

Response paper

The Digital Payments Initiative

Response by the PSR

July 2022

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1 Executive summary

This paper sets out our response to the PSR Panel's Digital Payments Initiative report. The report highlighted barriers to people using digital payments, and made a range of recommendations for us to address them. Ultimately, this will help us ensure people have access to payment systems that meet their needs.

- 1.1** We welcome the Digital Payments Initiative report's recommendations. The report focuses on the potential for new open banking-based account-to-account payment services. A key element of our five-year Strategy, and our current work programme, is unlocking the potential of interbank payment systems – including by considering the potential benefits of open banking.
- 1.2** Our work has identified that there are barriers which restrict retailer and consumer adoption of open banking for use cases such as account-to-account-based retail transactions. We have set out four priority issues that we consider need to be addressed: the system's functional capability, dispute processes, access and reliability, and a sustainable funding model.
- 1.3** The new Joint Regulatory Oversight Committee (the Committee), co-chaired by the PSR and the Financial Conduct Authority, and including the Treasury and the Competition and Markets Authority, will consider the vision and strategic roadmap for further developing open banking. We are keen to work closely with the industry and other key stakeholders through a strategic working group (SWG), and have asked that the SWG recommend to the Committee how our four priority issues can be addressed.
- 1.4** Following the SWG's work, we will consider, with the Committee, what actions we need to take. The Treasury is working with us and the FCA on proposals for a permanent future regulatory framework for open banking, based on joint regulatory oversight by the FCA and PSR and backed by any necessary legislation.
- 1.5** Removing barriers to new digital payment services, to better meet people's needs, is part of our remit. But the report highlights that it will take more than new types of digital payment to address some of the reasons people rely on cash. For example, some people don't have access to digital infrastructure, lack general digital skills or have physical difficulties in using certain technologies.
- 1.6** Tackling the causes of digital exclusion lies beyond our remit as the regulator of payment systems. But we do have a key role in challenging payment system operators to consider people with limited digital and financial skills and access when they design and implement digital payment services. Our stakeholder workshop highlighted the role that card systems could potentially play, in addition to areas highlighted in the report.

- 1.7** We want to hear more from consumer representatives than has been captured in the Panel's report, to ensure our next phase of work meets consumer needs. We will explore with consumer representatives what more card and other payment system operators could do to facilitate the availability and use of digital payment services that meet the needs of those with limited digital and financial access or skills.
- 1.8** We also have a role in monitoring and publicising progress towards our outcome that everyone has access to payment services that meet their needs; this informs our priorities on digital payments, and our engagement with organisations who can address the causes of digital exclusion. Figure 1 summarises how we see our roles.

Background

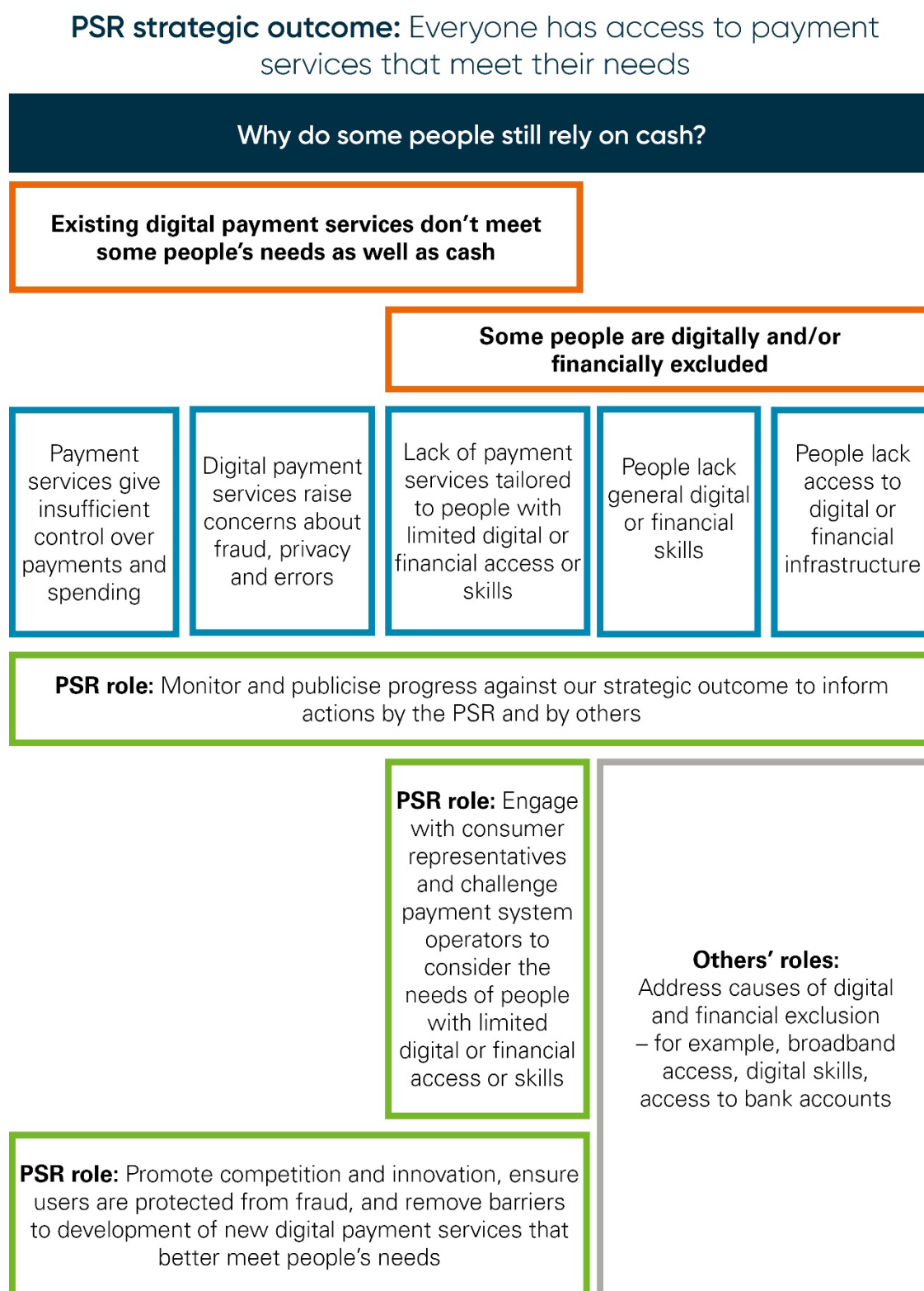
- 1.9** The payments sector is changing. Innovation is making digital payments more convenient and creating new payment products and services. Digital payments continue to grow – many people now make payments using just a card or a smartphone. And the use of cash is in decline: since 2017, cash use for payments has fallen by around 18% each year.¹
- 1.10** Protecting access to cash for those who rely on it is a priority for us. Cash remains a vital payment method for many, including the most vulnerable in society. The Financial Conduct Authority's research shows that 5.4 million adults (10% of the population) rely on cash to a very great or great extent in their day-to-day lives.² Our work on access to cash, alongside the Financial Conduct Authority and government, means people continue to have free access to ATM withdrawals within their communities.
- 1.11** However, maintaining access to cash alone is not sufficient. People who don't use digital payments are increasingly at risk of losing out – through higher costs (the 'poverty premium'), through declining acceptance of cash, and by missing out on the convenience and service features that digital payments offer.
- 1.12** Different people need different things from digital payments. Those who are financially vulnerable or have an uncertain income are likely to need different features to more affluent consumers. For example, Direct Debit is widely used, and many people depend on it, but it may not be a flexible enough way to pay bills for people with uncertain or low incomes. Creating the conditions where digital payments are a realistic choice for everyone would improve the lives of many people.
- 1.13** Our five-year Strategy³ explains the key outcomes we want to see in payments. One of these outcomes is that everyone has access to payment services that meet their needs. Promoting the take-up of digital payments, as part of the 'digital transition', will be a key contributor to achieving this outcome.
- 1.14** New payment technologies may lead to a wider range of payment services that meet more people's needs. We said in our Strategy that we will continue to promote competition and innovation in payments, and will aim to remove barriers to the development of new services.

