



Electronic Money Association

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Joe Garner
Chairman
Future of Payments Review
HM Treasury
1 Horse Guards Road SW1A 2HQ

15 September 2023

Dear Joe

Re: EMA response to HMT Future of Payments Review 2023 survey

Thank you for inviting us to respond to the Future of Payments Review survey. The Electronic Money Association (EMA) has been representing electronic money issuers and payment service providers in the UK for over 20 years. Our members include leading global payments and e-commerce businesses, providing online payments, e money wallets, cryptoasset services, TPP and online banking payments, card-based products, electronic vouchers, and mobile payment instruments. A list of current EMA members is provided at the end of this document for reference.

Thank you for taking our comments into consideration.

Yours sincerely,

A handwritten signature in black ink that reads 'Thaer Sabri'. The signature is written in a cursive style with a long horizontal line extending from the end of the name.

Dr Thaer Sabri
Chief Executive Officer
Electronic Money Association

Questions and EMA response:

1. **What are the most important consumer retail payment journeys both today and in the next 5 years? For example, paying a friend, paying a bill, paying businesses for goods and services, in the UK or internationally etc.,**

The payments landscape has seen a remarkable shift in recent years, not only in the UK, but globally, towards online and digital payments.

Some of the most important consumer retail payment journeys in the UK in recent years include:

- **Contactless payments:** Contactless payments have become the norm for daily POS transactions, such as paying for groceries, public transport, or coffee. Mobile payment apps and contactless cards are widely used for this purpose.
- **Online shopping:** the e-commerce marketplace continues to grow, with consumers making online purchases using a variety of methods such as debit cards, credit cards, digital e-money wallets, and Buy Now Pay Later services.
- **Direct Debit:** For recurring payments like utility bills and subscriptions, direct debit is a common method, allowing businesses to automatically collect payments from customers' bank accounts.
- **Bank Transfers:** With the development of Faster Payments, bank transfers are commonly used for person-to-person payments, splitting bills, and transferring money to family and friends.
- **Cash:** while in decline, cash is still used for certain transactions, especially by certain customer segments

However going forward we expect to see some of the more recent significant trends continue, including:

Increase in the use of digital and online payments: In recent years, there has been a significant increase in both the volume and proportion of digital and online payments. This transformation can be attributed to the rapid advancement of technology, which has paved the way for more convenient and efficient payment methods. As the internet economy continues to grow, consumers are increasingly shifting away from traditional payment modes towards digital alternatives.

Increasing diversity in payment types and methods: Another notable trend is the increasing diversity in payment types and methods made available to businesses and consumers through new technology. This diversity is driven in large part by changes in the business models of the customers of PSPs, and competition in the payments marketplace as PSPs seek to offer payment solutions that support those changes, and allow businesses to receive payment in a secure, efficient and seamless manner.

- **Digital wallets:** the increase in the use of digital card token holders such as Apple Pay, Google Pay and Samsungpay will likely continue on for the coming years, offering not only convenience for PoS payments, but also integration with loyalty programmes and rewards.
- **Open banking and Account to Account (A2A) payments:** the development of the open banking ecosystem in the UK offers consumers a streamlined and secure way to make payments directly from their bank accounts. Open Banking (OB) variable repeat payments and OB-embedded payment propositions leveraging A2A payments are expected to gain traction, enhancing convenience and transparency for consumers.
- **QR Code Payments:** QR codes are increasingly used for making payments in physical stores, particularly for smaller merchants who can easily adopt this technology.
- **Authentication methods:** the use of biometric authentication such as fingerprint and facial recognition are expected to become more prevalent for authentication, enhancing security and convenience.
- **Cross-border payments:** Innovations in cross-border payments, such as the expansion of services like SWIFT gpi and blockchain-based solutions, will make international payments faster and more cost-effective.
- **AI and machine learning:** Machine learning will continue to have a growing influence in payments. It can be used for fraud prevention, for personal finance management, and likely many more use cases such as subscription customer management.
- **Cryptocurrencies:** While still in its early stages, the crypto payment ecosystem is gaining momentum. Businesses and consumers are exploring cryptoassets as a viable alternative to traditional payment methods. As cryptocurrencies gain broader acceptance, they may become a more common means of payment, both domestically and internationally, although regulatory developments will play a significant role in their adoption.

- **Subscription-based models:** Subscription-based models will continue to grow, impacting how consumers pay for services like streaming, software, and even goods through subscription boxes.
- **E-money based P2P payments:** P2P payment apps may gain more traction in the UK, allowing users to split bills, pay friends, and transfer money easily.

Integrated seamless payment experience: Today, consumers enjoy a (mostly) integrated seamless payment experience that transcends traditional boundaries. They can make payments through various channels, including social media platforms, peer-to-peer (P2P) payments, voucher and gift card redemptions, and mobile wallet payments. This diversity of channels allows consumers to choose the most convenient and secure method for each transaction, whether it involves friends, businesses, or online service providers.

