UK FINANCE

UK PAYMENTS REGULATION REVIEW

Making sense of where to go now

March 2022

pa
the payments association

LATHAM & WATKINS

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FOREWORD

At the start of the 21st century the UK's approach to regulating the UK payments sector was focused on financial stability. Over the last twenty years, the UK government has recognised that more needs to be done to enhance supervision and regulation for one of the fastest growing financial markets in the world. The introduction of the Financial Services and Markets Act (FSMA)[1] precipitated the modern regulatory environment firms and consumers experience.

Since then, regulatory change has been a recurrent and dominant theme for the payments landscape. As part of this, FSMA has been revised to give the Bank of England a statutory role in the oversight of payment systems; the European Payment Services Directives[2] (PSD and PSD2) have been transposed into UK law[3] and impose a new regulatory framework for payment service providers while introducing the revolutionary concept of open banking. Since 2015, the Payment Systems Regulator has undertaken a number of market interventions to ensure end-user needs are being met in payments, promoting effective competition and encouraging innovation.

Brexit and the UK, EU and international regulatory reform agendas promise more change for the payments sector. This is why, in 2021, UK Finance and The Payments Association joined forces to work with our members and Latham & Watkins to assess what the impact of regulation has been on the payments industry; how it has shaped the ability of firms to invest, grow and deliver good outcomes for UK consumers and businesses, and how it may need to adapt to changing demands of the market.

This report outlines the key conclusions of our work to assess the impacts of regulation, and identifies the key opportunities that regulators, working alongside the market, have to develop and enhance the UK regulatory regime for payments.

We believe that regulators and industry have an opportunity to think afresh about payments regulation and supervision – to reflect on the digitalisation of payments; to review previous regulatory interventions and consolidate learnings; and to assess regulatory frameworks post-Brexit.

We argue for the need for a coherent and consistent framework across banking and finance, and that the enhanced FSMA model proposed by HM Treasury should be applied not just to the Prudential Regulation Authority and Financial Conduct Authority, but also to the Payment Systems Regulator and the Bank of England's regulatory functions in respect of payment systems. This will allow for clarity where there is regulatory overlap; ensure foundational principles of proportionality, cost-benefit analysis and embed responsiveness at the heart of payments regulation; allowing regulators to adapt to fast-moving payments change and accommodate new entrants.

Jana Mackintosh
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Tony Craddock
Director General of The Payments Association

1 https://www.legislation.gov.uk/ukpga/2000/8/contents
2 Directive 2007/64/EC (PSD) and Directive 2015/2366/EU (PSD2)
3 https://www.legislation.gov.uk/uksi/2017/752/contents/made

EXECUTIVE SUMMARY

At the beginning of 2021, UK Finance set out a strategy for the market's approach to the complex payments regulatory and technology change agenda. The Future Ready Payments Report,[4] published in conjunction with PwC, considered what impact regulation of the UK payments market could have over the coming ten years.

That report, together with the work undertaken by industry in preparation of this report confirms that the UK enjoys a tailored, robust, and successful regulatory and supervisory regime for payment services and payment systems. However, there are core areas in the current approach to regulation and supervision, as well as the specifics of the regulation, which justify further investigation.

There is a commonly held view of the sector that the degree of overlap between the three main regulators of market participants, the Bank of England (the Bank), the Financial Conduct Authority (FCA) and the Payment Systems Regulator (PSR), and the wide variety of other public bodies also able to intervene in this market, can lead to inefficient stakeholder engagement and a fragmented approach to payments regulation and supervision overall. In light of this, regulatory coordination, coherence and consistency are paramount for good outcomes for users of payment systems – including consumers, merchants other market participants, and the financial system as a whole.

Moreover, with a rapidly expanding number of market participants, innovation in service and product types, and changing risk profiles, UK payments regulation needs to adapt so that supervisors have the tools they need to provide adequate and proportionate oversight whilst not introducing undue complexity or inflexibility.

We must grasp the opportunity to develop a future-proofed framework which supports innovation and growth; mitigates risk by subjecting the same activities and risks to the same regulation;[5] and delivers good consumer protections, irrespective of the nature and legal status of the service provider.

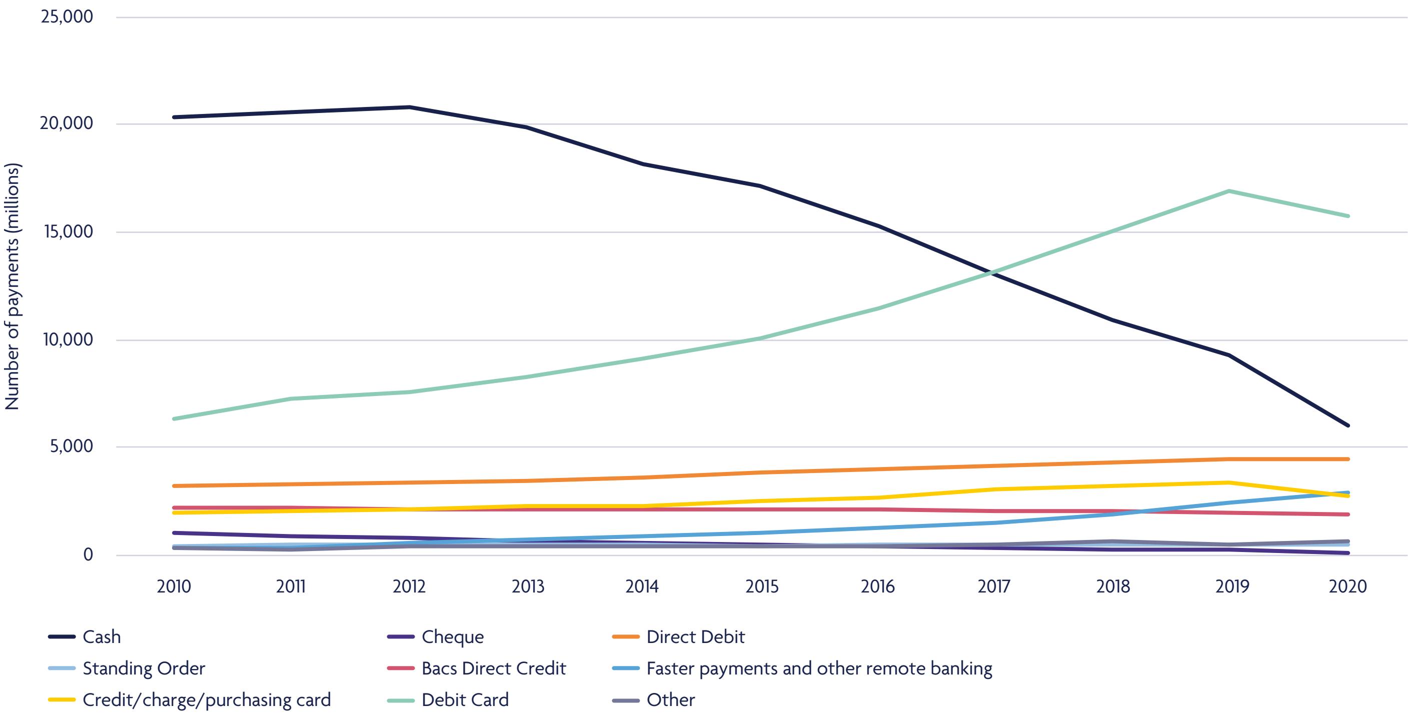
This report identifies a number of opportunities that regulators and industry might wish to adopt to improve the engagement on key regulatory change and supervision initiatives:

- **Market change:** Payments is a foundational pillar of the financial services market and wider economy and it continues to grow as a sector, served by an increasingly wide range of participants who drive innovation, competitiveness, jobs and investment. As well as the regulatory reform agenda, the payments sector drives its own change through self-regulatory initiatives and technological advancements that serve consumers and the wider financial system. Proactive engagement by market participants and legislative and regulatory stakeholders must be improved.
- **Regulatory coordination and public policy**: A payments sector served and represented by a dynamic and varied body of firms, which has and continues to meet the costs and demands of significant regulatory change, requires a framework with flexibility and proportionality at its core. Such a framework can be enhanced by greater coordination of implementation requirements and timelines and regulatory change that is informed by detailed and timely reviews of the effectiveness of past regulatory interventions. Supervision must deliver certainty to market participants so that products can be developed, and investments made, at the time and in the places that they are needed.
- **EU and International:** UK payments firms operate internationally and customers demand cross-border solutions. The payments sector is keen to explore and build on the opportunities presented by Brexit. However, the UK's approach to alignment with, and divergence from EU regulation must not risk access to markets or infrastructure and must support the sector's continued competitiveness with the EU and international markets.

4 https://www.ukfinance.org.uk/policy-and-guidance/reports-publications/future-ready-payments-2030
5 https://www.ukfinance.org.uk/system/files/Same%20activity%2C%20same%20risk%2C%20same%20regulation%20-%20FINAL.pdf

1. MARKET CHANGE

Payment volumes (millions) 2010 to 2020



The UK's use of payments is changing, as evidenced by the change in payment volumes over the last ten years. Societal changes, and the recent impact of Covid 19, have precipitated an enduring digitalisation of the economy, with technology and business approaches to existing problems rapidly evolving. Regulators have a difficult role to adapt at a pace that supports innovation, competitiveness and investment, but does not jeopardise consumer protection, financial stability or the resilience of key infrastructure. Proposals to introduce digital identity trust frameworks, the growing prevalence of cryptocurrencies, and the regulatory and supervisory consideration of stablecoins and central bank digital currencies, are each recognised to have wide reaching implications for the payments sector and existing business models. Technological change is also a factor – for example, the adoption of cloud technologies is of increasing importance to the industry, requiring regulators to develop their regulation and oversight of these changing technology environments. These examples highlight the importance of legislators and regulators preserving a technology neutral approach to new, and existing, regulation.

The payments market is also evolving, with an increasingly diverse range of participants taking advantage of improved access to payment systems, the growing complexity of payment chains with regulated and unregulated participants, and differing market approaches to risk and liability attribution for purchase and payments propositions. These market changes create additional product innovation and investment opportunities for firms that can stimulate economic growth and enhance the benefits delivered to consumers. However, if these opportunities are not cultivated within a supportive regulatory environment, the benefits might be lost to UK consumers or adversely affect existing business models and the markets they serve. Regulators must continue to review their rules and guidance, leveraging the technical expertise available in the UK market to ensure that they provide the right outcomes.

1.1 Distributed ledger technology, cryptoassets, stablecoins and Central Bank Digital Currencies

It is widely acknowledged that distributed ledger technology (DLT) has the potential to disrupt payment, clearing, settlement and related activities. Its introduction has provoked wider assessment of how digital currencies, based on new and on conventional technologies, can drive further innovation in the market. Government and regulators continue to play a key role in driving innovation in this space by helping firms to understand how new technologies can perform processes and deliver products and services in compliance with regulation and regulatory expectations. The application of this technology to financial services and financial products has already driven multiple use cases. Key amongst these is the growing rise in cryptoassets, stablecoins and other privately issued digital assets and currencies. This has also driven central banks worldwide to consider what their role is in relation to these new forms of digital money and provoked investigation of the development of Central Bank Digital Currencies (CBDCs).

In considering the potential development of a UK CBDC, HM Treasury (HMT) and the Bank have taken a proactive stance by forming a CBDC Taskforce,[6] and the Bank's Engagement and Technology Forums[7] have already demonstrated effectiveness in engaging industry. These forums will be essential for the industry to collectively consider whether, why and how the UK would implement a CBDC.

There is wide support for the activities of both HMT and the Bank, and the industry is committed to engaging with government to understand the rationale for a UK CBDC. In particular, UK Finance is working with members to understand how changes to the issuance of central bank liabilities will impact:

- domestic interoperability – understanding how a CBDC will work with existing infrastructures, including the cards networks and interbank schemes – both retail and wholesale;
- credit creation – how the market may be able to continue to create credit under a CBDC model, including how liquid markets can be supported and funding requirements met; and
- CBDC business models – understanding the commercial incentives for firms within a CBDC layered structure to offer services and how these models will affect acceptance.

In addition, the Payments Association has worked alongside BCG and paywith.glass on a Green Paper – 'A New Era for Money'.[8], This paper highlights the importance of the interim steps required to move from our existing Payments 2.0 to the new CBDC world of Payments 3.0. The paper assesses some of the key areas of macro-economic impact, including impacts on the existing infrastructures and potential disintermediation of commercial banks. and investigates four key use cases : Retail; Cross Border; Stablecoin as a Service; and Safeguarding for EMIs and PIs. Payments Association members believe that creating pilots in real world scenarios with a private consortium working alongside key stakeholders of central banks, regulators and government as a public/private initiative is the only way to properly deliver solutions.

The Bank and HMT must weigh the benefits and risks of a CBDC in the UK as digital payment methods continue to proliferate. These benefits and risks include regulatory considerations of other new digital money, issues for UK constituents in use of and access to GBP, and significant risks to financial stability within the UK. The announcement by the Economic Secretary to the Treasury, John Glen,[9] that the Bank and HMT will jointly consult in 2022, outlining their assessment of the case for a UK CBDC, will be a key milestone for industry and we expect that these themes will be considered within this important document.

Regulatory approaches to market-driven use cases must also be a priority. Engagement on the topic of stablecoins and the wider use of cryptoassets by industry and the open market is vital. The HMT consultation in 2021[10] on its approach to this ecosystem was a good step to providing industry with greater clarity on how these products could be managed under existing regulation and it is essential that regulators establish clear pathways for the introduction of new technology and business practices. There are many potential benefits that might flow from the implementation of CBDCs, such as enhancing cross-border payments, enabling programmable money and the wider interoperability of financial services. Stablecoins, in particular, could help to deliver many of these benefits without the significant change and risk that forums such as the House of Lords Economic Affairs Committee have highlighted.[11] However, this would be dependent upon widespread adoption by industry of stablecoins and a regulatory approach that supports consumer confidence in value.

Similarly, the broader topic of cryptoassets is of ongoing interest to industry. Consumers are increasingly holding cryptoassets, with the FCA's 2021 estimate standing at 4.4 per cent of the UK population.[12] This market must come under appropriate regulation to ensure good consumer outcomes. HMT's announcement, and the FCA's consultation,[13] on adjustments to the UK's financial promotions regime to include cryptoassets will help to ensure that consumers can engage in this market with greater confidence.

