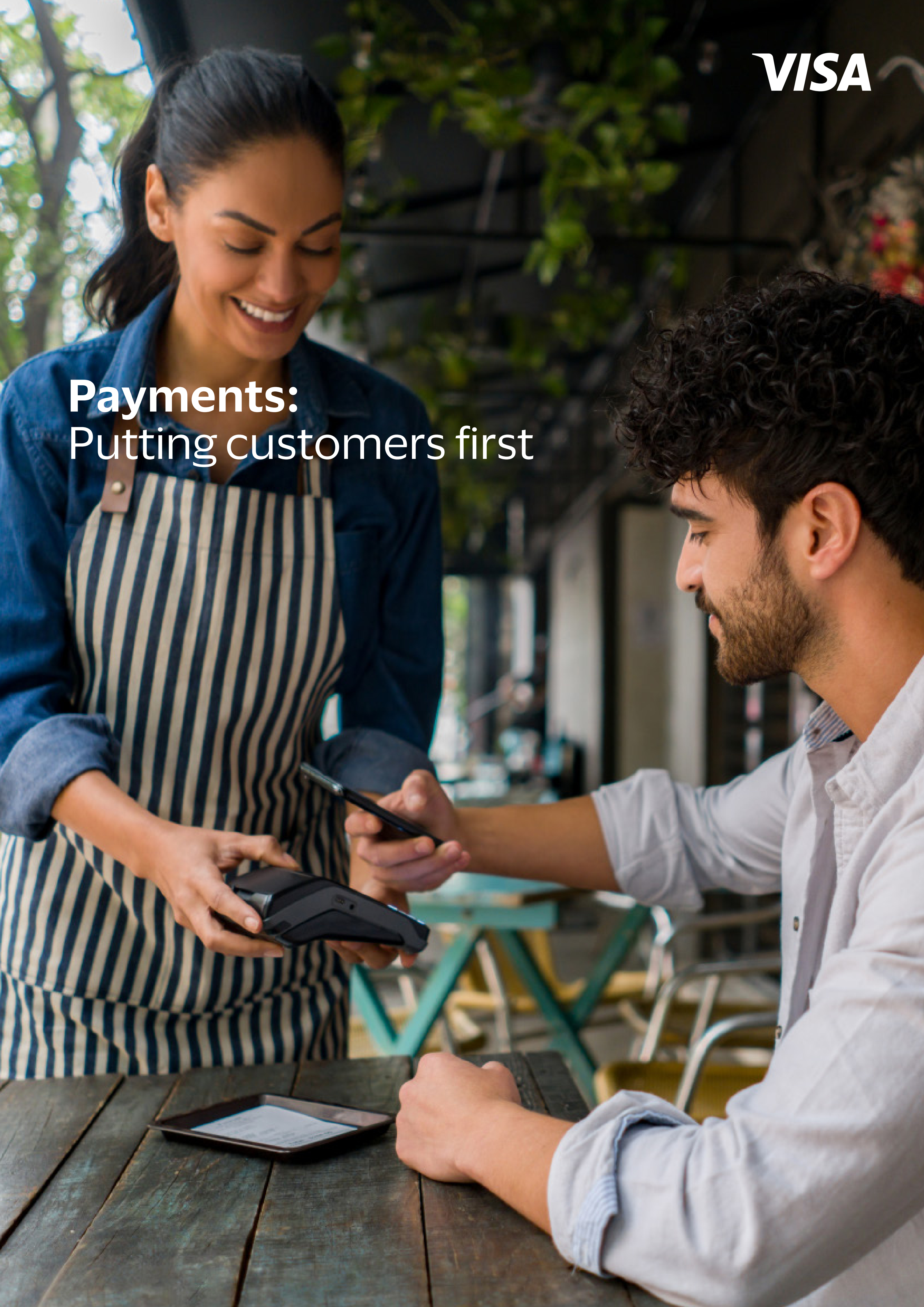


Payments:
Putting customers first

Contents

Foreword

Charlotte Hogg, CEO Visa Europe

Most people don't spend much time thinking about payments, but few things are more essential to daily life and our economy. People need wages, benefits and pensions to arrive on time. They need to settle bills and pay for shopping easily and securely. They need to transfer money to family and friends quickly and safely. In short, we all depend on payments.

Payments have changed dramatically over the past 25 years. Around the world, people have embraced digital payments. So have smaller businesses – the backbone of local economies – to help them attract more buyers and grow.

The UK has been at the forefront of this revolution. We launched fast, easy and secure ways of paying, like contactless, earlier than elsewhere. Competition is fierce, forcing providers to constantly innovate. As a result, people can make payments securely and reliably, and businesses have the confidence to trade.

So what's behind the UK's success?

There were no shortcuts. History shows that investment and innovation in four 'payment features' have been key. These features – security, reliability, speed and convenience, and choice – are critical to customers. When all four work together, customers – people, businesses and government – get great results and the economy grows.

Figure 1: Payment features that matter to customers

Keeping the UK in front

The UK's payment sector is a success story. But it faces challenges. And there are signs that the UK is slipping behind in digital delivery of public services, putting productivity and efficiency at risk.

This paper sets out calls to action that we believe will help the UK stay ahead. We focus on domestic payments – those where the payer and recipient are in the UK. Some build on existing initiatives and others are new ideas. All would deliver clear benefits for customers and provide a strong foundation for inclusive growth.

I highlight four below. Without them, it's difficult to see how the UK can remain at the forefront of innovation:

- **The Government should set out its vision for payments and provide a framework for ensuring that the UK's fragmented regulatory structure does not lead to adverse customer outcomes.**

  Payment regulation is complex, with responsibility for the four vital payment features spread across three regulators. This makes coherent policymaking more challenging.