Cross-Border Retail Payments and Remittance: The globalization of commerce has led to a substantial increase in cross-border retail payments for goods and services, as well as remittance. Consumers are now more connected than ever to businesses and individuals worldwide, resulting in a surge in cross-border transactions. This trend is driven by the proliferation of global marketplaces and the growing ease of conducting international transactions. However despite being connected internationally, consumers prefer to pay using their local familiar payment methods but want seamless payment experiences.

Emergence of CBDCs: The introduction of central bank digital currencies (CBDCs) is poised to have a significant impact on the payments landscape. Initiatives such as the Digital Euro and Digital Pound have the potential to revolutionize how consumers make payments, offering a government-backed digital alternative to traditional currencies. The widespread adoption of CBDCs could reshape the payment ecosystem and provide consumers with secure and efficient payment options.

2. **For these journeys today, how does the UK consumer experience for individuals and businesses compare versus other leading countries? For example, the quality of experience, security or cost.**

The United Kingdom has taken a leadership position in developing a robust payments framework that fosters innovation and competition. Several key initiatives exemplify this leadership role:

1. **Faster Payments:** The introduction of Faster Payments has significantly enhanced the speed and efficiency of domestic payment transactions. This real-time payment

system has revolutionized the UK payment landscape, ensuring faster settlement and improved consumer experiences.

2. **Open banking Standards:** The UK's pioneering approach to Open Banking has set the standard for facilitating secure data sharing and enabling innovative payment services. Open Banking standards have unlocked new opportunities for consumers and businesses, allowing for enhanced financial management and personalized payment solutions.
3. **Access to Financial Services Infrastructure:** The UK has made commendable strides in providing access to critical financial services infrastructure. Notably, access to settlement accounts with the Bank of England has been made available ahead of many other jurisdictions. This early access promotes financial inclusion and supports the growth of innovative payment solutions.
4. **Consumer protection and security for card payments:** The UK's card-based digital products offer significant benefits to customers – both businesses and consumers – and also to the merchants who accept them. Products which run on Card Scheme rails offer high levels of consumer protection, security for consumers and merchants, guaranteed payment and offer scope for innovation where other UK payment methods currently struggle due to the limitations of the large infrastructure schemes underpinning the UK's payment ecosystem.

Challenges in the UK's Payment Landscape:

While the UK has made significant strides in payments innovation, certain challenges persist, hindering the full realization of alternative payment methods:

1. **Marketplace for alternative payments;** The adoption of innovative payments methods (which are not card based) has been more limited compared to some other jurisdictions. For instance, account-based payment methods, QR code innovations and Request to Pay (RTP) platforms have gained more significant traction in other regions. For example, commercial Variable Repeat Payments could be a significant innovation that would strengthen competition in the payments sector and introduce competition against card payments. However, for several reasons it remains yet to be realised: slow rollout, inconsistent offering of the functionality across the banking sector, high pricing structures, and a separate operating environment from sweeping. These factors combined have reduced the ability of fintech firms to take advantage of this potential innovation.

- 2. Consumer protections vs. benefits:** Consumer protections are undeniably crucial in creating trust within the payment ecosystem. However, it is essential to recognize that different types and levels of protection may be more relevant depending on the use case. We do not consider that not having a consumer protection regime as part of Faster Payments is the main reason that PIS payments have not “taken off”. We do recognise that consumer protection is an important factor when considering whether PIS can effectively compete with card payments in a retail environment, but note that PIS have been able to grow in other markets such as the Netherlands or Sweden without the need for a chargeback regime that mirrors card schemes.

The focus in the UK on ensuring equivalent levels of consumer protection between payment methods could potentially overlook the broader benefits offered by alternative payment methods. For example, alternative payment methods, such as account-based payments, QR code innovations, and Request to Pay, offer a wide range of features and benefits that extend beyond consumer protections (digital ID, credit and loyalty programmes, lower cost payments, faster settlement, seamless online and e-commerce experience. Pay.UK consumer research conducted in 2020 indicated that most consumers use FP as a replacement for cash, and would seek protection only for higher value transfers to new merchants, when they aren't paying for a physical goods and services. This highlights the fact that there are many opportunities for using FP for person to business payments where consumers may not seek additional protections as standard.

- 3. Digital ID:** The UK's programme to create a digital ID offers the promise of improving the experience of customers in many ways, from seamless one-step KYC and onboarding, to payment authentication and other processes. However it is not clear whether or how this will be interoperable with the EU digital ID framework, and how/whether it will be adopted by the wider payments industry in the UK.

The UK has made commendable progress in developing a payments framework that supports innovation and competition. Initiatives like Faster Payments and Open Banking have placed the UK at the forefront of payments innovation. However, recognizing the broader benefits offered by alternative payment methods will be essential to unlocking the full potential of the payment landscape.