1 [The PSR Strategy](#) (January 2022).

2 FCA, *Financial Lives 2020 survey: the impact of coronavirus* (February 2021).

3 The PSR Strategy (January 2022).

- 1.15** To help inform our thinking on actions we could take, in July 2021 we launched the Digital Payments Initiative to understand potential barriers to the take-up of digital payments and identify potential solutions. We asked the independent PSR Panel to lead the Initiative and advise us on potential regulatory actions we could take. We published the Panel's report in May 2022 and held a stakeholder workshop on the report in June. The report highlights the reasons why people rely on cash and makes high-level and technical recommendations aimed at enabling greater take-up of digital payments. This publication sets out what we plan to do in response to them.

Figure 1: Our role in the digital transition⁴

⁴ This diagram does not attempt to depict the roles of other regulators of payments, including the FCA and the Bank of England.

2 The Digital Payments Initiative

We asked the PSR Panel to lead the Digital Payments Initiative to understand potential barriers to the take-up of digital payments and identify potential solutions. The Panel's report identifies high-level and technical recommendations for us, with a focus on the potential for open banking-based account-to-account payments. We welcome the report's recommendations.

- 2.1** In July 2021, we asked the PSR Panel to lead the Digital Payments Initiative to understand potential barriers to the take-up of digital payments and identify potential solutions – and to advise us potential regulatory actions we could take to support improved outcomes.
- 2.2** The PSR Panel is established by statute and is independent of the PSR. The Panel's role is to help develop our strategy and policy and offer advice on our work. The Panel was ideally placed to undertake the Initiative, with its members drawn from across the payments industry and user representatives.
- 2.3** The Panel established a Sub-Group, including both Panel members and other payments industry and user experts, to work on the Initiative. Dr Ruth Wandhöfer, the PSR Panel Chair, chaired the Sub-Group.
- 2.4** The PSR Panel presented the report of the Digital Payments Initiative to us in April 2022, including a range of recommendations for us. We published the report in May.⁵
- 2.5** The report highlights key drivers for continued cash reliance. It also identifies both high level and technical recommendations for us, aimed at enabling greater take-up of digital payments.
- 2.6** We welcome the report's conclusions on:
- the need for innovation in digital payment types to better meet users' needs, including the cash-reliant – for example, by providing users with greater visibility and control over their payments
 - the role of competition in driving innovation, as well as our role in tackling technical barriers to the emergence of new digital payment types
 - the need for users to trust the safety of digital payment types for these to be successful

5 PSR Panel, [Summary report of the Digital Payments Initiative](#) (April 2022).

- the recognition that cash reliance cannot be fully addressed without also addressing issues of broader digital exclusion, such as lack of access to digital infrastructure and lack of general digital skills
- the need for good data to inform priorities for action

2.7 The Initiative's report focuses on the potential for open banking-based account-to-account payments to increase competition between payment systems and services, and to enable innovation in new payment services that may encourage greater take-up of digital payments. A key element of our Strategy, and our current work, is unlocking the potential of interbank payment systems. This includes considering the potential benefits of open banking to enable new firms to bring innovative new payment services to market in the retail space.

