Financial Services Consumer Panel
AN INDEPENDENT VOICE FOR CONSUMERS OF FINANCIAL SERVICES

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By email: futureofpaymentsreview@hmtreasury.gov.uk

Dear Sir / Madam,

Financial Services Consumer Panel response to HM Treasury's Call for Input to the Future of Payments Review

The Financial Services Consumer Panel (the Panel) is an independent statutory body. We represent the interests of individual and small business consumers in the development of policy and regulation of financial services in the UK.

While the Panel's focus is predominately on the work of the FCA, we are responding to the Future of Payments Review (the Review) because payments are a cornerstone of all financial services, and indeed essential to consumers and society.

While we have responded to all relevant recent consultations on payments, including consultations on the digital pound, open banking, potential new forms of digital money, cards, fraud and APP scams, payments regulation and more[1], we welcome this opportunity to provide input on payments from a more holistic perspective. We welcome the "consumer lens" of the review. We urge the Review to inform its thinking by conducting consumer research building on FCA's Financial Lives Survey, to consider:

- The assumptions consumers make about payments and the extent to which money is protected (to evaluate any gap between these assumptions and reality).
- Consumers' understanding of the different systems and the industry players within each.
- The choices they make about how to pay (considering, for example, the extent to which how we pay for things is chosen by merchants rather than by consumers themselves).

[1] Please see here for all our responses to consultations.

- Consumers’ attitude to change and any conditions they would apply before adopting a novel payment method.

While the Panel acknowledges that exports and competitiveness are important and that the UK has played an important and valuable role as a standard-setter in payments for some time, we believe that the most important aspect to consider in any such review is the consumer need. Any competitiveness or export-led considerations should be secondary to this first objective. This applies to all financial services but is particularly pertinent in payments, given both importance of the Sterling payment system to the UK and the national borders of the Sterling payments system. The Payment System must serve the UK and UK consumer first and foremost.

To do so, in the Panel’s view, the Payment System must be guided by the following principles:

- **Accessibility -** All UK consumers must be able to pay and be paid. The system must be accessible to all.
- **Fairness and affordability -** The cost of making payments should not exclude particular consumers, businesses or transaction types. It should not cost more for the poorest to pay.
- **Reliability & resilience -** The Payment System must be robust and reliable, with appropriate redundancy measures in place to ensure continuity of service in case of need. The failure of individual providers should not result in consumer losses.
- **Safety, security and consumer protection –** The Payment System must be safe and secure. It should offer protection to consumers, including against fraud and losses as a result of firm failure.
- **Transparency –** The costs and protections associated with using different providers must be clear and easily understandable. Providers should offer full transparency about how end users’ data is used, by whom and to what end.

We have answered the specific questions put forward in the Review in Annex A. Alongside these and the above comments, we would stress the importance of HM Treasury keeping in mind that they should be reviewing payments not only in the present context – but in a future, more digital one. We therefore welcome this Call for Input’s 5 year forward look and would like to see this maintained throughout subsequent policy considerations.

The current Sterling Payment System has been carefully built up over centuries through innovation and iteration, legislation and regulation, competition, interventions, technology, consumer need and custom.

Thanks to this, central and commercial bank money are perceived 'as one', and the vast majority of UK society can benefit from the seamless, speedy exchange of value; a single unit of account being trusted, accessible and exchangeable throughout the economy, regardless of its form.

The rise of digitisation challenges this. While digitisation has brought immeasurable improvements in the way that we can access and use money, expanding economic opportunity and driving new forms of commerce, it also poses several risks. Most notably it presents the risk of fragmenting the Payment System.

Fragmentation of the Payment System could lead to a greater rate of financial exclusion, higher costs[2], new unwanted risks; a loss of competition, huge economic inefficiencies and, ultimately, economic and societal instability.