  We think HM Treasury should set out its vision for payments and provide a framework to ensure customers' interests overall are met. This could be done as part of the requirement for the Government to make recommendations to the Bank of England, the Financial Conduct Authority (FCA) and the Payment Systems Regulator (PSR) at least once a Parliament. Existing work to develop metrics to measure the regulators' success could also help.

- **Regulation should remove prescription and promote outcomes, to allow innovation to keep pace with customer needs.**

  Prescriptive regulation, such as Strong Customer Authentication (SCA), cannot keep up with the speed of innovation and changing customer demands.

  We need outcomes-focused regulation that allows industry to innovate and adopt new technologies to improve the customer experience. HM Treasury should accelerate its work reviewing the Payment Services Regulations, for example, and move SCA from legislation to an industry code so that it can be changed more easily. This would enable innovation to meet customer needs, tackle fraud and improve the payment experience in store and online.

- **Policymakers and industry should be more ambitious to tackle fraud faster. To help speed things up, combatting fraud should be the responsibility of a single existing regulatory body.**

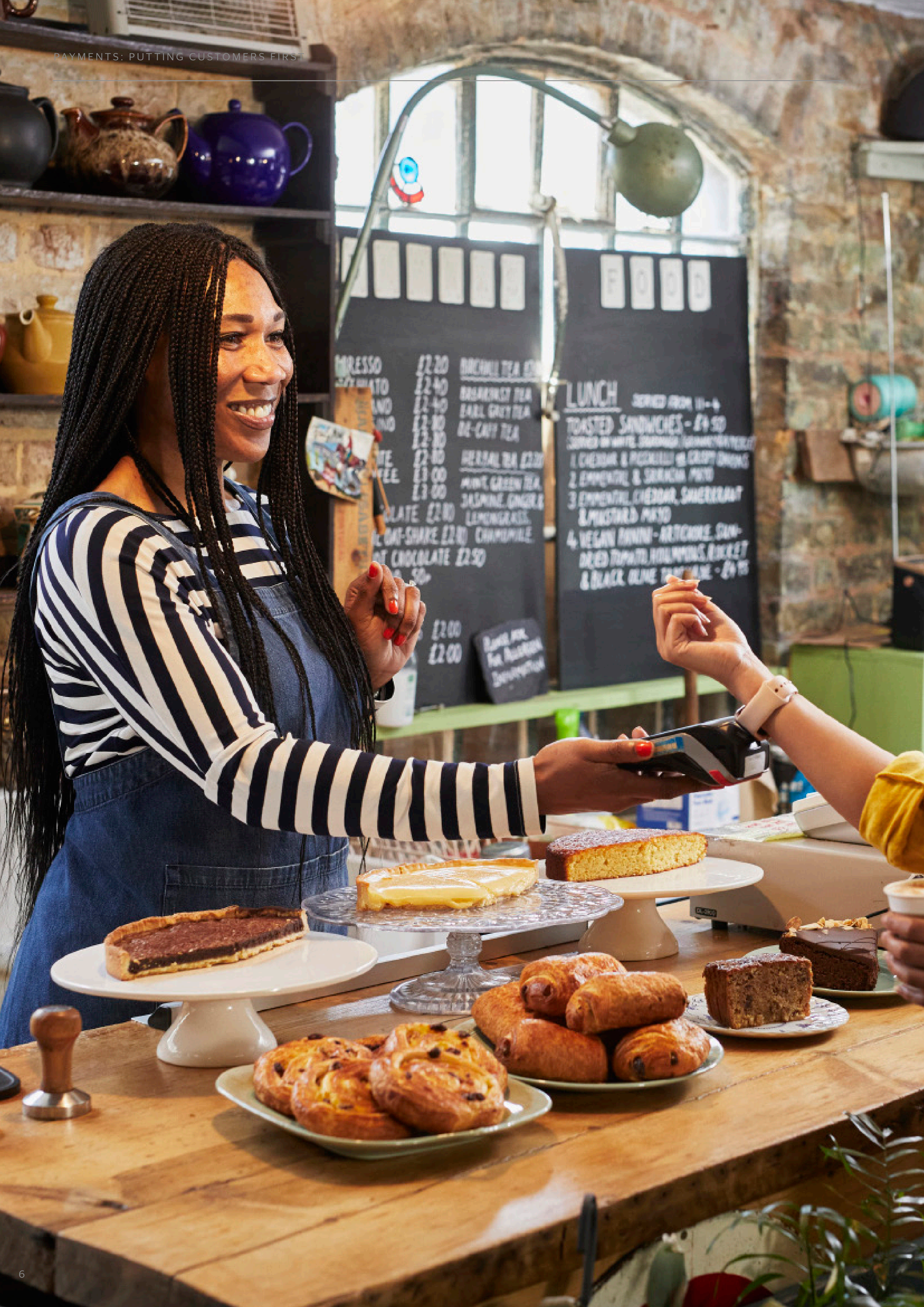
  Fraud hurts victims, but also every UK citizen and business. It cost the UK over £1.2 billion in 2022.[1] Fraud also undermines trust in payments and indirectly affects domestic business and investment potential.

  The Government's Fraud Strategy is a step in the right direction, but the target to reduce fraud by December 2024 should be raised from 10% to 25%. This can be achieved with the right incentives and collaboration across the public and private sectors, in payments and beyond. Making one existing regulatory body responsible for tackling fraud would also help.

- **The Bank of England should take sole regulatory responsibility for the reliability and resilience of payment systems. Improvements to standards across the sector should be considered.**

  Customers expect to be able to make payments without disruption – 24/7, wherever they are. The problem is that regulation of payment systems resilience is split between the Bank of England and the PSR. That's out of line with other countries and can mean duplication of effort.