2.8 We want to hear more from consumer representatives than has been captured in the Panel's report, and we will take this forward. It is important for us to understand their views on consumer needs, and on the opportunities across the range of digital payment technologies to help people who are cash-reliant to take-up digital payments.

2.9 We welcome the report and set out what we plan to do in response to each of the report's recommendations in Chapter 5.

3 Our stakeholder engagement

We held a stakeholder workshop on the Initiative's report. We have taken account of views expressed there in our response to the report. There will be further opportunities for stakeholder engagement, and we particularly want to hear more from consumer representatives to ensure our next phase of work meets consumer needs.

3.1 In June, following publication of the Initiative's report, we held a stakeholder workshop. Our aim was to hear from a wider set of stakeholders than were directly involved in the Initiative. Ruth Wandhöfer presented the report's findings and attendees discussed the issues.

3.2 Key messages from the workshop included:

- the importance of distinguishing different reasons for cash reliance that applied to different types of consumer, such as consumers who may be comfortable with digital interfaces but prefer the tangibility of cash to help them control spending, compared to consumers who may be less comfortable with digital interfaces
- the need for different solutions for each type of cash-reliant consumer
- the potential benefits of open banking retail payments for those able to use digital interfaces that may increase use of digital payments, including balance visibility in the payment journey and improved control over recurring payments, as well as the potential for cost savings and faster settlement times for retailers
- the potential for other solutions, given less focus by the Initiative's report, to help address cash reliance, such as pre-pay cards, e-money accounts and digital payment interfaces better tailored to the needs of different consumer demographic groups
- the potential barriers to successful open banking retail payments, including the need for a more seamless payment experience, the need for incentives for consumer adoption, potential for lack of consumer trust, the need for an effective liability framework and consumer protections, lack of consistent terminology and lack of point-of-sale solutions equivalent to contactless
- the need for a vision for open banking retail payments and to convene multilateral work to address the barriers
- recognition of the need to address the causes of broader digital exclusion, the long-standing efforts of bodies such as Ofcom in this area and the potentially limited value for the PSR to add
- the need nevertheless for the PSR to be engaged, and the potential for the PSR to focus on industry development of digitally inclusive payments services

- recognition that many parties have roles to help raise consumer awareness and understanding of payments, and the PSR has little recognition among consumers, so it is important for the PSR to work with others, including consumer bodies
- the importance of more data collection on different types of payment user to better understand people's needs

3.3 We have taken account of views expressed in the stakeholder workshop in responding to the Initiative's report.

3.4 There will be further opportunities for stakeholder engagement. For example, we will be working with a strategic working group (SWG), including industry and other key stakeholders, convened by the Joint Regulatory Oversight Committee on open banking.

3.5 We want to hear more from consumer representatives to ensure our next phase of work meets consumer needs. We are therefore engaging with the FCA Consumer Network. We will also engage consumer representatives in our work with payment system operators, including card schemes, on facilitating digital payment services that meet the needs of those with limited digital and financial access or skills (see Chapter 5).

4 The PSR's role in the digital transition

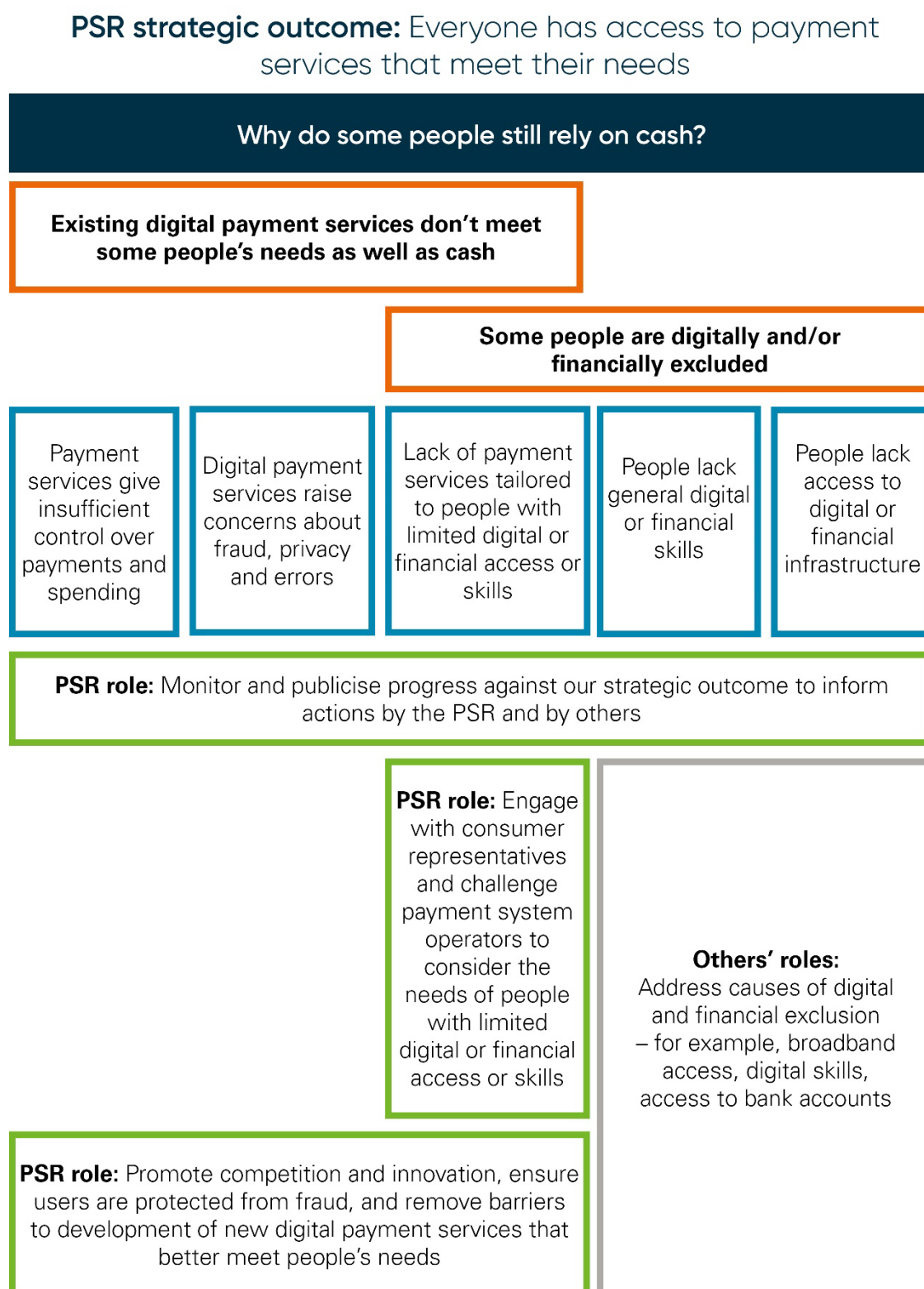
Helping to remove barriers to new digital payment services, which better meet the needs of people who are currently cash reliant, is part of our remit. But some drivers of cash reliance – including lack of access to digital and financial infrastructure, and lack of digital and financial skills – cannot be addressed by new types of digital payment alone. Addressing the causes of digital exclusion lies beyond our remit, but we do have a role in challenging payment system operators to consider people with limited digital and financial access or skills when designing and implementing digital payment services.

