, but this is a complicated landscape that would need further consideration. Overall, the same protections that exist for a customer with regard to a bank transfer should apply in a PISP scenario.

13.13. Third, there are proposals from the Final Open Banking Roadmap to develop open banking payments functionality for reverse payments and variable recurring payments. It is unlikely that non-CMA9 ASPSPs will see a commercial case to develop further functionality. As a result, there will be two tiers of open banking payments – one driven by the CMA Order and applying to the CMA9, and the other applying to other ASPSPs through PSD2. This is likely to drive an unsatisfactory customer experience – one that varies depending on whom they bank with and where smaller banks (by current account market share) might not offer the same range of functionality as larger banks.

13.14. It is important that as the implementation phase of Open Banking comes to a conclusion next year and OBIE transitions to an industry service company (as described in our Open Banking Future State report, with Accenture) that the industry considers the opportunities to drive toward the best possible consumer experience of open banking payments.

13.15. Importantly, the strategic agenda and brokering any solutions to problems, especially in the area of suitable protections for both the industry and consumers, should as far as possible be industry driven and proposals should not be solely driven through regulatory intervention i.e. devised then enforced without proper testing or dialogue with the industry and customers.

13.16. Finally, customer education and awareness is the responsibility of everyone, fraud prevention should not be regarded as anti-competitive, and the potential risks of using open banking services needs to be made clearer to consumers as well as the opportunities/services they can provide. There is not just a role for the account holding institution but also PISPs in raising awareness of how their customers can help protect themselves against fraud. In some ways, PISPs could help with the reduction of fraud as customers have to authenticate directly from their bank account (and as a mobile first payment solution, which could be authenticated via biometrics). The details that a merchant receives via the new refunds solution have limited ability to defraud a customer should there be a data breach, when compared to a long card number. Finally, as the PISP has to setup the receiving bank's details, there is lower likelihood of APP fraud as well.

13.17. Currently there is no regulatory or industry guidance on the AML/CFT obligations for AISPs and PISPs. This has raised a number of questions, such as whether PISPs providing online payment services should conduct customer due diligence on the payment service user or on the merchant that they contract with, and if the former then how should PISPs monitor for indicators of linked transactions and higher risk indicators. As the customer's bank will not normally see the underlying transactions through use of a PISP this means traditional transaction monitoring systems do not work as well. The risk of money laundering and terrorist financing increases even though the regulatory liability to the individual bank decreases. UK Finance has discussed these questions with OBIE and other industry associations and are currently engaging with HMT to consider the scope for clarificatory guidance.

13.18. These questions are being considered actively in the EU, as part of a wider review of the AML/CFT regime. Earlier this year the European Banking Authority (EBA) stated that AISPs and PISPs are obliged entities and consulted on draft sector guidelines for their AML/CFT risk factors, approach to customer due diligence and wider compliance. The

European Banking Federation response to this consultation has drawn attention to a number of challenges with the draft EBA sector guidelines, including that PISP technical specifications in certain countries restrict the availability of data relevant for CDD.

14. 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?

14.1. Payment Initiation Services by design use and leverage product from other entities and the Faster Payment scheme. Faster Payments and the scheme that underly this provide for many use cases and much like many other forms of interventions, rule changes are not the best way to resolve any perceived issue. Clarity needs to be given at a regulatory and legislative level in a way which accounts for commercial models in the industry.

14.2. UK Finance's Open Banking Future State report considers many of these issues and outlines recommendations for a proposed model to support the future provision of Open Banking Services following the closure of the Implementation Roadmap.

14.3. At the end of the delivery of the Roadmap, the OBIE cannot be simply wound up. Functions that the wider ecosystem depend on will need to continue: such as maintenance of Open API Standards and the provision of a directory of whitelisted Open Banking participants. Additionally, there is a case to be made that a future Open Banking Limited (OBL) has a further role to play in continuing to expand and develop a progressive, competitive banking landscape.

14.4. As mentioned in the previous question the industry and regulators need to consider the basis for the PISP model. We are of the view that the underlying model should not simply replicate card payment schemes which are supported by long-established and sustainable economic models. Equally, the current model underlying PISPs pose some risk in the long term that needs a wide industry and regulatory conversation. These customer protection risks are being considered in multiple fora, but our view is the current proposed work will not fully resolve the underlying issue.