  We think the Bank of England should take sole responsibility for the reliability and resilience of payment systems to help ensure that UK infrastructure is resilient against any disruptions. A high bar should be set for all payment-sector participants, including consideration of sector-wide testing of the industry's plans and capabilities to respond to a major incident.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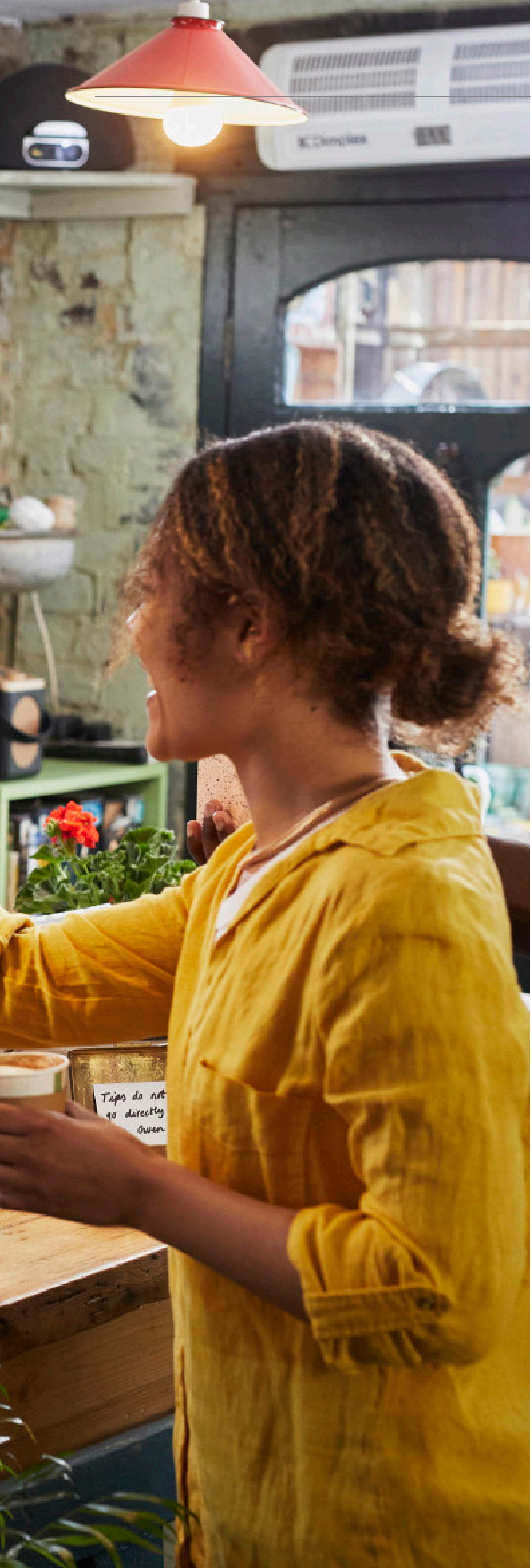


Never lose sight of the customer

Never losing sight of the customer underpins our calls to action. Their needs, goals, and financial and life objectives should drive everything policymakers and industry do.

By focusing on the customer, we appreciate the 'why' behind innovations. This way, payments and financial services continually add value to people's lives.

Let's consider security. It matters, but why? For some, it means confidence to make a purchase and improves financial wellbeing. It can be a lifeline against fraud, especially for the vulnerable. For businesses, it means more buyers, growing sales and better cashflow management.

Customer needs are not one-dimensional. The four features – security, reliability, speed and convenience, and choice – underpin an entire economic ecosystem. But they need to be in balance. If you prioritise one over another, you risk upsetting that balance. This paper explores more features and trade-offs and shows how a sensible balance between all four features is vital.

Customers also want value for money. All payments carry a small cost and some payment methods are cheaper than others. But value is not just about cost. It's also about the features a payment method offers – including its security, protections, reliability and speed and convenience. Customers think about all these factors when deciding which payment methods to use. So should industry and policymakers when considering how to improve customer outcomes.

Let's start a discussion

I hope this paper and the calls to action will strike a chord with you and open a constructive debate.

I believe the calls to action will help reset the proven public-private partnership in the UK and ensure the payment sector continues to deliver for customers. I urge industry and policymakers to back our thinking.

If we put customers first, the future for the UK payments industry should be bright.

Security

Chapter 1

Why is security important for customers?

Customers made over 45 billion payments in the UK in 2022.[2] Each time, money was at stake for people and businesses. Fraud can be catastrophic for people's finances but also for their mental health and wellbeing. It costs the UK billions every year, undermines the UK's financial reputation and has wider implications for society.

Confidence in payments is critical to a well-functioning economy. Consider shopping online. People want to know their payment details will be kept safe. They also want protection in a dispute, for example if their purchase never arrived. Indeed, 44% of buyers say security is the key factor in choosing online payments.[3]

Online shopping makes up nearly a quarter of retail sales.[4] It's critical to many small businesses [5], well over half of whom use an online platform.[6] And it's dependent on payments security.

Fraud involving bank transfers has grown at an alarming rate in recent years.

Fraud losses exceeded £1.2 billion in 2022.[7] That's millions of instances where people lost their hard-earned wages and life savings to fraudsters. It can happen to anyone of any age, gender or background.[8] We're all in a rush and fraudsters can be very convincing. So, it's easy to click a link or dash off a text reply about a fake delivery without really thinking.

Ever been asked to send money to someone posing as a genuine payee, like your bank or an investor? It's called Authorised Push Payment (APP) fraud and it's increased by 105% since 2017.[9]

Preliminary results of Visa research, found that nearly a quarter of APP scam victims said it affected the money they had for day-to-day shopping. One in three said it affected their mental health.[10] The UK is not alone. Around the world, the popularity of real-time bank transfers has made them more attractive to scammers.