6 https://www.bankofengland.co.uk/research/digital-currencies/cbdc-taskforce-terms-of-reference
7 https://www.bankofengland.co.uk/research/digital-currencies
8 https://thepaymentsassociation.org/consultations/a-new-era-for-money/
9 https://questions-statements.parliament.uk/written-statements/detail/2021-11-09/hcws381
10 https://www.gov.uk/government/consultations/uk-regulatory-approach-to-cryptoassets-and-stablecoins-consultation-and-call-for-evidence
11 https://publications.parliament.uk/pa/ld5802/ldselect/ldeconaf/131/131.pdf
12 https://www.fca.org.uk/publications/research/research-note-cryptoasset-consumer-research-2021
13 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1047232/Cryptoasset_Financial_Promotions_Response.pdf cf. https://www.fca.org.uk/publication/consultation/cp22-2.pdf

It is possible that the requirements to include cryptoassets within financial promotions, as proposed within the FCA's recent consultation,[14] could have a disproportionate impact on Electronic Money Institutions, Payment Institutions and firms operating solely under an FCA MLR Registration. These firms will not be permitted to promote their own cryptoasset services and products without engaging the services of another appropriately authorised firm. It is important that these firms are reassured of the effectiveness and proportionality of the financial promotions regime and that there is a sufficient body of firms who can authorise promotions within an appropriate timescale and for a proportionate cost.

As access to these assets opens up and more consumers and financial institutions begin to hold and transact in them, regulators will need to consider how potential opportunities for criminal activity can be controlled[15] and how potential implications for monetary and economic stability can be understood and managed.

1.2 Digital identity

Digital identity is applied in different ways across the world. In some countries, individuals are already transacting under digital identity frameworks, while elsewhere verifying identities and assets is more challenging, leading to greater friction. These barriers are likely to diminish as nation states and financial institutions collaborate to establish internationally agreed digital identity standards, including increasing use of biometrics.

In the UK, for customers that currently struggle to access payments and financial services, a digital identity could unlock services, enabling them to establish credit histories and financial footprints. Meanwhile the development of a UK Trust Framework and standards[16] will enable the payments industry to continue leading the fight against financial crime and financial exclusion. In order to incentivise the development and participation in such trust frameworks, the effective development of a legislative framework and liability model must be prioritised, otherwise financial services firms may find it difficult to participate in high risk data sharing activities where legal and regulatory risks gives rise to unquantifiable liabilities.

For the payments industry, there are many applications of a digital identity framework. It could support enhanced Know Your Customer (KYC) use cases for account opening and operation, and enhance payments security when paying new payees, potentially contributing to the ability of consumers and financial institutions to identify and prevent scams. There are also emerging practical benefits in other areas, such as mortgage conveyancing where ID is passed across many parties.

1.3 New entrants and access

Historically, payment activities were predominantly undertaken by a few large firms; however new technologies, major regulatory initiatives, and evolving customer demands have led to the unbundling and division of core services in the value chain for payments. There has been huge growth in the delivery of innovative propositions and technology to the market, through both small start-ups and larger, established firms. New market entrants can be a positively disruptive and additive force to the UK and global payments markets, and regulation must continue to capture the right activities and firms in a proportionate way. The economic benefits that grow from these new activities and new firms can produce substantial benefits to UK consumers.

New entrants are not just servicing consumers; significant changes such as Open Banking will see more ways for retailers to accept payments, and growth and divergence in new acceptance providers has already begun. Disruption is happening both on the rails themselves, and on the products being offered to retailers. Pay.UK continues to develop the New Payments Architecture (NPA) and, per the 2022 PSR strategy,[17] interbank schemes will become competitors to other retail payment mechanisms, with a number of firms positioning themselves to take advantage of this. Meanwhile some new entrants are offering dynamic products like Buy-Now-Pay-Later, available on different payment rails.

Amidst all this change, ensuring equitable access to payments infrastructure has remained a constant regulatory concern. The PSR's 2022 Access and Governance report[18] summarised some of the progress that the industry has made in recent years, with increased numbers of firms offering indirect access to payment service providers, growing numbers of firms gaining direct access to payment infrastructures (twelve firms gaining direct access to payments infrastructure in 2022 alone, six of these for the first time), and reduced numbers of complaints about the provision of these services to the market.

It is vital for both providers of market infrastructure and new and existing participants to maintain high standards in their interactions with each other. Clear transparency of the technical and operational standards necessary to join market infrastructure, in particular for financial and service resilience, should continue to be communicated to the market to enable firms to make effective decisions when considering joining a market infrastructure. Despite the progress made by the industry in this area, there remain concerns from some industry participants that providing payment services in the market remains a difficult prospect and these high barriers to entry can stifle innovation and prevent new businesses from providing their services. Conversely, it is clear that direct participation brings with it certain expectations and responsibilities, which are necessary to mitigate risks of failure in order to maintain mutual trust and financial stability.

14 https://www.fca.org.uk/publications/consultation-papers/cp22-2-strengthening-our-financial-promotion-rules-high-risk-investments-includingcryptoassets
15 https://www.fca.org.uk/firms/financial-crime/cryptoassets-aml-ctf-regime
16 https://www.gov.uk/government/publications/uk-digital-identity-attributes-trust-framework-updated-version
17 https://www.psr.org.uk/media/m2kfxfkg/psr-strategy-jan-2022.pdf
18 https://www.psr.org.uk/publications/policy-statements/access-and-governance-report-on-interbank-payment-systems-january-2022/?utm_medium=email&utm_name=&utm_source=govdelivery

More broadly, the proportionality of regulation and other industry standard practice for smaller or lower risk firms remains a continuing point of contention for the industry. When operating businesses in the financial markets, it is necessary for firms to be able to assess, manage and mitigate a variety of risks that arise in the course of carrying out its business. These risks vary from operational risks such as cyber-security, internal operational resilience and data protection through to macroeconomic concerns; including financial stability, the impact of financial shocks and potential systemic impacts of competitors behaving unexpectedly. Established firms have sophisticated and operationalised mechanisms to control this wide variety of risks whereas smaller firms can see these risk management approaches daunting, unwieldy and disproportionate to implement.

Regulators must ensure that their interpretation of their regulatory perimeter is consistent and well communicated. They should continue to assess the effectiveness and proportionality of the authorisation processes that firms need to pass through. This is particularly relevant for firms currently in the Temporary Permissions Regime,[19] and those currently seeking authorisation or registration in the UK or wishing to serve UK customers from overseas. Consideration should also be given to the UK's change of control regime and the fact that small firms, with little or no bearing on financial stability or risk to consumers, are subjected to a near identical process and assessment timeline as an investment in a major bank, insurer or investment firm. The industry also remains cautious about the extent that proportionality can be effectively exercised in the eventual extension of the Senior Managers and Certification Regime to non-bank payment service providers.

1.4 Infrastructure change

The payments industry is supported by critical national infrastructure distributed across the Bank's wholesale payments service; Pay.UK's retail interbank network; international payments initiated through services provided by firms such as SWIFT; and the retail payment infrastructure provided by card schemes. All of these are undergoing significant change programmes, in some cases linked, that will have long-term implications.