- 4.1** Our Strategy sets a strategic outcome for everyone to have access to payment services that meet their needs.
- 4.2** Protecting access to cash for those who rely on it is a priority for us. Our work on access to cash, alongside the Financial Conduct Authority and government, means consumers continue to have free access to ATM withdrawals within their communities. However, maintaining access to cash alone is not sufficient. Enabling the take-up of digital payments, as part of the digital transition, will be a key contributor to meeting our strategic outcome.
- 4.3** The Initiative's report highlights that low income (or other vulnerability) is a key reason for continued reliance on cash. Low income is associated with the following drivers of cash reliance⁶:
- increased importance of avoiding overspending, which the physical nature of cash makes easier than existing digital payment types
 - lack of financial capability
 - lack of access to digital and financial infrastructure, such as adequate broadband and devices, and being 'unbanked'
- 4.4** Other drivers for cash reliance include:
- concern about fraud, privacy and making errors in digital payments
 - lack of the digital skills needed to undertake digital payment transactions
- 4.5** A successful digital transition will require actions to address all these drivers of cash reliance.
- 4.6** New digital payment services that better meet the needs of people who are currently cash reliant could address some of these drivers. For example, services that give people more control over payments so they can avoid overspending, or that reduce the risk from making errors. Promoting competition and innovation, ensuring consumers are

6 Savanta: ComRes and the FCA, [Understanding cash reliance – qualitative research](#) (2021).

sufficiently protected, and helping to remove technical barriers to new digital payment services are all part of our remit, working in coordination with the FCA. The Initiative's report makes recommendations in this territory, and Chapter 5 discusses how we plan to take these forward.

- 4.7** Other drivers of cash reliance – including lack of access to digital and financial infrastructure, and lack of digital and financial skills – are about broader exclusion from digital and financial services ('digital exclusion'). They cannot be addressed by new types of digital payment alone. If people cannot obtain or cannot afford smartphones or broadband, if people lack the skills for, or have physical difficulties in, using such technologies, or if people cannot obtain bank accounts, they find it hard to use many types of digital payment service or to participate in a digital society more generally.
- 4.8** For our strategic outcome to be fully achieved, both the types of digital payments available and digital exclusion itself need to be addressed.
- 4.9** There are different levels of digital exclusion; and digital exclusion affects the take-up of different digital payment types to varying degrees. Some people may be better able to use certain types of digital payment (such as physical cards) than others (such as smartphone app-based payment services).
- 4.10** Addressing the causes of digital exclusion lies beyond our remit as the regulator of payment systems. It requires action across a range of sectors and authorities with the appropriate tools to address it. But the Initiative's report rightly challenges us on the nature of our role here. We do have a potentially key role to play in helping those with limited digital inclusion gain better access to digital payments. Figure 1 summarises how we see our roles.
- 4.11** As part of this, we need to make sure we understand the perspective of digitally excluded and vulnerable consumer groups on the payment choices available to them and on their experience of digital payments. Such groups include people with limited access to technology, physical or mental disability, older people, and those with lower income levels.
- 4.12** We have a role in challenging payment system operators to consider the experience of those with limited digital and financial access or skills when designing and implementing digital payment services. To reach excluded groups, cross-system approaches may be needed.
- 4.13** We also have a role in monitoring and publicising progress towards our strategic outcome – for everyone to have access to payments that meet their needs – both to help inform our priorities on digital payments and to help in our engagement with others who do have the tools to address the causes of digital exclusion.
- 4.14** Figure 2 illustrates how we see our roles on the digital transition. In Chapter 5, we say more about how we plan to take forward each role.