The financial sector is on the case, working alongside the Government and police to reduce fraud. Banks and payment providers have improved fraud detection and customer education. It's starting to pay off. In 2022, UK fraud losses fell by 8% in a year, mainly driven by a 17% fall in money stolen through APP scams.[11]

APP fraud might have grown, but card fraud remains at historic lows. We've played our part. In the last five years, we've invested £8 billion globally to reduce fraud and enhance network security. The risk of fraud when using Visa is lower than it has ever been: in the last three years, we have reduced UK card fraud on our network by 28 per cent.[12]

When things do go wrong, cardholders also know their funds are protected. Visa's Zero Liability Guarantee, for example, protects them from unauthorised payments with their card or card details.

Some innovation to strengthen payment security is visible to customers. Use of biometrics, such as facial recognition, is one example. This is faster, more secure and more convenient than PINs or passwords.

Much innovation isn't visible, however. For example, Visa is using Artificial Intelligence (AI) to monitor card payments in real-time for suspicious activity using data on 263 billion transactions made by 4.2 billion cards per year globally. We've also pioneered 'tokenisation'. This is powerful technology that conceals sensitive payment data.

But some security measures can mean slower, more-inconvenient transactions. Consider the contactless limits. Cardholders must still enter their PIN for purchases above £100 or after a certain number of payments. It's a hassle for customers and stops industry from exploring more effective and convenient contactless payments – while keeping payments safe and secure.

Challenges

Fraudsters are getting more sophisticated and exploiting new technology. AI, for example, helps us detect fraud. But fraudsters have access to this technology too. The result: sophisticated phishing. This dupes people into providing sensitive information. Fraudsters can then get into victims' bank accounts or open new accounts in their name.

We must step up the fight against fraud if we're to counter these new and emerging threats. This includes ensuring that fraud defences are constantly upgraded. Industry needs to make big investments in specialist resources and the latest technology to detect and prevent fraud. Operational expertise is also needed to respond to fraud attacks quickly, in a matter of minutes, to minimise potential fraud losses to customers.

We need a more holistic approach to tackling fraud.

Fraudsters can get you in a number of ways. Consider fake websites, social-media posts, emails, telephone calls, texting and bogus doorstep selling.

The public and private sectors need to unite to create joined-up solutions. So far, regulation has majored on financial services firms. But all providers exploited by fraudsters, including technology and telecoms, need the right incentives to tackle fraud, not least because nearly 80% of APP scams start online.[13]

Another challenge is that many authorities are tackling fraud. They include:

- The FCA: the conduct regulator for the financial services industry
- The PSR: the economic regulator of payment systems
- Ofcom: the economic regulator of the UK's communications industries

This makes joined-up policymaking tough, which risks slowing down efforts to tackle fraud.

Customers need to be empowered.

Simply stealing money has got harder. It's difficult to break the authentication[14] methods that secure payments and accounts. So fraudsters increasingly depend on persuading customers to authorise a payment. This means customers need to be part of the solution and empowered to make informed choices.

Customer-facing campaigns can help inform customers about scams and how to protect themselves. These include 'Take Five to Stop Fraud' from UK Finance, the 'Little Book of Scams' from the Met Police and 'Stop Scams UK' from banks and others.

But these campaigns go only so far. More accessible information on scam sources can help customers make informed choices when they interact online and use their devices.

Regulation should recognise customers' roles in tackling fraud. But new rules requiring banks to reimburse APP victims will make people less vigilant.[15] When getting your money back is pretty much guaranteed, why bother with precautions? This makes APP fraud more attractive to fraudsters, which could increase the number of victims and harm the economy.

Prevention of fraud is better for everyone. Even if victims get their money back, they still worry and stress and the economy suffers.

> All providers exploited by fraudsters, including technology and telecoms, need the right incentives to tackle fraud.

Calls to action

Security

Policymakers and industry should be more ambitious to tackle fraud faster. To help speed things up, combatting fraud should be the responsibility of a single existing regulatory body.

Although fraud losses fell in 2022, there's no doubt that more must be done to tackle the issue. Fraud is now the UK's most common crime, with around three million victims each year.[16] It harms the economy and ruins lives and the latest tech, such as AI, is only going to encourage fraudsters.

The Government is stepping up its efforts[17] with a target to reduce fraud by 10% from 2019 levels by the end of this Parliament. It's a start. But it doesn't take into account the latest fraud innovations. We'd like to see the current target raised to 25%. This can be achieved with the right incentives and collaboration across the public and private sectors.

To help speed things up and ensure coherent policymaking, one single existing body should tackle fraud. This body – probably the FCA – must create the right incentives for anyone who services customers, in payments and beyond.

Information is power against fraud; more data should be shared with customers and across the financial services industry.

Everyone has a part to play in the fight against fraud. This includes customers, who need to be empowered so they can make informed choices. Regulators should require publication of data on the sources of scams.

This would help make customers more savvy when they engage with their devices and interact online. Moreover, all parties, including those outside the financial sector, would have incentives to tackle fraud.

Information sharing on fraud across the financial services sector also needs to improve and we should learn from what is already working in cyber. For example, giving vetted providers secure access to anonymised bank transfer data will let them compete to offer banks better solutions for detecting APP scams and increase protection for customers.

10%

Figure the Government is targeting to reduce fraud from 2019 levels

25%

Figure Visa would like to raise the fraud target to

Reliability

Chapter 2

Why is reliability important to customers?

If a payment fails, customers could be left in the queue at the supermarket or stuck at the petrol station. They need payments to work, 24/7.

When payments are unreliable, the UK economy suffers too. Major outages can be disastrous. In 2022, a 19-hour outage at one of Canada's biggest telecoms operators left customers unable to pay using Interac[18] debit cards. It cost the economy an estimated £88 million[19] and small businesses lost thousands in lost sales.[20]

Reliable payments infrastructure also underpins innovation. We can give customers more control over how and when they settle utility bills. But that's pointless if disruption stops them paying when they need to.