In the interbank space, Pay.UK intends to build the next generation of interbank payments infrastructure – the NPA. Delivering a single clearing and settlement core for retail payments, the NPA will incorporate the ISO 20022 payment messaging standard allowing for greater transmission of data through the payments journey while enabling greater innovation and competition through a layered architecture model built around a core clearing and settlement engine. Pay.UK is on the path to procure its long-term delivery partner for the delivery of the NPA as the industry considers how to migrate firstly the instant payments capability provided by Faster Payments and, in later phases, the bulk payment capabilities of Bacs.[20]

Similarly, the Bank is undertaking the renewal of its Real Time Gross Settlement (RTGS) system that will impact its wholesale payments service CHAPS and deliver greater access, resilience, interoperability, functionality and a new level of richness to transaction data through the implementation of ISO 20022.[21] International innovation continues at pace, with the launch of services such as SWIFT gpi (SWIFT's Global Payments Innovation Initiative); the ongoing migration of international payment networks made over the SWIFT network to ISO 20022[22] and the G20's Roadmap on enhancing cross-border payments.[23]

This comes on the tail of a number of initiatives that have involved widespread change throughout the industry. For example, the implementation of Strong Customer Authentication across both retail banking and cards environments has required significant coordination and simultaneous development; so too have the implementations of Confirmation of Payee and Open Banking. All of these developments have required coordination between regulators and industry to support the widespread adoption of these innovative practices.

1.5 Facilitative, technology-neutral and proportionate regulation

In many cases, regulators have been able to accommodate adoption of new technologies in a pragmatic and responsible way. As ever, regulators must take a balanced approach to engaging with standardisation initiatives and must provide the right incentives and conditions for industry to develop while avoiding creating technical lock-in and restricting competition and innovation. These considerations will be particularly relevant as the UK, led by the FCA and the Department for Business, Energy and Industrial Strategy (BEIS), considers its Smart Data strategy.[24] While industry is already benefiting from the significant resources that have been channelled into common standards, there are similar opportunities regulators could exploit. Industry and regulators should continue to explore how best the market can be incentivised to adopt similar standardised environments and deliver efficiencies to simplify the way in which firms can share data and deliver customer value in the market.

In light of this landscape of rapid change, we believe government and regulators can adapt in three ways, all underpinned by a close working relationship with the payments industry.

19 https://www.fca.org.uk/brexit/temporary-permissions-regime-tpr; https://www.bankofengland.co.uk/eu-withdrawal/temporary-permissions-regime
20 https://www.wearepay.uk/programmes/new-payments-architecture-programme/
21 https://www.bankofengland.co.uk/payment-and-settlement/rtgs-renewal-programme
22 https://www.swift.com/standards/iso-20022/iso-20022-programme/timeline
23 https://www.fsb.org/2020/10/enhancing-cross-border-payments-stage-3-roadmap/
24 https://www.gov.uk/government/publications/smart-data-working-group-spring-2021-report; https://www.fca.org.uk/publications/feedback-statements/fs21-7-open-finance-feedback-statement

1

First, by being responsive and proactive in creating clear pathways for the introduction of new technology. This includes helping firms to understand how new technologies can perform processes and deliver products and services in compliance with regulation and regulatory expectations. It also involves creating an understanding that new technology will not adversely affect the ability of financial institutions and regulators to manage risk inherent in the financial ecosystem, or the regulator's ability to supervise firms. Indeed, new technology can often enhance the ability of regulators and the market to communicate clearly and adopt low-impact approaches to reporting. This is particularly necessary for cryptoassets and digital currencies. Regulators should consider how to appropriately 'sandbox' new innovations and form joint technical working groups with industry to test and develop educated positions on the introduction of new technology to financial services.

2

Secondly, by adopting 'technology neutral regulation' where possible, that discriminates neither in favour of nor against the use of a particular type of technology – unless clear risks have been identified. UK policymakers should focus on regulating the application of emergent technologies rather than the technology itself, and enabling their use to achieve defined outcomes rather than enforcing prescriptive solutions. This is not an easy task in payments, where the operation of payment processing is heavily reliant on technology, and where industry standards are often necessary. Regulators should continue to take a balanced approach to engaging with standardisation initiatives and must provide the right incentives and conditions for industry to develop these standards, while avoiding creating technical lock-in and restricting competition and innovation. For example, with the adoption of cloud technologies within financial services, ongoing collaboration between regulators and industry is necessary to ensure realisation of the interoperability and scalability benefits. Moving forward, regulators should continue to clarify how regulation applies to cloud environments and create clear regulatory expectations for cloud deployments – particularly considering resilience expectations.[25]

3

Thirdly, by incorporating the 'same activity, same risk, same regulation' principle[26] into regulatory approaches. Without this, firms can face the same scrutiny at the point of authorisation and incur significant cost of regulation despite posing different levels of risk; or firms can undertake the same activity but face different levels of conduct regulation. For regulators to have effective oversight of activities in payments, they should consider recalibrating the mix of entity-based and activity-based rules.

In some cases, this could mean moving dynamically and in an agile fashion to ensure that regulation is able to support the introduction of new services, and new market entrants. This can be supported by a pivot to rules made by regulators rather than Parliament. Regulators must ensure that scope creep is minimised and significant changes to regulatory environments go through due process. Regulators should ensure that the benefits of these adjustments are able to be felt by the whole market, enabling new, existing and pioneering firms to develop and deploy innovation effectively within an open and competitive market.

Of course, proportionality in application would mean that activities would not always be regulated in the same way. Because the same activity can generate different risks depending on who performs it (i.e. systemically important firms versus smaller firms), regulatory asymmetry is to be expected. A current example that regulators are grappling with is the growing presence of Buy-Now-Pay-Later products in the market. This calls for a careful navigation of consumer credit and payment regulation, but all proportionate to the risk being posed to customers and merchants.

Overall, increased coordination between industry and public authorities is required within a regulatory framework that will enable effective outcomes for financial institutions, consumers and businesses. There are some excellent examples of partnership between industry and regulators in payments, where the regulator has taken a pragmatic and responsible approach.

For example, PSD2, which was intended to increase competition while providing customer protection against fraud, imposed Strong Customer Authentication Regulatory Technical Standards.[27] These standards required certain technologies, such as biometrics or contactless payments, to be deployed in particular ways to correctly authenticate payments. In the UK, the FCA engaged with the industry in developing an implementation roadmap, which allowed for consideration of pragmatic, technology-neutral approaches. This has given firms in some areas the freedom to provide alternative risk mitigation techniques and competitively differentiate products in the market while managing their own fraud and financial risks.

Similarly, the Covid-19 pandemic demonstrated what industry and public authorities can achieve through collaboration, by leveraging industry solutions to disburse funds under the various government support schemes, and providing the regulatory flexibility to enable an accelerated implementation of the increase of the contactless card limit to £45 in 2020, and subsequently £100 in 2021.

25 https://www.ukfinance.org.uk/policy-and-guidance/reports-publications/cloud-adoption
26 For a greater exploration of this principle, please see the UK Finance report produced in collaboration with Oliver Wyman - https://www.ukfinance.org.uk/system/files/Same%20activity%2C%20same%20risk%2C%20same%20regulation%20-%20FINAL.pdf
27 https://www.fca.org.uk/publication/policy/ps19-26.pdf

2. REGULATORY COORDINATION AND PUBLIC POLICY

Over the last six years, the Payment System Regulator (PSR)'s agenda and desired outcomes for the payments market, coupled with various European legislative developments, such as the Second Payments Services Directive (PSD2) and the Interchange Fee Regulation[28] (both now onshored into UK law),[29] have fundamentally shaped the payments market. The requirements for financial institutions to guarantee a framework for access to account information and payment initiation providers were enshrined in PSD2 which also put a regulatory framework around these activities. The CMA Order also required the nine largest current account providers to provide access for AIS and PIS through Open Banking APIs. As a result, we have seen a significant market shift to solutions built on direct and indirect access to central payments infrastructure.