14.5. It is also worth noting the SEPA API Access Scheme work through the Euro Retail Payments Board (ERPB) which has considered some of these issues. Their clear recommendation (though not supported by all stakeholders) was that a new scheme would be the best approach to unlock the opportunities from 'open asset sharing' beyond PSD2 with a fair distribution of value and risk between the actors in SEPA. In the UK we already have a strong Open Banking model which negates the need for this overarching scheme but we should still consider in the UK the right level of 'scheme' like proposition that is needed.

15. 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?

15.1. As discussed above, the UK has not been on the same journey as other countries. Models that have flourished in the Netherlands and elsewhere are held widely as good examples of person to business payments but were borne out of very different circumstances.

15.2. It is clear that whilst the UK has a world leading open banking infrastructure, there is still work to be done to improve the technical performance of the open banking ecosystem, the usage of all the functionality including payments and the production usage by third party providers. A significant proportion of third party providers registered on the open banking directory have yet to deploy service using the open banking APIs. Whilst the UK has a world leading open banking infrastructure, and industry has invested £1.5-2 billion in developing and implementing it, the customer adoption and benefit is only beginning to emerge.

15.3. It is important that this work is sustained and UK Finance is working across its membership and with stakeholders to consider the end state operating model of open banking, looking at how best to maintain the functions and services provided by the Open Banking Implementation Entity and the way in which they could be re-purposed/extended to enable open finance.

15.4. In particular regulatory intervention has been useful in the establishment of the categories of industry participants, the services that they can offer and of an industry body that has been able to enable industry to co-ordinate in their development of the directory, authentication protocols and API technical standards. These interventions are the foundation on which a self-supporting ecosystem can then develop through industry led and voluntary initiatives. We would argue that the FCA can best drive Open Finance by providing suitable structure for and expectation of these foundational pieces, and then allowing industry to develop a self-support ecosystem around them.

15.5. As discussed, PIS will be a longer-term proposition, and we observe that many solutions are coming through at the moment but we have not yet seen the scale needed for PISP to fully take off and our view is that it will not be leveraged by larger financial services entities in the same way as other methods until the economics and commerciality help build the right incentives for investment and innovation.

15.6. We believe that the approach of intervening on the foundational elements across Open Finance would also drive data reciprocity which will be an essential component of Open Finance and an Open Data Economy. We therefore welcome the recent proposals from BEIS on smart data and extending data sharing to other industries which moves towards better incentives in the market.

15.7. UK Finance suggests it will take several years to see the full extent of market entry and innovation achieved by open banking. There are a number of important activities already in train in the industry:

- Closure of the CMA order once the implementation phase of open banking has been successfully implemented
- The full impact of PSD2 has not been fully realised as TPPs are still building their product offerings
- UK Finance's work on Open Banking Futures to ensure the maintenance and development of open banking
- Work on the SEPA API Access Scheme at a European level

15.8. Given all of these activities, which will all take a number of years to fully resolve, we believe a period of stability from widescale regulatory change is needed to allow the ecosystem to further develop would be helpful. We are seeing promising levels of interest in open banking from technology firms, incumbents and innovators in and outside the UK.

15.9. The suggested period of ecosystem stabilisation will enable customer trust to build and further use cases and providers to emerge through industry led initiatives. In this period, the FCA will be able to perform a significant role in ensuring these industry led initiatives have appropriate regulatory oversight and controls as the UK builds towards a wider Open Data Economy.

15.10. From a broader perspective and given ongoing uncertainty at a wider level, government and industry need to do more to help FinTech development, this comes in many forms, but certainty and stability of approaches and rule sets is one of them. It takes customers time to build up confidence in payment mechanisms and in the meantime, further support should be given to the FinTech market. We support the progression made in the independent FinTech strategic review which is ongoing.

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

16.1. Over the last few years we have seen significant changes in payments markets with the introduction of the PSR, Open Banking and PSD2 implementation, consolidation of payment schemes and the arrival of challenger banks and non-bank payment providers. Looking forward, we anticipate the continued rollout of the New Payments Architecture, the renewed RTGS and ongoing regulatory focus on operational resilience, cyber threats and data security will mean the market continues to innovate.