Figure 2: Our role in the digital transition⁷

⁷ This diagram does not attempt to depict the roles of other regulators of payments, including the FCA and the Bank of England.

5 Our responses to the recommendations

The report focused on the potential for new open banking-based account-to-account payment services. A key element of our work programme is unlocking the potential of account-to-account retail transactions. We have set out four priority issues that we consider need to be addressed: the system's functional capability, dispute processes, access and reliability, and a sustainable funding model. We have asked a strategic working group of industry and other stakeholders to recommend how these issues can be addressed.

We will explore with relevant card and other payment system operators, as well as consumer representatives, what more could be done to facilitate the availability and use of digital payment services that meet the needs of those with limited digital and financial access or skills.

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- 5.1** For each recommendation of the Digital Payments Initiative, we set out what we plan to do in response.

Recommendation 1: The PSR should engage with the industry to encourage the use of consistent terminology for account-to-account retail payments, building on the OBIE's work to help build consumer and merchant familiarity and confidence. It should explore the scope for awareness-raising activities to build the trust of consumers, small businesses and other small organisations and help them navigate the payments landscape effectively to make good choices.

- 5.2** We set out in our Strategy that we increasingly aim to focus on competition between UK payment systems. We consider there may be significant benefits in unlocking the potential of account-to-account retail transactions over interbank payment systems. Open banking has led to greater competition and innovation in UK retail banking. It has also brought benefits by allowing consumers and businesses to share their data with trusted third parties who can help them manage their money more easily. In addition, open banking has the potential to unlock the potential of account-to-account retail transactions.

- 5.3** In March, the PSR, Financial Conduct Authority (FCA), the Competition and Markets Authority (CMA) and the Treasury published a joint statement on the future of open banking.⁸ This statement announced the creation of a new Joint Regulatory Oversight Committee (the Committee), co-chaired by us and the FCA. One of the roles of the Committee is to consider the vision and strategic roadmap for further developing open banking. As part of this role, we and the FCA are keen to work closely with the industry

⁸ [*Joint statement by HM Treasury, the CMA, the FCA and the PSR on the future of Open Banking*](#) (March 2022).

and other key stakeholders through the strategic working group (SWG), which the Committee is convening. The SWG will act as a consultative forum to collate stakeholder views to bring to the Committee for consideration.

5.4 Current open banking functionality enables some use cases (for example, sending money to a friend), but our analysis has identified a series of barriers to greater retailer and consumer adoption of open banking payments for wider use cases such as account-to-account-based retail transactions.

5.5 We have set out the four priority issues that we consider need to be addressed to promote open banking account-to-account retail transactions⁹:

- **The system's functional capability:** We need to address the particular user needs of retail purchase transactions (for example, retailers' ability to trigger the payment with the customer's consent when the customer is not present) – and to have operational and technical standards that support this. There may be a need for new functionality, but we assume much of the existing functionality can be reused or repurposed. We want to look at different retail uses to find if the current functionality works for users and, if not, how issues or gaps could be overcome.
- **Dispute processes:** Retail transactions bring new risks, such as unsatisfactory goods being delivered after the payment, or the retailer not acting in good faith. We need to ensure all the parties involved in the transaction act together to minimise these risks, that refunds can easily be initiated, and that the right processes ensure that customer disputes can be resolved efficiently. We will also need to understand if further protection is needed in certain instances (for example, in cases of fraud, or if a seller goes bankrupt), so that consumers and retailers alike are confident using account-to-account payments.
- **Access and reliability:** Retailers and consumers must be able to use their preferred payment method when they want to. We want to ensure that the system works properly for the end-to-end journey for a retail transaction, and that customers don't have any problems when they make their purchase. We also want to explore what the seller needs to feel assured that they will be paid, and ensure that there is sufficient capacity to match the potential uptake in the future. There are several ways to achieve access and reliability. The technical build is one, but there could be alternative approaches such as providing assurances for future payments, or considering contingency options.
- **A sustainable funding model:** For account-to-account payments to work in retail, we need a commercial and pricing model that ensures all parties receive sufficient compensation for the services they provide, and can continue to invest in new products and further innovation. We need to investigate how these payments can provide an opportunity for all parties, including account providers, to receive compensation, and the process for this. Any solution will need to be economically viable, appealing to retailers and consumers, and attractive to the market. There will be a need to balance the needs of all parties in a (potentially multilateral) agreement.

9 PSR, [Unlocking account-to-account retail payments](#) (June 2022).

- 5.6** We are working closely with the FCA and other Committee members. The four priorities highlighted above will feed into the Committee's work with a view to reach a common authorities' view on the vision for open banking payments. The Committee will seek industry and broader stakeholder views through the SWG.
- 5.7** We will continue to engage with the PSR Panel as our work on account-to-account retail transactions develops.
- 5.8** We recognise the Panel's finding of a lack of consistent terminology for account-to-account payments. There is currently little to allow customers to associate the experience of one open banking payment journey with another, and thus build familiarity and confidence.
- 5.9** Our immediate priorities are the issues set out above and we think achieving these is key to enabling an effective market to develop. We would want to see whether the market, once further developed, is able to build consumer and retailer familiarity and confidence in account-to-account retail transactions, including via appropriately consistent terminology. If that did not happen, and the issue remained a significant barrier, we would work with the FCA and stakeholders on appropriate actions. These would include considering the need for a consistent brand and the case for consumer awareness-raising activity.
- 5.10** More generally, we are considering how we can communicate more effectively with consumers, across channels, including how we can get better at engaging with consumer groups. As part of this, we are looking at how we can develop our website to help consumers better understand payments and the PSR.

