

Digital wallets CfI
Payment Systems Regulator
12 Endeavour Square
London E20 1JN

By email

13 September 2024

Dear Sir/Madam,

Call for information: Big Tech and digital wallets

The Panel welcomes the opportunity to respond to this Call for Information recognising that Digital Wallets are becoming a critical part of payments infrastructure. Our main comments focus on the implications of the prevalence of big tech in this rapidly evolving provision, and highlights where regulatory attention might best be focussed to provide consumers with appropriate understanding, protection, and choice in the long-term, to make the market as effective as possible.

Digital Wallets offer clear and compelling benefits to consumers, including convenience, flexibility and ease of control for payments and other functions. They work particularly well when based on open standards in the context of “embedded finance”, allowing consumers to easily vary their payment choice and experience streamlined journeys across multiple payment journeys in different channels.

A key issue, from both a business and consumer perspective, is that the regulatory and legislative framework has struggled to keep up with the pace of adoption and innovation related to Digital Wallets. Their rapid growth has placed greater burden on consumers to educate themselves regarding the implications of using wallets to facilitate payments, including consumer protection rights (e.g. section 75 / chargeback), and security and resilience implications. The onus associated with providing this support falls on the provider of individual payment instruments within the wallet, yet those individual payment providers cannot see the overall consumer position, let alone 'control' that consumer's experience within the overall wallet. Regulators could address this by clarifying the proper apportionment of responsibility between the provider of the digital wallet and the individual payment providers when things go wrong. A similar principle applies when considering liability for unauthorised transactions, particularly given the wallet provider is ultimately responsible for approving the 'loading' of individual payment instruments into the wallet itself and then controlling access to the wallet once they are there. Moreover, digital wallet providers should have the same incentives to prevent fraud as Account Servicing Payment Service Providers.

The dominance of big tech in the development of digital wallets also has implications for competition in the market and consumer choice. When wallets first appeared within the market, their potential benefit was clear, and it appeared as though a broad range of alternative wallets could become available, ensuring realisation of that benefit through a fully competitive market. Over time, the market has become more concentrated, as consumer and business adoption has grown. The interactions of some wallet providers with payment providers through this period gives cause for concern that third-party payment providers into wallets could face significant barriers to entry. Further, the use of wallets for purposes beyond payments such as access to retail loyalty cards and tickets for events and travel provides a source of rich data for wallet providers which is likely to further entrench the position of the few players providing them,

particularly as providers look to explore more opportunities to expand on wallet usage. It will be important for regulators to continue to develop their understanding of market power in this area, and the implications for the market and consumers. In the context of the FCA's secondary international competitiveness and growth objective, close working with the CMA would ensure that the UK is well placed to lead and benefit from innovation in digital wallets.

Most participants are anticipating significant growth in the use of digital wallets for account-to-account payments, leveraging open banking / open finance infrastructure. Though there may be many benefits from such a transition, moving too fast may also compound existing concerns, particularly the resilience of the underlying operating model and consumer protections. In our view, the priority should be the creation of a proper commercial model, with consumer protections for account-to-account payments, which should be progressed through the forthcoming National Payments Vision. Experience has repeatedly shown that a properly operating market, with a clear commercial model underpinning it, creates the right conditions for competition to ensure that users get the full benefit of the services on offer.

We would be happy to discuss any of these points further.

Yours faithfully,

[signed]

Matt Hammerstein
Chair, FCA Practitioner Panel