16.2. There is a huge diversity on the supply side of the payments ecosystem that renders the industry unrecognisable from just a few years ago. The traditional payments value chain has fragmented, unbundled and lengthened with niche providers identifying links in the chain that they believe they can forge better and more cheaply. However, with this competition also comes challenges for the industry and for regulators:

- The expansion of the attack surface/perimeter due to the unbundling and lengthened payment chain introduces new challenges for economic crime prevention as the customer's account servicing PSP will have less sight of the vulnerabilities that exist. This means traditional threat monitoring solutions and transaction monitoring systems have reduced efficacy protecting customers. It will be imperative that the regulatory framework allows for monitoring of emerging risks across the payment chain. Sharing best practice and intelligence to react to new vulnerabilities and misuse of genuine systems is important for the purposes of economic crime mitigation and will need to include all players in the chain.

- Some unregulated providers have become part of the chain. This means that may authorised entities are relying heavily on non-regulated providers and that mandatory change, such as that seen in SCA poses many challenges for effective and quick change.

- It is often talked about, but the same activity should result in the same regulation. In other words, the regulatory system should ensure that all critical parts of the ecosystem are subject to the same rules. This requires designing in a level framework of responsibilities for controls/processes to deal with innovative and new business models that will continue to enter the market. This includes emergent economic crime trends and to tackle this effectively it will require substantive collaboration from new entrants to the payments chain (whether regulated or not).

16.3. Customers will begin to see financial services and payments change in the long run and will begin to see new payment providers offering services. This change is likely to be gradual – currently there is little evidence that non-banks desire to rush into end-to-end payment provision.

16.4. In this way, we will see customer behaviours to begin to be different. Covid-19 has already accelerated the move towards digital and away from cash. The increased availability of app-based services on personal devices - many from outside the traditional financial services world - will enable the embedding of a payments capability in areas across the economy. However, there are significant challenges here including:

- Digital inclusion and confidence, there is a significant challenge in the industry and across government to address the confidence of customers across their normal and their financial lives to ensure no customer gets left behind. Increasing customer confidence and comfortability in using digital payments will be key to the success of a leading payments market.

- Recent events have increased the urgency to enable all customers to be able to interact digitally if they choose to, government and industry need to approach this issue with much more urgency.

- The protection landscape for customers is an important area to address at a broad level and not in an isolated manner. The education and awareness responsibilities (in other words the public good) are not equally shared by all providers in the chain and yet all providers can introduce risks and vulnerabilities to the customers, the burden on the customer to understand the differences and protections has become substantive and more needs to be done by all players in the ecosystem to ensure this does not become a vulnerability.

16.5. As technology moves on it is inevitable that new technology and more data will be used by the system particularly as the UK moves towards and open data economy. Whilst we support this future direction, with the opportunities and benefits, this also brings fraud and economic crime risk. As the Open Banking/finance/data market develops so will the methods used by criminals to target consumers as more data is exposed across multiple providers.

16.6. We agree that there are risks over time if the regulatory approach does not evolve on a par with the emerging risks associated with providers and activities that are not currently subject to regulation or are regulated but are perceived to be low risk. A particular risk seems to be where a number of payments participants rely on a small number of providers for back office or ancillary services. To that end, there could be a case for undertaking a dynamic mapping exercise of how various providers link to each other. Additionally, one or more third parties might provide a range of activities to the same financial institution.

16.7. As mentioned, the typical payment chain has been unbundled and lengthened and this poses a number of potential long-term risks and opportunities to the resilience of the system. This is an important potential future risk that needs further investigation, particularly where this intersects with systemically important payment chains where end-to-end resilience needs more focus. As more players look to compete to provide a link in the payments chain, we expect more failures as some business models and strategies win and others lose. We agree with the need for arrangements and procedures to mitigate the risks of such a business failing, which we know is a key area of focus for regulators.

16.8. There will be a demand for more standardised and resilient digital ID capabilities to deliver trust that underpins both payments and associated services and the lack of a digital ID solution with scale in the UK that can be leveraged for payments and other financial services will require greater thought by government.

16.9. In the long term, a Central Bank Digital Currency (CBDC) has the potential to change the market structure of the savings and payments market in the UK, including an impact on deposit taking, particularly given that a retail CBDC is analogous to allowing customers to hold accounts directly with the Bank of England.