Recommendation 2: As the PSR undertakes detailed design of its proposed CAMR remedies to help merchants compare card-acquiring services' prices and service features, it should take into account that merchants may increasingly also want to make comparisons between cards and other payment options, including account-to-account payments.

- 5.11** The Panel's view that merchants may increasingly want to compare cards and other payment options aligns with our ambition to unlock the potential of account-to-account retail transactions.
- 5.12** In the final report of our card-acquiring market review, in November 2021, we concluded it was hard for small merchants to compare card-acquiring services. We have published our provisional decision on proposed remedies aimed at making the market work better for merchants.¹⁰ These include a requirement for card acquirers to provide merchants with bespoke summary information setting out key price and non-price service elements of their card-acquiring services. A remedy of this kind could also help merchants compare card with emerging non-card payment options, making it easier for them to choose between different digital payment methods.
- 5.13** We expect to review the market periodically to assess whether there is a continuing need for remedies. These reviews will include consideration of the impact of emerging payment methods (for example, account-to-account payments to merchants).

¹⁰ PSR CP22/3, [Card-acquiring market remedies – Provisional decision](#) (June 2022).

Recommendation 3: The PSR, alongside the FCA, will need to take a regulatory oversight role to ensure that open banking payments develop beyond the CMA Order to enable competitive new account-to-account retail payment services, while ensuring appropriate consumer protections.

5.14 We agree with the Panel's recommendation. Together with the Committee, we are examining the sets of rules and standards needed to support growth of open banking account-to-account retail transactions. We think they will not thrive unless cooperative agreements, including for consumer protection, can be established across participants. We consider the PSR – as the regulator of payment systems in the UK – should oversee such open banking payments agreements, just as we oversee them in other major payment systems.

5.15 The joint statement on the future of open banking confirmed that the Treasury is working with us and the FCA on proposals for a permanent future regulatory framework for open banking, based on joint regulatory oversight by the FCA and PSR and backed by any necessary legislation.

Recommendation 4: The PSR should challenge those with tools to address the causes of digital exclusion to do so, in order to remove these barriers to the take-up of digital payments. As part of this, the PSR should publicise progress towards its strategic outcome of everyone having access to payment services that meet their needs and identify where additional actions are most needed.

5.16 In Chapter 4, we set out how we see our role on the digital transition.

5.17 We agree we have a role in monitoring and publicising progress towards our strategic outcome, to help inform our priorities on digital payments and inform our engagement with others who have the tools to address the causes of digital exclusion. We set out below, under Recommendation 5, the kinds of data we may use to assess progress against this strategic outcome. We will publish data and information against some indicators of progress towards our strategic outcome annually.

5.18 We recognise that addressing the causes of digital exclusion would be a key contributor to a successful digital transition, but it lies beyond our remit. It requires action across a range of sectors and authorities able, for example, to improve digital skills and access to digital infrastructure. As was recognised at our stakeholder workshop, there is likely to be a limit to the value we can add. We will, of course, continue to engage with other regulators and authorities.

5.19 We do, however, have a role in challenging payment system operators to consider the experience of those with limited digital and financial access or skills when designing, implementing and promoting the use of digital payment types, and ensuring services meet the needs of customers. Our stakeholder workshop highlighted in particular the role that card systems could potentially play – for example, via prepaid card services.

5.20 We will explore with relevant payment system operators what more could be done to facilitate the availability and use of digital payment services that meet the needs of those with limited digital and financial access or skills. This will include the role that card payment schemes can play. A key part of this work will be engagement with consumer representatives. We will coordinate with the FCA in this work.

Recommendation 5: The PSR should improve data gathering relevant to achieving its strategic outcome for everyone to have access to payment services that meet their needs.

- 5.21** This recommendation is very much aligned with our ambitions. As part of our Strategy, we have committed to developing, over the coming years:
- our data on and analysis of the UK payments landscape to identify trends, risks and opportunities
 - our ability to measure and evaluate our impact
- 5.22** This is being taken forward by our new Strategy, Analysis and Monitoring Department.
- 5.23** We are developing new metrics to assess the extent to which our strategic outcomes are being met. As far as possible, we will quantify and measure the impact our work has towards achieving our outcomes. But we recognise many other factors will affect the outcomes. We do not yet have all the data and information we would like to measure how the outcomes are changing on a consistent and ongoing basis. We are exploring in more detail the information sources we can access, and where we may need to develop new sources (such as information requests or commissioning studies or surveys).
- 5.24** Relevant to our strategic outcome, we aim to understand the perspective of digitally excluded and vulnerable consumer groups towards the payment choices available and their experience of digital payments. Such groups include people with limited access to technology, physical or mental disability, older people and people with lower income levels. Indicators relevant to this outcome may include:
- trends in the number and type of new and innovative payment methods and services
 - trends in use of different payment methods and for different users over time
 - trends in the uptake of existing alternative payment options for groups that currently rely on cash
 - qualitative and quantitative information on users unable to make or receive payments, or incur costs in doing so
 - satisfaction levels of all user groups across a range of measures (including trust, convenience, cost, dispute resolution, unmet needs)
- 5.25** We will publish data and information against some indicators of progress towards the outcomes annually.
- 5.26** We intend to make sure our work is supported by good information. However, we do not intend to make data collation and analysis the PSR's primary focus. We also want to ensure our information and data requests are proportionate and do not constitute an undue burden on the firms we regulate.
- 5.27** We will consult the PSR Panel as we develop the data outlined above.