The importance of preserving a Payment System through which a single unit of account can be accessed, trusted and seamlessly exchanged and redeemed at par by all consumers throughout the UK – and irrespective of that unit of account's form – cannot be underestimated. It is pivotal not just to the future functioning of our financial system, but to the smooth functioning, fairness and growth of our economy and society.

The Panel is not sure the current model of macro-prudential regulation by the Bank, competition regulation of payment systems by the Payment Systems Regulator (PSR) and conduct regulation of individual payment firms by FCA is satisfactory or future-proof. We would encourage HM Treasury to consider whether a stronger System-wide and perhaps also interventionist approach might better support the development of a strong, safe and accessible payments system.

We thank you for the opportunity to respond to this consultation.

Yours sincerely,

Helen Charlton
Chair, Financial Services Consumer Panel

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[2] For example, Fair By Design has found the premium for using a prepaid card is £36 over a year and for cash, 1 in 3 low income households pay a premium of £20 over the course of a year.

Annex A - answers to the Review's three specific questions

1. **What are the most important consumer retail payment journeys both today and in the next 5 years? E.g. paying a friend, paying a bill, paying businesses for goods and services, in the UK or internationally etc.**

The distribution and receipt of income from work, pension, benefits, mortgage, rent, utilities, tax, are clearly the most important payments for consumers and small businesses alike. They include some of the most time-critical of payments. Payments relating to retail purchases and transport are equally time-critical and while on average they will be of lower value, they are (and will continue to be) of significant consequence, particularly where small businesses are concerned.

Within retail payment journeys, the most critical aspects are acceptance, trust, risk and speed – not simply transactional speed, but speed of settlement. For the full benefits of the digital economy to be realised and stimulate economic growth, speed of settlement will become an increasingly important consideration particularly for small businesses whose working capital is limited.

While most payments are made in-country, international and cross border payments are important, particularly for some types of small businesses. The Panel would expect that demand for international/ cross border payments will increase in future and would hope that the associated costs and risks will fall. While several welcome new initiatives have emerged in recent years introducing competition in both currency conversions and international transfers, we would note that these have introduced new risks for users and done little to drive down costs from traditional providers.

2. **For these journeys today, how does the UK consumer experience for individuals and businesses compare vs other leading countries? This is to be assessed for the quality of experience and security as well as cost.**

At the front end, UK consumers have choice, usually being able to choose to pay through a range of different instruments whether online or in-person. While we recognise the benefits of the increased choice in payments instruments, the protection levels offered by the different instruments vary significantly and are little understood by consumers. This contrasts with the situation in other countries where there is often less choice, but a greater consistency in protection levels.

The growth in cashless payments in the UK is more advanced than in many other countries. While this has many benefits, it is prejudicing the cash-dependent and cash-preferring portions of the UK population's abilities to access and pay in cash – raising the costs of and limiting the scope of their economic activities. The increase in bank branch closures has meanwhile complicated the financial lives of many who prefer to initiate payments in-person and have difficulty with or mistrust online banking, with vulnerable customers in particular impacted[3]. While we welcome the policy interventions aimed at protecting free access to cash, we are concerned that they will not on their own protect the inclusive circulation and use of cash through businesses and deposit services.

While the UK would seem to be at the forefront both of bank branch closures *and* the move to cashless payments, the Panel is not convinced that equivalent measures have been taken here to support those adversely affected by these developments to those undertaken in other jurisdictions. We would point, for instance, to legislation in Sweden addressing cash usage and acceptance[4], as well as efforts in Spain to equip the so-called "silver" generation and other non-digital users with online banking skills[5].

Where the UK consumer would however seem to be most disadvantaged is in fraud. Payment-related fraud in the UK totalled £1.2 billion in 2022, the near equivalent of the annual value of card fraud in the 36-country SEPA area[6,7]. Comparing like for like, UK card payments' fraud rate in 2021 totalled £524.5m[8], accounting just over a third of the €1.53 billion recorded across the entire SEPA area in the same period.