- 2. Looking at the in-flight plans and initiatives across the payments landscape, how likely are they to deliver world leading payment journeys for UK consumers? For example, we welcome suggestions that you feel would support, or are essential to delivering, world leading payments for UK consumers.**

It is paramount that payments continue to evolve to support business growth, enhance productivity, and expand global reach. Regulators play a crucial role in achieving these objectives by fostering choice, competition, and innovation within the payments industry. In this regard, the UK has made notable strides, thanks to initiatives like Faster Payments and Open Banking.

Vision, leadership and responsibility

Government intervention and investment have proven to be instrumental in driving significant change and innovation within the payments industry. Notable examples include the successful launch of Open Banking and the establishment of the Joint Regulatory Oversight Committee (JROC) and New Payments Architecture (NPA) initiatives.

However, regulatory oversight of payments in the UK can be fragmented. However, it is not always clear how the range of payments initiatives fit together, or where ultimate responsibility resides across the various government and regulatory bodies with an interest in payments policy and infrastructure. Multiple entities, including Her Majesty's Treasury (HMT), the Financial Conduct Authority (FCA), the Bank of England, the Payment Systems Regulator (PSR), and the Competition and Markets Authority (CMA), all play roles in shaping the payments landscape. This fragmentation can sometimes lead to challenges in terms of coordination and alignment of objectives. It is essential to have clear ownership and direction from the outset to ensure the successful execution of such projects.

A renewed UK overarching strategy for the development of payments that is driven and led by government, which clearly sets out the roles for government, regulators, and entities involved in payments infrastructure delivery will ensure a unified approach and focused priorities in the evolution of the payments landscape.

The ongoing review of Payment Services Regulations (PSRs), Electronic Money Regulations (EMRs), and the wider payments regulatory framework presents a unique opportunity for the government to define clearly defined roles and responsibilities for these regulators, as well as set out how regulation and policy are holistically driving outcomes.

Moreover, ensuring that regulators possess the necessary expertise and mandate to align with the future vision for payments is essential. With authority and decision-making on detailed rulemaking increasingly delegated to regulatory bodies, it is important that a strong thread runs through policy initiatives — from high-level objectives set by government to technical details calibrated by regulators — to ensure outcomes reflect overarching objectives.

New Payments Architecture

We welcome the vision for the New Payments Architecture (NPA) which will simplify the set-up for smaller participants, standardise payment message formatting, and provide the ability to send and receive a number of different payment ‘types’ within the same system.

The layered approach of the NPA will foster competition, innovation and ease of access to new entrants. The NPA aims to provide the basis for future payment systems infrastructure to be more agile and flexible than what exists today whilst maintaining security, stability and resilience. Where there is demand, there should be the ability to launch new services more quickly. This approach is proven in other industries, such as telecommunications, and is being adopted by other countries as they transform their payment systems.

However, the phased approach, with Faster Payments using the NPA and BACS remaining on legacy systems at the same time, will restrict the speed and scale of innovation in the UK payments market. If the NPA simply becomes a like-for-like replacement of BACS/FPS functionality, legacy technical, operational, and competition issues may be introduced into the NPA ecosystem, and the government’s objectives will certainly not be met. The NPA should instead become the single payments infrastructure platform for all payment types in the UK.

Open Banking

The CMA Order has helped to facilitate the beginnings of Open Banking in the UK. However it is too early to determine whether the resulting ecosystem has met the Government’s objectives. This is particularly true for payment initiation services where commercial propositions are just beginning to emerge in the market, and the industry is still in its infancy.

The [EMA response](#) (see Q8) to HMT’s Payment Services Regulations Review and Call for Evidence earlier this year highlighted areas of the payment services regulatory framework that, if revised, would pave the way for AIS and PIS providers to improve the experience they

can provide to their customers- both businesses and consumers. This will in turn result in the UK continuing to hold its leadership role in the open banking, or A2A marketplace.

From a governance and operational perspective, Open Banking rollout needs to continue at a faster pace; we have already seen the damaging impact of the delays in taking decisions about the future framework for open banking over recent years. In particular the adoption of commercial VRPs, which have the potential to replace Direct Debits, should be a priority.

Cross-border considerations:

We recognize the increasing relevance of developments in other jurisdictions for the UK payments landscape. Initiatives like SEPA Instant and the Digital Euro in the European Union, as well as developments in non-EU jurisdictions, hold implications for cross-border transactions. Many payment service providers and their customers rely on SEPA for fast and cost-effective cross-border payments. Enhancing payment rails to facilitate cross-border transactions will undoubtedly benefit UK customers and the broader economy.

In conclusion, while the UK has made significant strides in payments innovation and regulatory oversight, there are opportunities for improvement. Coordinated leadership, clear roles and responsibilities, and alignment with government vision will be critical in shaping the future of UK payments. We look forward to continued collaboration and dialogue in pursuit of world-leading payment journeys for UK consumers.

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