16.10. UK Finance and its members are supportive of the investigation by the Bank of CBDC; however, we find it important to consider at this early juncture what the Bank wishes to deliver to the UK economy through a CBDC. And, given the breadth of potential use cases, we recommend that the Bank should first identify and clearly define the problem, gap, demand, or policy aim the CBDC is intended for. It is from this vantage point we then recommend considering the options around the design of the CBDC as well as improvements or expansion of existing payment efforts, and related work including digital identity solutions.

16.11. Finally and from a broader diversity and inclusion perspective, in order to be able to react well to diverse changes and as the complexity of payments chains increases, the need for effective decision making and risk management within industry and public authorities becomes even greater. Diversity within the body of decision makers across characteristics such as race, gender, age and social class, as well as within previous work experience, is vital. With that in mind, the industry and authorities must prioritise greater diversity in payments talent to mitigate the risk of group-think and promote a holistic focus on end-user needs, as well as pursuing ways of knowledge sharing.

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

Please see our answer to question 16.

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

Please see our answer to question 16.

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

Please see our answer to question 16.

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

20.1. Broadly, we are of the view that the key foundations for the short to medium term have been laid and that no major changes are needed, which allows time for us to consider how we best address the underlying legislative framework and understand the long term way in which we structure the foundations for the industry. Currently, there is a huge amount of change already underway in the industry. Some has been delivered/is being finalised already (for example PSD2 and Open Banking) and some we are expecting over the next couple of years such as the NPA and the renewal of RTGS.

20.2. Our view is that during this window, focus should be given to a number of key tactical areas, for example, recovery from the Covid-19 pandemic, ensuring access to cash for customers who need it and ensuring the industry can continue to connect as readily as possible in the post-Brexit environment as well as the need for government and regulators to work closely with industry and law enforcement to ensure legislation and regulations adapt to keep pace with how criminals seek to exploit legitimate new and emerging technology and payments.

20.3. UK Finance are currently considering this area in more detail and engaging with HMT through the Financial Services Future Regulatory Framework Review. We would also like to draw further attention to our work on Payments Futures which will also address our views on this question.

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

21.1. While cross border payments are relatively focused on business-to-business transactions, changing customer preferences and demands and shifting regulatory frameworks are rapidly changing the payments landscape. Customers are demanding more choice when it comes to payment methods and are expecting cheaper, faster payments. This will likely continue as services such as tracking exchange rates and multi-currency accounts rise in popularity. The increasing pressures from emerging technologies such as card and network innovations, distributed ledger technology (DLT) and growing adoption of API capabilities are changing the way cross-border payments are made.

21.2. The implementation of PSD2 and the rise of Open Banking and API technology have made collaboration between large traditional institutions and smaller non-traditional players more common. This collaboration has enabled more innovative solutions and products to become available to customers. However, API is still not the *de facto* capability for banks. Rather than using API to interact with each other, banks predominantly use this to interact with their clients. The full power of API can only be realised with the harmonisation of rules and standards.

21.3. Evolution in the European payments landscape has also facilitated faster and easier cross-border payments. It is of upmost importance that both industry and public authorities ensure continued alignment with the functional equivalence criteria of the EPC[4] to ensure the UK's continued participation in SEPA. Based on our informal research, this supports payments of over €1 trillion per year between the EU and UK and remains a key conduit for trade between the UK and EU, even in a post-Brexit environment. SEPA schemes continue to evolve to encompass the rapid changes in the payments landscape. The SEPA Instant Credit Transfer (SCT Inst) scheme was created in response to the rise in domestic instant payment schemes, which threatened to fragment the European payments landscape and slow European harmonisation.

21.4. The launch of the European Payments Initiative also highlights the European appetite for more pan-European, integrated payments schemes and there has also been an increase in the take-up of multi-country initiatives, for example P27 in the Nordics creating a shift away from domestic schemes.

21.5. SWIFT's latest development to enable global financial institutions to deliver instant and frictionless end-to-end transactions highlights the appetite for ensuring seamless cross-border payments. The move to ISO 20022 messaging standards is revolutionising payments and the UK must plug into global developments beyond SWIFT to be able to compete at a global level.

22. 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?