With such expansive regulatory interventions, the payments landscape is undergoing transformative change. Moreover, the number of regulators and bodies with a role in the regulation and oversight of the payments market,[30] together with the earlier establishment of the PSR, warrants a focused review of the UK's payments regulatory framework, in line with the work being undertaken as part of the Financial Services Future Regulatory Framework Review (FRF review)[31] and the Payments Landscape Review.[32]

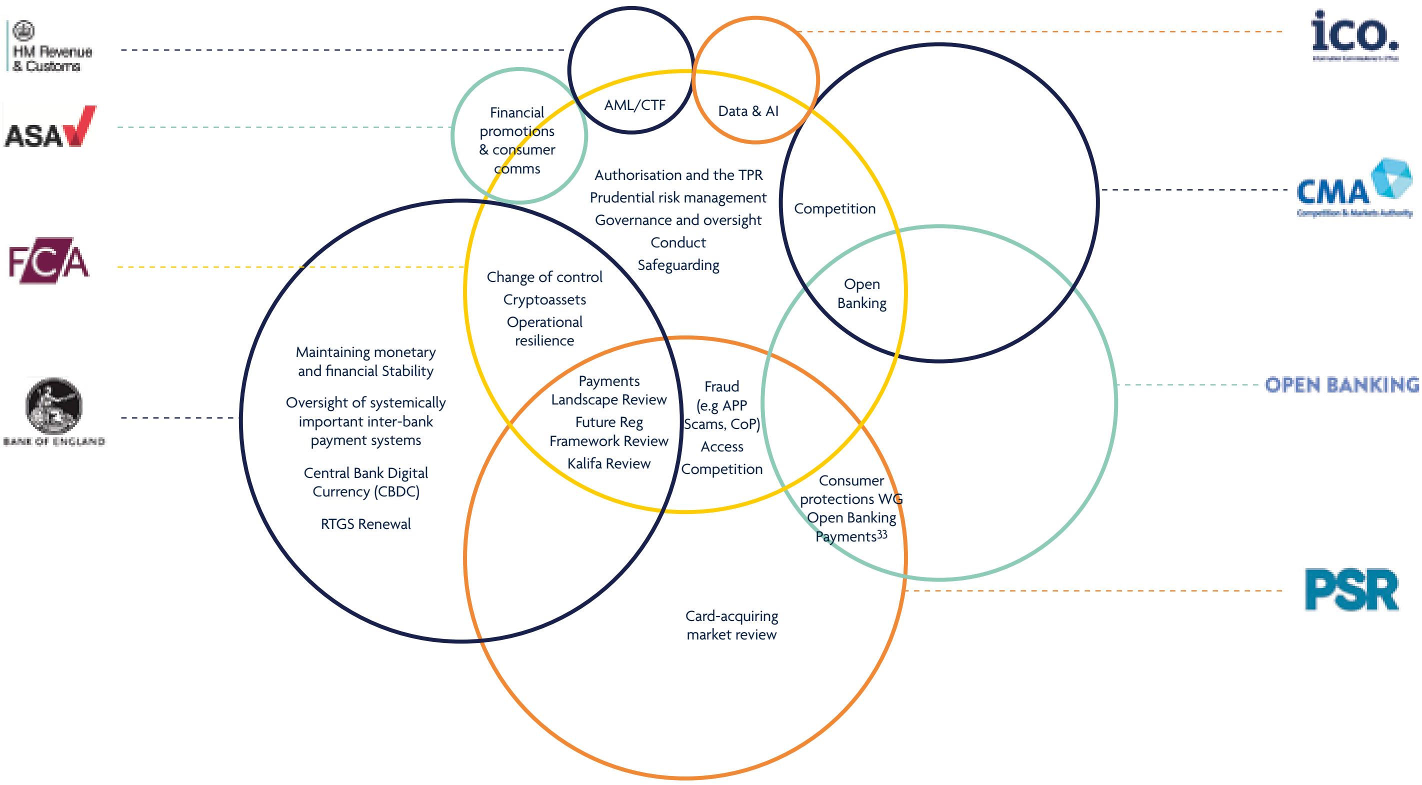
We would like to see the FRF review bring in both the PSR and the Bank (in respect of their oversight of payment systems) in order for them to be:

- given new secondary objectives for growth and competitiveness;
- required to have regard to a regulatory principle for sustainable growth that references climate change and a net-zero economy;
- subject to a new mechanism for reviewing any rules they make that fail to achieve their desired effect;
- subject to new procedures in relation to the UK's overseas arrangements and agreements, as relevant; and
- held to more rigorous standards in conducting Cost Benefit Assessments and post-implementation reviews (which are now needed for Open Banking and Confirmation of Payee - as well as development of the New Payment Architecture (NPA) proposals, when complete).

28 https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32015R0751
29 The payment Card Interchange Fee Regulations 2015 https://www.legislation.gov.uk/uksi/2015/1911/made; with UK exit amendments https://www.legislation.gov.uk/uksi/2019/284/contents/madehttps://www.legislation.gov.uk/uksi/2019/284/contents/made
30 The different regulatory focus of regulators is important to note. While the FCA oversee firms conduct, the PRA their financial stability and the Bank the wider ecosystem; the PSR's role is more limited to competition & innovation in payments systems for the benefit of end users and thus covers firms that participate within the payments market from a different perspective.
31 https://www.gov.uk/government/consultations/future-regulatory-framework-frf-review-proposals-for-reform
32 https://www.gov.uk/government/consultations/payments-landscape-review-call-for-evidence

2.1 Regulatory responsibility and supervisory overlap

The UK operates a complex and overlapping regulatory, supervisory (including quasi-supervisory) and oversight regime for the payments sector as demonstrated below.



Within this landscape, sometimes the duties of the respective regulators overlap, and the contrasting policy objectives can cause inefficiencies and confusion in the market. This complexity of coordination can result in a lack of clarity for stakeholders on alignment of regulatory activities and duplication of work to respond to different regulator consultations on the same topic. Regulators do already operate under requirements to liaise with each other, particularly on matters relating to competition concerns, and the memorandum of understanding (MOU) between the PSR, FCA, Bank of England and Prudential Regulation Authority regularly reviewed (most recently on 14 February 2022).[34]

Under these frameworks, regulators should continue to identify opportunities to act as partners and work together with all stakeholders or else this regulatory complexity can leave questions unanswered. For example, the agreement of which regulator should take the leadership in the response to concerns around access to cash, with HMT, the Bank, the PSR and the FCA all working on this single issue, caused a degree of confusion in the industry. This has subsequently been resolved with the FCA taking the lead on this issue, with other regulators engaging on topics that are of particular relevance to their own roles.[35]

The PSR's own role could benefit from further clarification. Since it became operational in April 2015, the PSR's focus has been on enhancing competition in UK payments markets, fostering innovation by service and infrastructure providers and ensuring end users benefit. It has engaged on several important issues, including the development of the NPA, access considerations and the implementation of Confirmation of Payee (CoP). While the PSR has been able to drive the industry toward better outcomes in these areas, there are others where its role has been less clear. For example, while the PSR's regulation of LINK has helped to ensure access to cash remains free and widely accessible for personal customers who continue to need it, the PSR's wider interest in the issue has, per the previous discussion, historically introduced unnecessary overlap in what is already a complicated regulatory environment.

