

Time For A National Payments Strategy, UK Report Says

The “strongest recommendation” in a new report on the UK payments landscape is that the government develops a national payments vision and strategy.

A government-backed Future of Payments Review has [said](#) that UK payments are in a good position, but this is at risk without a concrete strategy for the future.

The report was endorsed by the government in the Autumn Statement on Wednesday (November 22), and says that the government needs to focus this strategy on “the criticality of payments to consumers and the economy, the many billions of pounds being invested and the highly interdependent nature of the payments arena”.

This work should have a primary aim of simplifying the landscape over time, the report says.

“A healthy payments ecosystem is essential to a healthy competitive economy. With a clear vision for the future, payments can help unlock GDP growth through fostering small business growth, frictionless trade, and fintech innovation.”

The new review was carried out by former bank CEO Joe Garner and commissioned by Chancellor Jeremy Hunt.

Launched in June, it involved consultation with more than 100 organisations, including Revolut, Wise, Stripe, Adyen and Klarna.

Speaking to Vixio, TrueLayer’s Jack Wilson said that Garner has listened carefully to the industry and the report reflects the potential for further development within UK payments, particularly from open banking.

“This report comes after a year of regulatory engagement and consultation which has been helpful, but has not resulted in much concrete action or delivery,” the policy and research head said. “We hope the report signals the period of consultation is over, and space and support will be provided for industry to deliver the next phase of open banking.”

Request to Pay’s potential

Among suggestions made is that a national payments strategy could harness Request to Pay — a still nascent payment method that has been touted as a disrupter to direct debits.

“Request to Pay can offer much-needed optionality for consumers and help them manage monthly budgets,” the report says, adding that it could also support greater digital inclusion in payments by offering a more flexible way to pay than cash.

The Request to Pay framework was first launched in 2020, yet has not become widely available.

“Consideration could be given to expanding its adoption, particularly in light of cost-of-living pressures,” the report says.

Peter Cornforth, Answer Pay CEO, told Vixio that he was pleased that it has been recognised as an important part of the future payments mix, noting the positive impact it could play in mitigating authorised push payment (APP) fraud.

“Stimulating adoption using the National Payments Strategy is a great first step but we would like to see the regulation go further with the future open banking entity taking the reins to ensure that synergies with variable recurring payments are realised,” he said.

Cornforth added that the review promises to be one of the most positive disruptions to financial services since open banking was introduced in 2018.

“A key element of this report are the considerations around consumer protection in open banking that could ultimately lead to the creation of a scheme, something that has been resisted by the industry to date,” he said.

According to Cornforth, a scheme could also be very helpful for new open banking services, such as variable recurring payments, where today multiple bilateral agreements are required between banks and third-party providers.

Open banking recommendations

The report suggests that open banking payments offer a competitive solution to card schemes. However, much needs to be done to reach that point.

For example, it suggests that open banking could help improve the consumer-to-consumer process and, in time, provide an alternative to card schemes for retailers.

However, the current problem is that there is currently no consumer dispute resolution process for open banking transactions.

“We believe this will be a barrier to adoption if not addressed,” the report warns.

Garner’s review touts four recommendations for open banking to succeed.

As well as a dispute solution, which the report says “will create the trust and security that consumers need to adopt open banking solutions”, the review says that open banking needs to be leveraged to improve the person-to-person bank transfer payments journey.

“We believe that open banking journeys can rival the best in the world, if we focus on them,” the report says.

The report also recommends that an alternative payment journey is developed to give retailers choice beyond card schemes.

In addition, it recommends that the Payment Systems Regulator (PSR) complete its work investigating card scheme fees.

“If choice can be created, we believe that merchant dissatisfaction will decrease,” the report says.

Garner’s findings also call for work on a commercial model for open banking to be sped up, suggesting that the government and Joint Regulatory Oversight Committee (JROC) should prioritise agreement of a commercial model so that there is scope to invest in both infrastructure and consumer protection.

“Without sustainable financials, it is hard to see that open banking can thrive over the long term.”

Evgeniy Ivantsov, CMO of FYST, welcomed this part of the report, telling Vixio that “open banking has the potential to revolutionise the retail and P2P payment landscape”.

“Merchants’ have long been dissatisfied with increasing scheme fees from traditional card payments which makes a compelling case for alternative payment journeys through open banking,” he said. “The importance of leveraging open banking not only as a solution posed by card fees but also as a means by which to improve user experience cannot be understated.”

Industry welcomes recommendations

The Open Finance Association (OFA) fintech group welcomes the report.

“In particular we strongly support the identification of open banking’s potential to be an alternative to card schemes and deliver better end-user outcomes in consumer-to-consumer and consumer-to-business payments,” said Nilixa Devlukia, OFA chair.

Devlukia added that the association agrees that appropriately addressing consumer protection and commercial incentive issues will be key to realising this broader potential.

Charles Damen, chief product officer at Token.io, commented that the Future of Payments Review makes clear that open banking is well placed to play a more central role in enabling the UK to deliver world-leading retail payments.

“We believe the objectives of the review are well aligned with the strategic priorities of the Payment Systems Regulator, which sees open banking as an important means of fostering innovation and competition in payments,” he said.

“We hope the review will therefore serve as a catalyst for the industry to continue to work together with regulators to fulfil this potential.”

Payments consultant Daniela Sozzi suggested that the need for a dispute resolution “hits the nail on the head”.

“On the other hand, it is the lack of consumer adoption of digital alternatives to cards, not a lack of viable solutions, that reduces merchants’ willingness to accept such methods,” she said.

She told Vixio that this is particularly true for smaller merchants, outside the e-commerce world. “For these merchants, even the acceptance of digital wallets payments would come at comparable cost to cards.”

Additional focus areas recommendations

The report has concluded that consumer experience could be improved.

For example, it suggests moving strong customer authentication (SCA) requirements away from detailed technical standards for the Financial Conduct Authority (FCA) to supervise via an outcomes-based approach, suggesting that this could improve the shopping experience and further reduce fraud.

Further, the report calls on HM Treasury and the FCA to regularly assess whether digital exclusion is leading to financial exclusion.

“The position is evolving rapidly and needs to be closely monitored,” the report says.

The report has also called on the PSR to conduct a review of the new authorised push payment (APP) fraud rules after 12 months of implementation and suggests that the government set a more ambitious fraud crime reduction target beyond 2024, suggesting that the emphasis should be on preventing the crime in the first place.

Further, the report calls for HM Treasury and the regulators to review the way some current regulatory requirements are applied to fintechs, so that it is clear and appropriate.

“If we can reduce the complexity for smaller firms, they will grow more rapidly,” the report concludes.

“It seems to suggest the regulatory burden on fintechs might compromise their growth potential,” said Sozzi.

Sozzi continued that this is an interesting point. “We have seen recently the debacle of fintech players that had sacrificed prudence and compliance at the altar of growth.

“Growth or freedom for fintechs should be the outcome of a coherent future policy vision, not the objective,” she said.

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