While the UK's appeal to fraudsters may be due to factors such as its relative digital advancement, the widespread usage of non-cash payments and the accessibility of the English language, the Panel does not believe providers and system operators here have paid due attention to prevention and detection and have often (if not mostly) proved reluctant to support and reimburse affected customers. The PSR's measures to mandate reimbursement of APP fraud victims cannot come fast enough,

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[3] https://www.fca.org.uk/publication/financial-lives/financial-lives-survey-2022-key-findings.pdf p29
[4] Named the Obligation for Certain Credit Institutions to Provide Cash Services, it was announced in June 2019 and came into force on 1 January 2021.
[5] https://www.thinkspain.com/news-spain/33257/pensioner-friendly-and-human-banking-law-passed-what-it-means-for-customers
[6] https://www.ukfinance.org.uk/news-and-insight/press-release/over-ps12-billion-stolen-through-fraud-in-2022-nearly-80-cent-app
[7] https://www.ecb.europa.eu/press/pr/date/2023/html/ecb.pr230526~f09bc3c664.en.html#:~:text=Card%20fraud%20in%202021%20continued,value%20of%20€5.40%20trillion
[8] https://www.ukfinance.org.uk/system/files/2022-06/Annual%20Fraud%20Report%202022_FINAL_.pdf

and we are concerned to see the incentives these are intended to place on firms to invest in prevention and detection potentially being blunted by upper and lower limits on reimbursement and complexity around the qualifying standard of consumer caution[9].

The UK has been at the forefront of instant payments and open banking, however the true benefits of these initiatives have not yet been realised. Smaller merchants and other SMEs could particularly benefit from faster settlements and increased system competition, but the promotion of these payment options has not been organised at the system-wide level necessary to stimulate adoption. Their usage would in any event be compromised by the aforementioned fraud problems as well as the lack of system-wide resolution and protection measures.

The Panel believes a national, System-wide approach will be needed to address the growing risk and incidence of fraud, to put in place protection and redress arrangements, to deal with the growing problems faced by cash users, the unbanked and those consumers who prefer to pay in person *and* to stimulate alternative payment options such as instant payments and open banking.

More interventionist approaches in other jurisdictions[10] have led to huge advances in these and other aspects of payments, variously helping to ensure ubiquity of access, increased uptake of non-cash instruments, stimulate competition and improve speed of payment and settlement. Some such initiatives have also led to decreased costs for merchants, increased competition at the front end and investment at the back end.

We would strongly encourage HM Treasury to consider whether such an approach, supported by close private sector involvement, might not be more appropriate than the current medley of regulator-led measures and participant, system and scheme-led initiatives.

3. **Looking at the in-flight plans and initiatives across the payments landscape, how likely are they to deliver world leading payment journeys for UK consumers?**

The Panel is unconvinced that the plethora of disjointed initiatives currently underway will deliver the desired outcome – however well-intentioned each one might be. Each provider in the payments landscape has, quite legitimately, its own business model, its own strategy to pursue and its own investors to satisfy. The different providers rely on payments-related revenues to different degrees and have different levels of

[9] See PSR consultations published on 15 August 2023 in relation to the consumer standard of caution and the excess and maximum reimbursement cap
[10] E.g. Brazil

engagement in the payments industry; the extent to which they will invest in their own payments and shared payments infrastructures will vary accordingly. Equally, the extent to which they are willing to participate in and support system-wide initiatives and investment will differ widely. This will impede the development of an integrated payments System in the UK; payments are a team sport and all new initiatives will necessarily rely on System-wide investment, planning and integration if they aren't to lead to fragmentation. In short, the Panel is not sure the current model under which a plethora of different providers co-exist under a regulatory structure in which macro-prudential regulation is conducted by the Bank, competition regulation by the PSR and conduct regulation by the FCA is satisfactory or future-proof. Again, we would encourage HM Treasury to consider whether a stronger System-wide and potentially interventionist approach might better support the development of a strong, safe and accessible payments system.