33 The PSR have identified within their 2022 Strategy Document the opportunity for Open Banking Payments to drive additional competition and innovation in the UK payments market.
34 https://www.bankofengland.co.uk/news/2022/february/payment-systems-memorandum-of-understanding
35 https://www.fca.org.uk/news/statements/access-cash-fca-psr-joint-statement?_hsenc=p2ANqtz--uKu0wtqBb6hhJ3ZWwWjGBidVlIL1MZA_HMWXBK4Z9yld_2NgUo0OKk4onuY9s5fGvV6N7

2.2 Reports on payments regulation

It is important to note HMT's exploration and implementation of the recommendations from the Kalifa Review of UK Fintech[36] and the Payments Landscape Review.[37] The industry considers that priorities could include identifying the scope and content of the requirements to deliver on the recommendation for a digital finance package that creates a new regulatory framework for emerging technology. This could include a new UK regime for the regulation of cryptoassets, which should be capable of operating alongside the EU's proposals under MiCA.[38] Of equal significance are the opportunities of Open Finance, and contributions to the work of BEIS, HMT and the FCA in helping to scope the framework and which will be of critical importance to the sector.

2.3 Customer protections and fraud

A key area that regulators should have regard to is the level of protection provided to users of payment services. Consumer protections are made up of a complex patchwork of arrangements, provided through statute, case law, contracts and voluntary agreements. This complexity could be one of the contributing factors to the perceived assumption that financial institutions will reimburse any consumer loss. This can mean that financial institutions bear the cost of consumer protection failures, even when they have no ability to control or prevent this risk. Conversely; businesses in other sectors, often subject to less regulation or oversight, have little incentive to put in place proper protections for their customers if financial institutions can be called on to put things right.

As new payment propositions expand, regulators have a role to play in ensuring some level of consistency in protections against purchase risk and fraud. Payment users from consumers (including vulnerable individuals), businesses (small and large), government (central and devolved) and other payment providers or financial institutions (including indirect participants accessing infrastructure through a variety of mechanisms), should know how they are protected and understand who to turn to in the event of a question or complaint about a payment. This is an important enabler of the trust that consumers and businesses have in the payments that they make.

On the whole, UK consumers benefit from a good level of protection when they make payments, and it compares favourably with many other countries around the world. Protections exist against purchase risk, such as the goods or services turning out to be faulty or not delivered; fraud, including unauthorised payments or authorised push payment scams; technical errors, such as payment duplications or delays; or insolvency, either of the merchant or payment providers.

These protections are delivered through a mix of legislation, payment scheme rules, retailer protections and personal protections such as insurance. However, this combination of legal, contractual, and voluntary consumer protections can leave gaps in coverage and be difficult for firms and consumers to understand. A good example of this is the development and implementation of a voluntary code, the Authorised Push Payments (APP) Contingent Reimbursement Model (CRM). The requirements of this industry guidance only apply to a small selection of signatory firms and have been taken by regulators, particularly the FOS, to very different outcomes than they were drafted to contain.

It is difficult to impose a unified model of customer protections across such a diverse market. Where relevant, user protections should have an appropriate grounding in law and be secured to a fair economic model that distributes costs from the right sources across responsible parties; including between regulated financial institutions and firms that use payment services or payment data. Some consistency of requirements could be applied to other payment participants, such as those in Open Banking payments and the crypto ecosystem. We expect industry to work with regulators to ensure that customer protection concerns arising in these areas are handled in a proportional and fair manner; supporting the development of effective economic models for customer protection regimes.

The first such "step-in" risk arises where payment firms are expected to provide support or compensation to customers of businesses in other sectors that find themselves in difficulty. For example, section 75 of the Consumer Credit Act 1974 makes a credit-card issuer jointly and severally liable with the merchant where the customer has paid on a credit card and the merchant has breached the contract or committed a misrepresentation. Recent airline and travel industry failures in the UK are a case in point – in both the failures of Monarch Airlines in 2017 and Thomas Cook in 2019, the payments industry was asked to pay towards the cost of repatriating customers to the UK, even as providers were also paying out significant funds through chargeback and section 75 claims. The long-awaited outcome of the Airline Insolvency Review[39] has promised to reallocate the burden to where it belongs, in this case the airline industry.

36 https://www.gov.uk/government/publications/the-kalifa-review-of-uk-fintech
37 https://www.gov.uk/government/publications/airline-insolvency-review-final-report
38 https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52020PC0593
39 https://www.gov.uk/government/publications/airline-insolvency-review-final-report

The second "step-in" risk occurs where firms are assumed to be the default compensation mechanism for customers even though the harm has arisen from failures in other sectors. This is perhaps best exemplified by the current situation with authorised push payment (APP) fraud, which occurs where a customer is tricked into authorising a payment to an account that they believe belongs to a legitimate payee but is, in fact, controlled by a criminal. A significant driver of APP fraud is the theft of personal and financial data through breaches at third parties outside the banking and finance sector (for example, a retailer, a utility company, a transport provider) which can both directly lead to fraud losses and be used by criminals as part of their scams. Fraud losses are also driven by the abuse of online platforms by criminals to scam their victims (for example, investment scams on social media, romance scams on online dating platforms, and purchase scams on online auction websites). Here, again, moral hazard is being created. Online platforms can profit from adverts that turn out to be scams and companies holding personal data do not pay the full costs of lapses in their security. Yet the cost of fraud resulting from these data breaches is often paid by the banking and finance sector. We believe it is crucial that the Government come forward with new legislation that ensures more is done to clamp down on the fraud being perpetrated outside of the sector, and that regulators engage in wider economic crime reform. We will only be able to tackle scams effectively if all parts of the public and private sectors work together to a shared set of objectives and a clear plan.

Regulators can consider ways to improve access to existing customer protections in a way that allows for innovation and is payment agnostic. Possible ideas to consider are a merchant code and simple access to an ombudsman service. A good example of regulatory flexibility is the PSR's approach to consumer protections in interbank payments, where it has afforded the market more time to adapt to the changing consumer protections landscape and innovate for new protections rather than regulating in this area. Regulators will need to ensure firms can build sustainable business models without comprising essential consumer protections, which is increasingly important as customers opt for a service provider based on ease of use and experience, rather than understanding the underpinning customer protection.

2.4 Proposals for a Consumer Duty

As proposed, the FCA's Consumer Duty[40] will require significant and potentially costly implementation efforts by all in-scope firms in line with a challenging implementation timeline. Moreover, given that payments is a highly regulated, network-driven service involving multiple parties, the extent to which a single payment service provider (PSP) could influence or control outcomes for a retail customer is limited. In addition, the provision of payment services is already governed by the Payment Services Regulations 2017 (PSRs),[41] the FCA's Payment Services and Electronic Money—Our Approach[42] and scheme rules such as those in place for transactions processed via Bacs, Faster Payments or the card schemes. In the interests of proportionality, we have argued that compliance with the PSRs and the FCA's Approach document should be sufficient.[43]

2.5 Safeguarding and insolvency

Recent case law[44] and changing guidance from regulators precipitated, at least in part, by the stresses placed upon the UK economy from Covid-19, have brought the safeguarding regime and the practices of some areas of the payments sector to light. This is an important issue for the industry and it is essential that the right legal structures and regulatory guidance are in place both to ensure consumers' funds are appropriately protected while also giving firms the certainty required to provide payment services in compliance with regulatory requirements that are proportionate to the size and nature of their business and the risk to their customers.