UK payments infrastructure is reliable and resilient, so customers can confidently transact.

Disruption is rare and, when it does occur, short lived. Visa's network, for example, has been continuously available since 2007. We've processed more than 99.999% of transactions we've received over the last five years. In reality, this translates to less than 5 minutes of total downtime across the more than half a million minutes that make up a year. Giving customers the confidence that a Visa transaction will work when they need it to.

Major investment is needed for high levels of reliability and trust in payments. That must be in data centres, telecoms lines and cybersecurity. We need high levels of redundancy and contingency plans, too, for disaster scenarios or other extreme circumstances.

Disruption is rare, but the resilience of UK infrastructure varies. Triple-redundant global datacentre infrastructure backs up Visa's transactions. If there's an outage at Visa's UK data centre, transactions can be routed instantly and automatically to one elsewhere in the world and will still complete. Domestic payment networks can't do the same.

What if a bank that offers cards has an outage? Visa customers will still be able use their cards to pay and be paid because Visa can 'stand in' on behalf of the cardholder's bank to approve or decline transactions in the normal way.

> If there's an outage at Visa's UK data centre, transactions can be routed instantly and automatically to one elsewhere in the world and will still complete.

Challenges

Regulatory fragmentation risks duplication and issues falling between the cracks.

Regulatory standards for payment systems are important for resilience. But UK regulation is split across two bodies: the Bank of England and the PSR. The PSR has introduced measures around crisis communications in a major incident that could be covered by the Bank of England's work to prevent, respond to, recover and learn from disruptions.

The current approach is unusual. In many countries, central banks set and enforce requirements based on international standards.[21] It also creates unnecessary costs for all parties and risks duplication of effort. Issues might fall between the cracks. This could undermine the reliability and resilience UK customers expect and depend on.

The growing complexity of payments creates new risks to resilience.

The UK is a global financial technology ('fintech') hub. Around 2,500 fintechs call the UK home and nearly a fifth specialise in payments.[22] This has created a vibrant and dynamic payments sector. Customers get choice and providers must innovate to improve the customer experience and solve pain points.

The complexity of payments has increased because of entry and offer of new services. For example, a Visa transaction once involved five parties. Today, it can be as many as eight or more. This also applies to bank transfers, especially since open banking began.

Entry and innovation are great for customers. But they create new reliability risks. A transaction depends on more providers than ever before having systems and processes that work. Some providers operate across multiple networks. So if they have an outage, this could affect more than one payment method. Some providers could also create a systemic risk to the financial system or the UK economy due to the number of transactions they process.

For all these reasons, regulation must keep pace so that the UK can maintain its payments resilience and reliability.

Lack of transparency on payments reliability makes it hard for customers to make informed decisions.

Customers don't want disruption. But there's little information available on how different payment methods compare. Resilience is important and customers shouldn't be left in the dark. They need to have information that lets them compare payment methods and different levels of resilience. The alternative is finding out when things go wrong.

Calls to action

Reliability

The Bank of England should take sole regulatory responsibility for the reliability and resilience of payment systems. Improvements to standards across the sector should also be considered.

The core purpose of the Bank of England is financial stability. For that reason, it should be the sole regulator of reliability and resilience of payment systems. This would avoid risks and duplication of effort from splitting responsibility across two regulators. Resilience of payments is critically important for everyone even if most of us don't even realise it.

HM Treasury has recognised the risks caused by growing complexity. It has committed to ensuring the Bank of England's powers keep pace.[23] This will enable the Bank of England to set high standards for more payment providers.

These should include sector-wide testing of how the industry would respond to a major incident. The payments sector is interconnected. That means that a joined-up, sector-wide approach to emergency planning for major incidents is needed, to avoid disruption. The Baltic and Nordic countries are leading the way. They are working to ensure customers can still make digital payments 'offline' during disruptions.

Policymakers should consider encouraging more transparency on the reliability and resilience of different payment methods.

We know that reliability and resilience are important for customers. So, policymakers need to encourage transparency on the resilience of and between different payment methods. Then customers can have confidence in their chosen method and make better informed choices.

> HM Treasury has recognised the risks caused by growing complexity. It has committed to ensuring the Bank of England's powers keep pace.

Speed and Convenience

Chapter 3

Security
Reliability
Speed & Convenience
Choice

Why are speed and convenience important to customers?

Customers want payments to be quick and easy to use. Over half of people say this is the main reason they choose a payment method.[24]

In real life, fast and convenient payment means less time waiting at supermarket checkouts. It means not holding up others at the bus stop. It means sending money to a loved one – without the hassle of searching for their account details. It means, as a payer, being able to see your balance before and afterwards, to help with money management.

With quick and easy payments, retailers attract and retain customers, offer a better service, and grow their businesses. It's a significant benefit. Nearly 90% of people say they would abandon an online purchase if they experience friction on checkout.[25]

For the public and private sectors, fast and convenient payments help reduce bad-debt costs. They also support better payment reconciliation and cashflow management.

Innovation has significantly improved the speed, convenience and control of payments.

High-street shopping and public transport have been transformed by innovative payments. Ten years ago, cash was still king, along with paper tickets. In London, people loaded up their Oyster cards before jumping on a bus, tram or tube.