22.1. Industry and public authorities can help improve cross-border payments for end users by finding ways to enhance and standardise the tracking and tracing of payments through the pipeline. This will ensure a better experience for consumers, with improved visibility of their payments as they progress through to the beneficiary. Furthermore, it will help payment service providers to support end users and diagnose problems, such as when payments are delayed. Additionally, we should look at further ways we can reduce cost to customers in the same vein as CBPR2 has.

22.2. The CPMI report was welcomed by the industry. The central role of the Bank of England within this workstream emphasises the UK's continued engagement on the world stage and commitment to enhancing the future of cross-border payments. The Bank's central role should continue as the Fed's Phase 3 work develops.

22.3. The CPMI report rightly commits the G20 to an international vision backed by public/private collaboration in cross-border payments. A strategic global vision must be reinforced by commonly agreed targets focusing on the cost, speed and transparency of global cross-border payments.

[4] https://www.europeanpaymentscouncil.eu/document-library/other/criteria-participation-sepa-schemes

22.4. Cross-border payments go through a number of regulatory regimes. While it is clear there should not be a one-size-fits all approach, friction should be removed by harmonising and aligning rules as much as possible. Similarly, supervisory incoherence of AML/CFT rules needs to be removed to enable more seamless cross-border payments. There are currently the technology and data in the payments ecosystem to do this and they should be utilised.

22.5. Reciprocal liquidity arrangements between central banks should also be facilitated. Liquidity is fundamentally important, and it should be utilised in market across settlements. Liquidity bridges would enable in country liquidity management and utilisation cross-border. Banks should be given the tools to expand these bridges and create corridors of safe payments.

22.6. With the move to ISO 20022 messaging for cross border payments, the ability for straight through processing and an ease on manual operational intervention required due to more structured data in the messaging should benefit consumers as well as provide new use cases for the additional data included in ISO formatting moving forward, i.e. invoicing.

22.7. Existing payment systems infrastructures should also be improved to tackle high funding costs and competitive distortions. We expect the international payments landscape to become more competitive over the next ten years, given the increase in specialist international payments providers. These providers are likely to increase their market share (at the cost of traditional banks and current account providers) and drive increased price competition in the market.

22.8. To facilitate cross-border payments globally, access to international systems for UK-based banks and PSPs must be facilitated. Direct access to the Fed, TARGET 2 and SEPA should be promoted. As the UK looks to reshape its relationship with the EU and the rest of the world, promoting and continuing greater access to international systems will highlight the seriousness of the UK to solidify itself as a leader in cross-border payments. The Bank of England's decision to allow non-bank access to UK payment systems is a key example of this and elevates the UK's openness ahead of others.

22.9. The G20 should follow suit and look for ways to lower access barriers for global payment systems to enable new players and new innovative products to emerge. An open ecosystem, with a focus on scalability and direct access will enhance cross-border payments. While payments need to transit across multiple systems, this only works when all systems are open.

22.10. The complexity of consumer protections across different regimes is increasing friction in the market. Improving the transparency within cross-border payments and reducing complexity will enable better protected, better informed payment decisions.

23. 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?

23.1. The future of payments regulation needs to be considered in the context of HMT's future regulatory -framework review more broadly. We look forward to seeing the government's response to this call for evidence and its forthcoming consultation on the next phase of the framework review, alongside the recommendations of the independent fintech strategic review, being brought together and taken forward in combination early in 2021.

23.2. In the EU we observe that the European Commission has identified the need for a clear ‘governance’ framework to underpin an EU retail payments strategy. EU institutions – and in particular the Commission – view that they can play a role of political catalyst, while relying fully on the private sector to design the relevant payments solutions. The EU has therefore begun to develop a clear vision, setting out the expected direction of travel and placing future actions under a single, coherent and overarching policy framework.

23.3. We are of the view that the government, jointly with industry, should seek to set out the strategic direction of the UK payments market. The work the industry is undertaking under our Payments Futures initiative provides the perfect vehicle to achieve this due to its cross-cutting nature as well as the wide participation in this group by many regulators and parts of the industry.

23.4. Finally, while the Payments Landscape Review does not say a lot about cash, this is now the subject of a separate call for evidence by HMT, to which we will respond.

If you have any questions relating to this response, please contact David.Song@ukfinance.org.uk