Specifically, the government and regulators must address the current inadequacies in the regulatory regime for safeguarding and its implications for the new special administration regime,[45] brought about as a result of conflicting case law and regulatory expectations.[46] Industry should continue the exploration of incentives to encourage the development of alternative safeguarding methods to segregation which can deliver equal protection to users on the insolvency of a firm.

It is important that government and regulators understand the significant effort which payment service providers make to comply with safeguarding obligations, and to ensure customer funds are safe and avoid the need for taxpayer-backed protection. The benefits of the existing environment - which fosters innovation and competition combined with a strong regulatory framework - would be significantly degraded if PSPs were required to comply with prudential customer protection provisions to underwrite perceived deficiencies in relation to safeguarding without conferring reciprocal benefits.

2.6 Regulatory intervention review

With effective coordination, the industry has proven that it can deliver effective outcomes to consumers and businesses in partnership with regulators. As noted in UK Finance's Future Ready Payments 2030 report, it is believed that increased coordination between industry and public authorities is required to deliver effective policy change to the benefit of financial institutions, consumers and businesses.

Regulation has the potential to support the adoption of common technology and processes for the benefit of the market, including Open Banking standards, Confirmation of Payee, changes to contactless limits and SCA requirements. While regulation can be excellent at providing the impetus to drive beneficial outcomes in areas where, for various reasons, the competitive market may not have been able to deliver on its own, there are instances where regulation can create an overdependence on regulatory frameworks and the development of regulatory policy for the industry. Regulatory driven change can also result in a disconnect between the expected industry benefit and the actual value driven by this change.

40 https://www.fca.org.uk/publications/consultation-papers/cp21-36-new-consumer-duty-feedback-cp21-13-further-consultation
41 https://www.legislation.gov.uk/uksi/2017/752/contents/made
42 https://www.fca.org.uk/publication/finalised-guidance/fca-approach-payment-services-electronic-money-2017.pdf
43 https://www.ukfinance.org.uk/system/files/UK%20Finance%20response%20to%20further%20Consumer%20Duty%20consultation.pdf
44 Re Supercapital Ltd [2020] EWHC 1865 (Ch); and Re ipagoo LLP (In Administration) [2021] EWHC 2163 (Ch)
45 The Payment and Electronic Money Institution Insolvency Regulations 2021
46 See for interest the recent rulings on the administration of Supercapital Ltd and ipagoo LLP

We consider that regulators should continue to assess the benefit of self-regulation and co-regulation before statutory regulation is brought into play.[47] For example, when CoP was initially brought in, the PSR decided that it was necessary to use its regulatory powers to mandate a small number of firms to deliver the service to the majority of UK consumers. Subsequently, to ensure that more firms were able to access the CoP service, industry committed[48] to deliver the necessary changes outside of any statutory requirement. A lessons-learned exercise for Confirmation of Payee to understand some of the difficulties associated with mandating a smaller number of firms to implement this functionality, and whether more can be done in future to ensure regulatory driven change is more accessible, while still delivering services at pace to consumers would be effective for the industry to consider.

The Open Banking ecosystem is another useful case. Following stringent regulatory requirements, the market delivered services quickly. However, not all of the products and services have had the market traction or demand from consumers that was originally envisioned – for example, the read-only data standard defined by the CMA Order is little used by industry or customers.

The cost benefit analysis of interventions should also be considered. The implementation of Open Banking and development of NPA proposals both provide examples of industry, and regulators', expectations of benefit not necessarily matching the rising industry cost of these programmes.

We believe that statutory regulatory intervention should be focused on instances of market failure or clear detriment to consumers, other market participants or to financial stability. Conversely, where broader innovation agendas are supported by regulators, influencing the market to self-regulation or co-regulation may deliver enhanced flexibility of industry to deliver commercially viable and competitive markets that foster further investment and innovation.

Going forward, regulators must continue to strike a balance between intervening in markets to achieve specific objectives and ceasing such intervention for the benefit of the industry at large. Costs and market impact should be fully understood before new material change is introduced. Indeed, retaining legal requirements for services that have outgrown their original regulatory mandates may stifle innovation and dynamic response to changing consumer markets.

2.7 Migration of the OBIE into a new industry body

The development of Open Banking and its onward progress into Open Finance and other deliverables remains of great importance to the industry.[49] It is essential for the banking and finance industry that the services and functions of Open Banking are maintained and for the lessons learned of the past five years to be assessed. A CMA statement on open banking governance is expected soon.

Given there are much wider potential benefits in applying Open Banking beyond retail banking, including driving competition in payments and the broader financial sector; we also expect a statement of regulatory expectation soon.

An approach which permits a commercially sustainable, collaborative model for the development of Open Banking and Open Finance services is best positioned to take advantage of the excellent position that the industry has created for itself. This model should be able to articulate clear use cases for Open Finance services with that allow firms to invest in new services with confidence. The industry sees a need to set out near-term opportunities that sit outside the Order that bridge to Open Finance. This includes consideration of:

- existing commitments and ambitions set out by regulators and the government (e.g. through the Payments Landscape Review) to help ensure there is effective coordination and communication across the industry on advancing on these ambitions; and
- short-term opportunities to deliver benefits to SMEs and businesses like the extension of Open Banking payments to Variable Recurring Payments, the development of a financial passport (bank digital identity), the increasing adoption of Open Banking payments (e.g. DVLA Pay from your bank account), and developing new Open Banking API services (for example, simplified access to Companies House services) as well as work tackling economic crime.

47 See https://www.ukfinance.org.uk/system/files/F2R2-phase-II-consultation-FINAL.pdf paras. 200 – 208
48 https://www.ukfinance.org.uk/system/files/25June2021%20-%20Letter%20to%20PSR%20on%20behalf%20of%20SD10%20firms.pdf; https://www.psr.org.uk/media/5xwi4ez2/20210721-psr-response-to-sd10-bank-letter-cop-only-role-profile.pdf
49 Similar obligations under the PSRs 2017 apply to payments made domestically in the UK.

3. EU AND INTERNATIONAL

The impact of Brexit and the UK's departure from an EU-led regulatory regime continues to be felt and is a generational opportunity to assess our approach to payments regulation. Ongoing access to SEPA remains of strategic importance for the UK payments industry. Therefore, there is a clear need to ensure applicable EU/EEA legislative provisions affecting payment services in euro continue to be effectively represented in UK legislation, or in equally binding practice. This includes legislation such as PSD2 and SEPA Regulations and is necessary for the UK to retain its membership of SEPA and for its payment service providers to be able to continue to send and receive SEPA payments.

An effective and agile regulatory environment must be developed to support and enable the growing levels of innovation within financial services while at the same time ensuring that firms can operate under the right supervisory regimes and standards to facilitate their engagement with EU markets. As the EU continues to adjust its approach, it will be necessary for UK regulators and industry to continue to monitor these developments and, where necessary, engage their European counterparts to ensure a harmonised approach of regulation in cross-border markets.