Then came the contactless revolution. Contactless reduces queuing time, letting businesses make more sales and earn more revenue. It's hugely popular - in 2022, 91% of people made a contactless payment in the previous 12 months. That compares to 63% in 2017.[26]

We were the first large-scale adopter of contactless debit for transit. In December last year, Transport for London (TfL) celebrated a decade of contactless payments on London's buses.[27] Contactless is now enabled across the TfL network and on 90% of buses in England.[28]

Over the last 30 years, card-details capture at point of sale has evolved. It's now easy and cost-effective for businesses – especially smaller businesses – to accept digital payments. The latest development is 'Tap to Phone', allowing mobiles to accept contactless payments securely and seamlessly, without additional hardware. Tap to Phone could mean more acceptance of digital payments for businesses and more choice for consumers. It's got great potential – 41% of small and microbusinesses say they would sign up within a month.[29]

Today, people can pay with one click at checkout or use invisible payment experiences, like paying for a rideshare in a mobile app. Increasing use of tokenisation enables a seamless online payment experience, for example enabling people to make repeat orders without repeatedly entering their card details. The technology, which was pioneered by Visa, also cuts fraud by up to 50%[30] and increases authorisation by up to 5%, meaning fewer abandoned carts at checkout. There's more that can be done, though, to bring online payments on par with the seamless face-to-face experience customers are now used to. Newer solutions like Click to Pay leverage tokenisation and biometric authentication to create better online payment experiences while safeguarding sensitive customer data.

As for bank transfers, in 2008, UK customers were among the first in the world to enjoy near-real-time bank transfers, thanks to Faster Payments. Usage has accelerated and, in 2022, Faster Payments processed £3.2 trillion.[31]

Customers are demanding more control, but some common ways of paying are less flexible. Direct Debits, for example, are widely trusted for paying bills, but they're difficult to change once set up and security is not as well developed as for other payment methods.

If your income is up and down, for example, you might go overdrawn because you can't defer or split your Direct Debit. Businesses also spend money chasing bills and writing off bad debt. That's important when the cost of living rises. In August 2023, missed bill payments rose by 14% over the year in Britain, the second highest rate on record.[32]

Challenges

Faster bank transfers carry higher risk of fraud.

Real-time bank transfers – immediate and irrevocable – have led to higher fraud globally. In the UK, APP fraud, which includes romance and investment scams, is up by 105% since 2017. As set out in Chapter 1, we need more urgency in tackling fraud.

But faster transactions don't always mean higher fraud. The UK has embraced quick and seamless contactless payments. We've done it without compromising security, thanks to relentless consumer protection. That's despite the contactless limit rising.

The lesson globally is to balance payment features that matter. Fast and convenient payments are winners for customers. But this must be balanced with other outcomes. Sometimes, this might mean a degree of friction to ensure payments are secure.

"The UK has embraced quick and seamless contactless payments. We've done it without compromising security, thanks to relentless consumer protection.

Regulation is holding back innovation that could enhance the customer experience.

Over the last 20 years, the UK has reaped the benefits of innovation. These include faster, more convenient payments and greater control. But today, innovation is being or could be held back by regulation that stops industry responding to customer needs.

Raising the contactless limit to £100 in October 2021 barely affected fraud rates on UK card transactions.

Here are two examples.

1. Strong Customer Authentication rules

SCA has had a big impact on stopping fraud, but it's not keeping pace with innovation or customer demands. Asking customers to enter their PIN for a lower-risk transaction over £100 or after a certain number of transactions is inconvenient. It's also unnecessary given the sophisticated tools and fraud-management strategies industry has developed.

Importantly, there's no evidence that raising the contactless limit has increased fraud. Indeed, raising the limit to £100 in October 2021 barely affected fraud rates[33] on UK card transactions. They remain very low.

2. Open banking and Variable Recurring Payments

Variable Recurring Payments (VRPs) allow customers to pre-approve a third party to initiate payments on their behalf within an agreed set of parameters. They're like Direct Debits but give the customer much more flexibility and control over when and how they pay.

The nine biggest UK banks must use VRPs for 'sweeping'. That's moving money between an individual's accounts. But this barely scratches the surface of their potential. VRPs could pay bills and subscriptions, support people with irregular incomes and become embedded in our daily lives.

Many open banking participants are experimenting with VRP. But possible regulation of things normally left to market forces – like pricing – risks chilling innovation and investment.

Calls to action

Speed and Convenience

Regulation should remove prescription and promote outcomes, to allow innovation to keep pace with customer needs.

The UK payments sector should ensure customers remain at the centre of innovation and that innovation creates benefits to the economy. This includes tools and services offering more control over when and how they make payments. These will need to be agnostic to existing processes or infrastructure.

Innovation benefits customers when it improves user experience. For this, we need a stable, proportionate and outcomes-focused regulatory framework.

Prescriptive regulation tells firms what they can and can't do. This limits their ability to respond to customers' needs with innovation. Instead, we get a 'box-ticking' approach to compliance. This is worse in dynamic and fast-moving sectors, such as payments. Here, rules can quickly become outdated and hard to change.

Instead, regulation should focus on outcomes. This would clarify the goals industry should work towards. Meanwhile, payment providers get to work out how to meet these outcomes and bring forward innovative products. Outcomes-based regulation is more adaptable than prescriptive rules and responds more effectively to the market.

The Government and regulators should step up work to replace prescriptive regulation with an outcomes-based approach. This includes accelerating work on the Payment Services Regulations review[34] and moving SCA from legislation into a modifiable industry code so it can be changed more easily.

Putting SCA into an industry code would unleash product innovation that could improve the customer experience in store and online and help combat fraud. Outcomes-focused and proportionate regulation would also support new flexible payment options, such as VRPs, and enable payments to better support the wider economy.

> “Putting SCA into an industry code would unleash product innovation that could improve the customer experience in store and online and help combat fraud.

Policymakers and industry must increase efforts to promote digital inclusion, particularly for vulnerable adults.

Digital inclusion is key to UK productivity and tackling inequality. Access to digital payments is often the first step to joining the digital economy.[35] Innovation can make this easier by widening access and giving people more control of their finances.