Recommendation 6: The PSR should consider requirements on all banks to provide Variable Recurring Payment API access for all use cases (beyond the sweeping use case already mandated by the CMA on CMA9 banks) on a basis equivalent to the CMA's requirements for sweeping and single payment API access. Alongside this, the PSR should ensure:

- arrangements for operationalising the appropriate allocation of liability for unauthorised or defective payments; and
 - availability of consent dashboards, or equivalents, to a standard that enables all consumers to easily identify, amend and revoke retail VRP consents
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- 5.28** We recognise the significant potential for Variable Recurring Payment (VRP) use cases beyond sweeping. The VRP standard is likely to provide key functionality enabling account-to-account retail transactions and new types of recurring payment.
- 5.29** We have set out four priority issues that we consider need to be addressed to promote open banking account-to-account retail transactions, including the need for a commercial and pricing model that ensures all parties receive sufficient compensation for the services they provide and can continue to invest in new products and further innovation.
- 5.30** The Committee is working with the industry and broader stakeholders, through the SWG, to identify the vision for open banking, including open banking payments. We consider that addressing our priority issues will be important for enabling successful VRP use cases.
- 5.31** Exploration of increased use of VRPs beyond sweeping is likely to require examination of its potential costs and benefits, potential charging structures and dispute resolution arrangements. A key consideration will be appropriate consumer protection.
- 5.32** We think commercial models that incentivise participants to work together to provide services to users are likely to be more sustainable than commercial models where participants have opposing incentives – and we will consider these types of commercial models for account-to-account. We also recognise that account providers are likely to have a degree of market power because PISPs must use the account provider chosen by the customer who initiates the payment. We will want to consider the potential impact of commercial models on competition.
- 5.33** Before we consider the case for placing any formal requirements on account providers, or other participants, we want the Committee to have undertaken its work, including engagement with the SWG. But this does not prevent account providers taking forward, with third parties, commercial arrangements for specific non-sweeping VRP use cases, where suitable pricing, liability and other arrangements can be agreed.
- 5.34** We agree with the Panel that customers should have the ability to easily identify, amend and revoke retail VRP consents. This contributes to giving consumers more control over their payments and may encourage greater take-up of digital payments. Existing ways to achieve this include dashboards. The SWG may wish to explore how these may need to evolve as new open banking retail payment types, including VRP, develop.

- 5.35** We recognise that open banking payment services already exist, such as request for payment services, that give consumers more control over recurring transactions, including utility payments. We are engaging with relevant sectoral regulators on the potential for such digital payment services to better meet the needs of some utility consumers.

Recommendation 7: The PSR should ask the OBIE to consider updating the Customer Experience Guidelines to allow all banks to show the customer's balance in all payment journeys – including allowing banks to show the balance (either as an additional screen after authentication or as part of the authentication screen) when an open banking payment uses 'account selection at merchant'.

- 5.36** We agree that enabling visibility of a customer's balance during a payment journey may contribute to giving consumers more control over their payments and could encourage greater take-up of digital payments.

- 5.37** In its 'approach document'¹¹, the FCA noted that customers may be dissuaded from using the services of third-party Payment Initiation Service Providers (PISPs) if the customer journey is cumbersome. The FCA also noted that account providers may provide balance information to consumers and, in their view, strong customer authentication need only be applied once in the payment initiation process. The FCA are engaging with the OBIE to further discuss the provision of balance information in the payment initiation journey, and we do not propose to take further action at the present time.

Recommendation 8: The PSR should investigate what actions may be needed to enable consumers to use their devices to make open banking retail payments at physical point of sale via contactless technology.

- 5.38** We recognise the report's finding of the current lack of a point-of-sale (POS) solution for open banking account-to-account retail payments that would give a customer experience on a par with other POS payment mechanisms, such as contactless.

- 5.39** We have set out four priority issues that we consider need to be addressed to promote open banking account-to-account retail transactions. The Committee is working with the industry and broader stakeholders, through the SWG, to identify the vision for open banking, including open banking payments. We consider that addressing our priority issues will be important for enabling both online and POS use cases.

- 5.40** In relation to ensuring the system's functional capability, we continue to work with the Committee to consider a range of use cases, and the priorities for the future roadmap for the future open banking entity. The Committee will seek industry and broader stakeholder views through the SWG.

- 5.41** Even if it is decided that POS use cases are not initial priorities, unlocking online use cases may enable the market to address what is needed for effective POS solutions. If in time that did not happen because other barriers remained, we would consider with stakeholders any appropriate further actions.

11 FCA, [Payment Services and Electronic Money – Our Approach: The FCA's role under the Payment Services 2017 and the Electronic Money Regulations 2011](#) (November 2021)

Recommendation 9: The PSR should explore the options to bring Direct Debit into the digital age:

- The PSR should explore whether there are proportionate steps the industry could take to update the Direct Debit sign-up process for improved compatibility with open banking payments sign up and to help future transition to new payment products.
 - The PSR, along with the FCA, should consider encouraging all banks to provide digital alerts ahead of Direct Debits as this could improve digital adoption by making Direct Debit work better for those who struggle with it today.
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- 5.42** We recognise that customers and merchants would benefit from improved functionality in digital recurring payments, including to enable consumers to have more control over their recurring payments.
- 5.43** Any new investments in Direct Debit, including in the sign-up process, would need to be proportionate to the scale of likely benefits. These would depend on the expected future strategy for Direct Debit, in light of developments in alternative new recurring payment services, such as VRP.
- 5.44** Work is needed by Pay.UK and its stakeholders on the future strategy for the Bacs payment system, including Direct Debit. We gave Specific Direction 2a requiring Pay.UK to report to us by 31 March 2023 to set out its plans for considering the future of Bacs (and to report subsequently on its work to deliver those plans). We expect Pay.UK to consider appropriate options for investment, and we will consider the outcome of their work.
- 5.45** Currently, the Direct Debit scheme rules require collecting organisations to provide advance notice to payers of the amounts and dates for their Direct Debit payments, usually at least 10 days in advance. Banks are also required to enrol personal customers to receive alerts if, based on the information the bank has on transactions due to be settled (including Direct Debits), the customer is about to enter overdraft.
- 5.46** Encouraging banks to provide a digital alert ahead of each Direct Debit payment could help some customers to better manage their payments if they are able to move additional funds into their bank account in response to an alert. Some banks have already started to offer alerts ahead of each Direct Debit payment, and we will want to see how the market further develops. We will not be taking further action at the present time, including given the need to prioritise resources.

Recommendation 10: The PSR should help ensure effective incentives on PISPs to prevent fraud and scams:

- Completion of the Lending Standards Board's work to enable PISPs to join the Contingent Reimbursement Model (CRM) Code would enable PISPs to become subject to standards for protecting consumers from Authorised Push Payment (APP) scams and, where fault lies with them, to bear appropriate liability.
 - The PSR's work on potential mandatory requirements that Faster Payments participants reimburse consumers for APP scam losses should ensure that, where fault lies with PISPs, they bear appropriate liability for reimbursement.
 - The PSR should ensure effective dispute resolution arrangements for operationalising the appropriate allocation of liability for fraud or scam losses in open banking payments.
 - ASPSPs' policies on transaction limits and blocking should be responsive to the effectiveness of an individual PISP's processes for reducing fraud risk – for example, populating payee fields or undertaking effective due diligence on payees.
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- 5.47** Tackling authorised push payment (APP) scams in interbank payments remains a high priority for us, and we welcome the Panel highlighting the issue.
- 5.48** We worked with the payments industry to develop the voluntary Contingent Reimbursement Model Code, which began operating in 2019. In November 2021, we consulted on going further and taking regulatory action to require mandatory reimbursement for victims of APP scams who have done nothing wrong (provided obstacles in legislation were removed).
- 5.49** In May, the Government announced that it intends to legislate to clarify that the PSR may use its existing regulatory powers to require reimbursement. We intend to publish a consultation on our preferred regulatory approach to APP scam reimbursement in the autumn. We will impose a regulatory requirement in line with statutory deadlines (the Government has proposed a deadline of six months from the legislative changes coming into force). We consider that our regulatory requirement should include reimbursement of APP scam victims who initiated Faster Payments via open banking, subject to consultation.
- 5.50** Under the PSRs 2017, all payment services providers, including PISPs, have obligations in relation to financial crime, including fraud, as well as systems and controls requirements, and account providers may block specific transactions if they suspect fraud. The FCA is responsible for regulating and supervising regulated firms against their regulatory requirements.
- 5.51** The Committee will consider the need for dispute resolution processes and other tools, so that all parties involved in an account-to-account retail payment transaction act together to minimise payment risks, including risks from fraud. The Committee will engage with industry and broader stakeholders through the SWG.

Recommendation 11: The PSR, with the FCA, should consider how to ensure that the performance and reliability of technical infrastructure supporting open banking account-to-account payment services, including APIs, is maintained at the level needed for competitive retail use cases, including looking at standards and incentives.

5.52 This recommendation aligns with our planned work. We have set out four priority issues that we consider need to be addressed to promote open banking account-to-account retail transactions, including access and reliability. The Committee is working with the industry and broader stakeholders, through the SWG, to identify the vision for open banking, including open banking payments.

5.53 Account-to-account retail transactions involve a range of participants, including retailers, PISPs and account providers, each of which depend to some extent on the others' performance. We want to ensure that the system works properly for the end-to-end journey for a retail transaction, and that customers do not have problems when they make their purchase. There are several ways to achieve access and reliability in retail transactions. The technical build is one, but there could be alternative approaches such as providing assurances for future payments, or considering contingency options.

Recommendation 12: The PSR should engage with the government on the development of digital identity standards to ensure that open banking capabilities can be used to implement digital IDs in transactions.

5.54 We welcome the Panel highlighting the potential for firms to apply the principles of open banking to enable customers to share identity attributes with other organisations. Secure and reliable digital identity has the potential to enhance the experience of payments in relation to authentication, the customer journey and fraud prevention.

5.55 In February 2021, the Government published draft rules governing the future use of digital identities. The new 'trust framework' laid out the principles, policies, procedures and standards governing the use of digital identities to allow for the sharing of information to check people's identities or personal details in a trusted and consistent way. Once finalised, the framework is expected to be brought into law. The FCA, as the competent authority for open banking, is supporting the Government in its work on digital identity.

5.56 The Committee will consider whether digital identity is an area that open banking data sharing standards could facilitate or support. We will be working with the Digital Regulation Cooperation Forum on broad-ranging digital regulation issues, likely to include digital identity. We may decide to explore the issue in detail, after further consideration.

5.57 Overall, we need to make choices about what we do with our available resources. We have processes for prioritising potential new work, which we may use to consider potential additional work in this and other areas in due course.

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