3.1 SEPA access

The single euro payments area ("SEPA") harmonises the way cashless euro payments are made across Europe. It allows European consumers, businesses and public administrations to make and receive the following types of transactions under the same basic conditions: credit transfers, direct debit payments and card payments. All major UK PSPs, including banks and non-banks and many smaller providers, use SEPA to make and receive payments. The SEPA schemes are governed by strict rules that allow participants sending money to know exactly when the funds will be received;[50] additionally, SEPA is significantly cheaper and more reliable than any other method of sending funds cross-border within Europe.

The sector is broadly advocating for consistency with EU developments, given many institutions, large and small, operate cross border in the UK and EEA. Due to the UK's departure from the EU, it is a prerequisite of continued UK membership of SEPA that the UK maintains close alignment to the EU in order to continue to meet the SEPA level playing field criteria and the UK's vital participation in SEPA schemes. This requires[51] the UK to maintain strong legal relationships with the EU and a body of national legislation covering payment services which is near equivalent to that of the EU, including, for example, PSD2, the Wire Transfer Regulation, the SEPA Regulation, the Capital Requirements Directive, financial sanctions and anti-money laundering legislation.

While supporting work to explore opportunities beyond Brexit, it is fundamental that any regulatory change in the UK is assessed against the SEPA equivalence conditions to ensure the UK does not lose its membership. If the UK were to fall out of SEPA, this could cause widespread disruption and increased costs to consumers and business. Market indications are that the majority of payments have remained unaffected by Brexit and continue to be treated as they were pre-Brexit. However, a number of further market developments are worthy of note:

- Increased charges for transactions – some EU banks have taken steps to treat SEPA transactions between the UK and EEA as cross-border from a fee perspective, resulting in additional charges.
- Deduction from principal amount – as UK payments are no longer intra-EEA payments, impacted payments are no longer protected from deductions or claim backs.
- IBAN discrimination – by which some companies are refusing to accept SEPA payments and direct debit set-ups from GB IBANs, despite the EPC confirming the UK's continued participation of SEPA schemes and the protections they afford. Such activity is in breach of the SEPA Regulation.
- Creditor ID discrimination – a Creditor Identifier is a unique reference for organisations collecting payments by SEPA Direct Debit. There is anecdotal evidence that transfers are being rejected based on the location of the Creditor.

It is recognised that these are not universal practices, but they do have a potentially destabilising effect on the market, through increasing friction for consumers.

50 Similar obligations under the PSRs 2017 apply to payments made domestically in the UK.
51 https://www.europeanpaymentscouncil.eu/sites/default/files/kb/file/2020-11/EPC061-14%20v5.0%20Criteria%20for%20the%20extension%20of%20the%20SEPA%20geographical%20scope.pdf

Also of relevance to the UK's continued alignment to EU regulation and corresponding SEPA access will be the different approaches to economic crime initiatives that may be adopted. For instance, inconsistent approaches to AML regulation for crypto would be an area of concern, particularly in the implementation of any regulation for transaction reporting, as per the so-called 'Travel Rule'. Also of concern would be inconsistent approaches to AML regulation for Payments Initiation Service Providers (PISPs) and Account Information Service Providers (AISPs), including whether there should be a difference in the reporting requirements for these different firms.

3.2 EU regulatory developments and reviews

Many UK payments sector participants serve customers from the EU which will therefore necessitate a degree of alignment.

The EU continues to announce new payments policy developments and the EU payments policy agendas will likely gain increased momentum with initiatives such as the Retail Payments Strategy, the Digital Finance Package, Markets in Cryptoassets (MICA) and the proposed review of the application and impact of PSD2. There may also be more scrutiny of the security of payments. The EU's review of PSD2 will also include an assessment of the effectiveness of consumer protections and look at the potential for open banking to develop its full potential and to pave the way for an Open Finance framework.

To ensure that the UK is able to benefit from the innovative progress of the EU in developing new regulation and new services for customers, we recommend that HMT and UK regulators accelerate their own work and continue to engage with European counterparts and industry to identify where the UK should align with regulatory developments and to the industry will continue to identify priority areas of alignment, for example the review of PSD2 and consideration given to merging the electronic money framework with that of payment services, the supervision of Big Tech firms and technical service providers active in the payments space that may pose systemic risks, and access to technical infrastructure. In this, the UK will need to retain broadly equivalent law. It is vital that dialogue between jurisdictions remains open to ensure expertise and lessons learned are shared to ensure effective regulation is developed.

3.3 Cross-border payments

The timely G20 Roadmap for enhancing cross-border payments commits the G20 to an international vision, which will be backed by public and private collaboration.[52] The HMT Response to their Call for Evidence on Payments Landscape Review[53] states that the government supports the implementation of the Roadmap and recognises the importance of ensuring the domestic regulatory framework responds to developments in cross-border payments at an international level. Industry welcomes the opportunity to work with the FSB, G20, and wider global community to ensure that a strategic global vision is reinforced by commonly agreed and clear targets focusing on the cost, speed, and transparency of cross-border payments.

There are a number of developments both domestically and internationally that highlight how cross-border payments can revolutionise payments for end users. For example, in the UK the Bank of England is renewing its Real Time Gross Settlement (RTGS) Service to deliver a range of new features and capabilities for payments and settlements between financial institutions. The UK's New Payments Architecture (NPA) for retail payments is also being developed to enable access to a single clearing and settlement mechanism, using ISO 20022 messaging to enable more participants to utilise the UK payments infrastructure and continue to be interoperable with payment services across the globe. The international development of CBDCs also presents opportunities to enhance cross-border payments.

Much has already been done to improve the performance of cross-border payments. Innovations such as SWIFT's GPI have helped to provide greater control and transparency on the status of payments made internationally. Indeed, when the BIS Committee on Payments and Markets Infrastructure (CPMI) looked at 20 million SWIFT gpi transactions covering 141 countries, it concluded that the median payment processing time is only one hour and 38 minutes.[54] For payments sent between North America and parts of Europe, the median processing time is less than 15 minutes. The assessment showed that the biggest drivers for longer processing times in the payments assessed were not long payment chains (the research found that intermediary banks processed 78 per cent of payments in less than five minutes) or payment system operating hour mismatches. Building the evidence base to identify and illustrate the points of delay will be essential for regulators, industry and central banks to continue to combat the root causes of delays.

Industry welcomes the central role the UK, and more specifically the Bank of England, is playing on the international stage. Close engagement with industry on how best to achieve the targets put forward by the G20 on cross-border payments as well as the broader building blocks within the Roadmap, will be vital to ensure progress is made as the scope of the work required to meet the proposed targets is substantial and necessitates significant, and potentially high-risk, change across the payments industry. Setting targets at a global level means individual financial institutions find it difficult to meet their obligations under such targets, unless there is a major change to, and investment in, domestic central bank infrastructure and payment systems to ensure interoperability. This also needs to be coupled with supporting regulation and regulatory guidance in line with globally agreed, mandated, and enforced standards.

52 https://www.fsb.org/work-of-the-fsb/financial-innovation-and-structural-change/cross-border-payments/
53 https://www.gov.uk/government/consultations/payments-landscape-review-call-for-evidence
54 https://www.bis.org/cpmi/publ/swift_gpi.htm