Charities and governments, for example, are increasingly using prepaid cards to pay living expenses to vulnerable people, like refugees. But some people remain underserved. Policymakers and industry must focus on these groups, especially the vulnerable, and tackle barriers that stop people reaping the benefits of the digital economy.

Choice

Chapter 4

Security
Reliability
Speed & Convenience
Choice

Why is choice important for customers?

Customers like choice. It gives them more control over how they pay. And there's more chance of customers finding a way to pay that suits them. Choice also means effective competition. With choice, providers continually compete to win and keep customers through innovation and better user experience. This in turn powers economic growth.

UK customers benefit from an impressive choice of payment options thanks to entry and innovation.

In the UK, we offer a great choice of ways to pay and be paid: 80% of people agree that they have a choice of secure payment methods.[36]

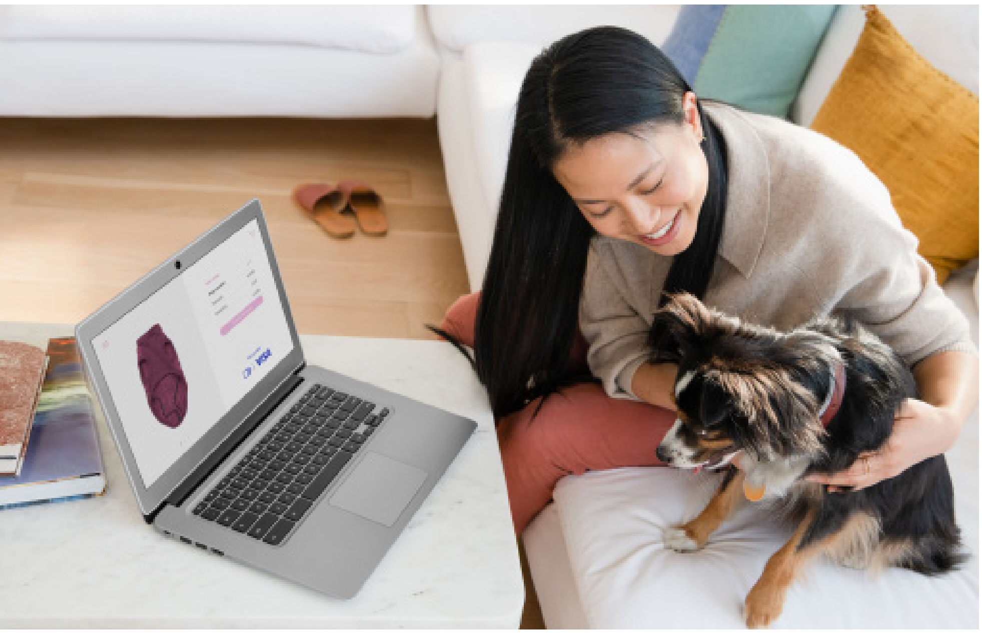
When shopping online, for example, people can pay by card or use one of several digital wallets like PayPal. Buy Now, Pay Later (BNPL) is often another option and open banking has enabled payment by bank transfer.

Gen-Z and millennials are moving towards BNPL solutions. They offer better control over budgets than revolving credit. BNPL also offers greater flexibility over when people pay. One in eight people used BNPL in 2022.[37]

One reason for this choice is fintechs offering new ways to pay. The UK is a fintech hub and has nurtured many new fintech firms. It's a record we should be proud of. Visa has played a part in this success, offering programmes that help fintechs scale and grow.

Major technology firms have also added payments to their services. Mobile payments – like Apple Pay and Google Pay – have grown rapidly. In 2022, 30% of the adult population were registered for mobile payments. In 2016, it was just 2%.[38]

It's a vibrant and competitive sector. That's partly down to entry and expansion of new players. Customer choice has increased as a result. Providers must also innovate and offer new services that improve the customer experience and solve pain points.



> With choice, providers continually compete to win and keep customers through innovation and better user experience.

Challenges

Open loop vs closed loop

Sometimes, choice is restricted. This can be down to 'closed loop' payment networks. With these, people load money onto a special card or account that can make payments only to a single retailer or service provider.

For now, it's an issue for electric vehicle (EV) drivers. Most of the UK's 60 EV charging networks use 'closed-loop' payments.[39] Drivers need a different smartphone app or membership card for each network.

This frustrates drivers and puts buyers off EVs. 'Open-loop' payments offer a much better customer experience: drivers pay for an EV charge simply by tapping their everyday card or smartphone.

Closed-loop systems are also widespread across train services. Outside London, contactless is not available, despite its benefits.

Fintech enablement

Entry of fintechs has increased choice for customers. The Kalifa Review, published in February 2021, set out a strategy to keep the UK as a global fintech leader. Some progress has been made on implementation but challenges remain.

UK fintech funding fell by 37% in the first six months of 2023.[40] Nearly half of fintechs flagged the risk of failure by the end of the year.[41]

London struggles to attract listings from high-growth companies, as competition from around the world increases. The Kalifa Review also recommended connectivity between fintechs, but the body that will do this has only just been set up.

E-Government

The digitalisation of the UK economy is falling behind.

On the United Nations' E-Government Development Index, the UK has fallen from 1st in 2016 to 11th in 2022.[42] On the Online Services Index (OSI) – which looks at how governments deliver public services using IT – the UK fell from 6th in 2020 to 17th in 2022.[43]

Things aren't much better at local level. The UK's 10,000 local councils play a key role in improving wellbeing and providing better services for communities.

Most offer limited options for paying council tax and other services. That's down to dated infrastructure and poor staff skills. As a result, customers delay or miss payments, which means higher administration costs when councils chase missed payments.

Calls to action

Choice

Work should accelerate on the Kalifa recommendations.

The Kalifa Review set out the UK's ambition to be a global fintech leader.

One key recommendation was achieving national connectivity and the formation of the Centre for Finance, Innovation and Technology (CFIT). CFIT was launched in February 2023, but activities and initiatives are just beginning.

The review also recommended improving listings. Although work is ongoing by the FCA, the London Stock Exchange is still not a top destination for tech listings.

It's vital that the Government and the private sector provide active support to the work of the CFIT and deliver against the wider Kalifa recommendations to ensure continued fintech investment in the UK.

> "It's vital that Government and the private sector continue to support CFIT and deliver against the wider Kalifa recommendations.

Industry should ensure emerging payment use cases are future-proofed and developed with multiple payment options in mind, such as open loop.

People reap the benefits of many successful open-loop networks every day. Contactless cards and mobile wallets for travel within cities help commuters and transport network operators alike. Indeed, travellers' favourite payment method is now tapping a card or digital wallet. That's ahead of transit agency-issued cards.[44] We must roll out open-loop networks to all UK train networks.

The UK has now mandated contactless on most EV charge points. But we must ensure this is delivered and learn lessons for other emerging-use cases. They must be future-proofed and developed with multiple payment options in mind.

This will ensure that customers have openness and choice of how they want to pay. And more customers every day can enjoy the convenience, speed, security and reliability of open-loop.

Accelerate coordination and digitisation of government and public sector activities.

People and businesses have embraced digital payments. The Government must now do the same and reinvigorate their use more widely across government and the UK public sector. This will also allow councils to run more efficiently. They'll buy back precious time and resources currently dedicated to chasing late payments.

The UK was once a world leader in digitalisation of government and the public sector. But we're at risk of falling behind. We must give the public a choice of digital payments, where applicable. Linking to 'back office' functionalities could hugely improve government efficiency and productivity.

Our calls to action

Cross-cutting	**1. The Government should set out its vision for payments and provide a framework for ensuring that the UK's fragmented regulatory structure does not lead to adverse customer outcomes.** The regulatory framework for payments in the UK is complex and fragmented, making coherent policymaking more challenging. We think HM Treasury should set out its vision for payments and provide a framework to ensure customers' interests overall are met. This could be done as part of the requirement for the Government to make recommendations to the Bank of England, the Financial Conduct Authority (FCA) and the Payment Systems Regulator (PSR) at least once a Parliament. Existing work to develop metrics to measure the regulators' success could also help.
Security	**2. Policymakers and industry should be more ambitious to tackle fraud faster. To help speed things up, combatting fraud should be the responsibility of a single existing regulatory body.** Fraud damages lives and drags on growth. The Government's Fraud Strategy is a step in the right direction, but the target to reduce fraud by December 2024 should be raised from 10% to 25%. This can be achieved with the right incentives and collaboration across the public and private sectors, in payments and beyond. Making one existing regulatory body responsible for tackling fraud would also help. **3. Information is power against fraud; more data should be shared with customers and across the financial services industry.** Everyone has a part to play in the fight against fraud. Regulators should require publication of data on the sources of scams so that customers can see how all platforms they interact with are performing to protect them. Information sharing on fraud across the financial services sector also needs to improve and we should seek to learn from what is already effective in relation to cyber.
Reliability	**4. The Bank of England should take sole regulatory responsibility for the reliability and resilience of payment systems. Improvements to standards across the sector should be considered.** Resilience of payments is critically important for everyone even if most of us don't realise it. Consolidating responsibility with the BoE would avoid duplication and ensure UK infrastructure is resilient against any disruptions. A high bar should be set for all payment-sector participants, including consideration of sector-wide testing of the industry's plans and capabilities to respond to a major incident. **5. Policymakers should consider encouraging more transparency on the reliability and resilience of different payment methods.** Resilience is vital so customers shouldn't be left in the dark.
Speed & convenience	**6. Regulation should remove prescription and promote outcomes, to allow innovation to keep pace with customer needs.** Prescriptive regulation, such as Strong Customer Authentication (SCA), cannot keep up with the speed of innovation and changing customer demands. We need outcomes-focused regulation that allows industry to innovate to improve the customer experience, powering economic growth. HMT should accelerate its work reviewing the Payment Services Regulations, for example, and move SCA from legislation to an industry code so that it can be changed more easily to allow innovation to continually improve the customer experience and tackle fraud. **7. Policymakers and industry must increase efforts to promote digital inclusion, particularly for vulnerable adults.** Digital inclusion is key to UK productivity and tackling inequality. Access to digital payments is often the first step to joining the digital economy. Innovation can make this easier by widening access and giving people more control of their finances, but some people are still underserved. Policymakers and industry must focus on these groups, especially the vulnerable, and tackle barriers that stop people reaping the benefits of the digital economy.
Choice	**8. Work should accelerate on the Kalifa recommendations.** Through the Kalifa Review, the UK marked out our ambition to be a global fintech leader. The Centre for Finance, Innovation and Technology (CFIT) was formed in Feb 2023, but activities and initiatives remain nascent. The Government and the private sector should provide active support to the work of the CFIT and deliver against the wider Kalifa recommendations, including focussing on improving the listing environment in the UK, to ensure continued fintech investment. **9. Industry should ensure emerging payment use cases are future-proofed and developed with multiple payment options in mind, such as open loop.** There are payments that people make every day that require a special card, account or app for a single provider, which limits customer choice. Several emerging important use cases, such as EV charging, and long existing ones such as parking and transit outside London, would benefit from open-loop payments to give customers openness and choice of how they want to pay, now and in the future. **10. The Government and public sector should accelerate co-ordination and digitisation of their activities.** Almost everyone pays or is paid by the Government at various stages of life. The UK was once a world leader in digitalisation of government and the public sector, but it is at risk of falling behind. People must have a choice of digital payments when interacting with the Government and the public sector. This would improve the customer experience and the Government could be made more efficient.

End notes

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