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By email: contactlesslimits@fca.org.uk

9 May 2025

Dear Jane,

Re: EMA response to Engagement Paper on Contactless Payment Limits

The EMA is the European trade body representing electronic money issuers and alternative payment service providers. Our members include leading payments and e-commerce businesses worldwide, providing online payments, card-based products, electronic vouchers, mobile payment instruments and cryptoasset services. A list of current EMA members is available on our website: https://e-ma.org/our-members.

Please find below our response to the above consultation. I am grateful for your consideration of our comments and proposals.

Yours sincerely,

Dr Thaer Sabri
Chief Executive Officer
Electronic Money Association

EMA response

I – General comments

We support the FCA's objectives of future proofing the SCA rules so they can accommodate both cards and open banking payments (Pay by Bank) at physical point of sale. We support a new risk-based Strong Customer Authentication (SCA) exemption for contactless payments, as outlined in paragraphs 3.4-3.12 of the FCA's EP, which appears to be the most balanced approach.

We would like however to note that significant issues remain for open banking payments completed online, and that the National Payments Vision includes as an objective 'seamless account-to-account payments'. The FCA should also consider **addressing friction in Pay by Bank journeys, which** will also require changes to SCA-RTS and PSRs 2017.

II - Consultation questions

Q1: What is your preferred option for the future regulation of contactless limits?

The Electronic Money Association (EMA) supports a new risk-based Strong Customer Authentication (SCA) exemption for contactless payments, as outlined in paragraphs 3.4-3.12 of the FCA's EP, which appears to be the most balanced approach. This exemption would provide flexibility to Payment Service Providers (PSPs) by allowing them to apply SCA based on objective recorded fraud criteria, similar to the Transaction Risk Analysis (TRA) exemption already used for remote transactions under the UK Regulatory Technical Standards (RTS) on SCA and Common and Secure Communication (CSC) (Article 18).

It is crucial that any reference fraud rates and related Exemption Threshold Values are set at levels that do not disadvantage non-bank PSPs compared to large UK credit institutions. Additionally, as new account-to-account (A2A) payment solutions for physical points of sale/points of interaction (POI) enter the market, Open Banking providers should be able to benefit from any changes to contactless transaction limits.

Moreover, we believe that any changes to regulatory thresholds for contactless payments must avoid introducing discriminatory conditions that could hinder competition, consumer and merchant choice or create barriers to the adoption of Open Banking. A fair, risk-based framework will help foster innovation while ensuring strong consumer protections.

Q2: What do you consider to be the key risks and benefits of the different approaches and which option do you consider would be best:

- **Reduce fraud while minimising payment friction?**
- **Support innovation and economic growth in the UK?**
- **Meet our statutory objectives?**

We note that the risk-based SCA exemption for contactless payments offers a balanced approach. By aligning fraud thresholds with fraud rates recorded by a PSP, it can reduce fraud while minimising payment friction, allowing for more flexible SCA application and enhancing the user experience. This approach supports the attainment of UK Open Banking objectives and the adoption of A2A payments at the physical POI, driving competition, increasing consumer and market choice that can deliver lower service costs and fostering economic growth in the UK. Enabling non-bank PSPs to benefit from any changes to contactless transaction regulatory limits will help create a more dynamic, competitive payments ecosystem, promoting innovation. This approach aligns with the FCA's statutory objectives, ensuring that market integrity is maintained while providing strong consumer protections.

However, we also acknowledge certain risks associated with this approach. A significant concern is that, if not carefully calibrated, fraud rates and exemption thresholds could disadvantage smaller or non-bank PSPs. If reference fraud rates are set too low or thresholds are misaligned, they may restrict the ability of smaller players to compete with larger institutions that possess greater resources that can be deployed to avoid breaching any volume-based reference fraud rates.

We also perceive a risk that large UK ASPSPs will simply ignore any risk-based regulatory (SCA exemption) limits for contactless transactions and force the completion of SCA for A2A payments or payments initiated by UK Open Banking service providers. This is currently the case for many online credit transfers initiated by UK Open Banking providers, which often require the user to navigate through multiple Risk Warnings and to complete SCA even for transactions that can benefit from an SCA exemption (low value), adding unnecessary friction and impeding consumer adoption.

Q3: On introducing a new risk-based exemption:

- **What would be the most effective regulatory design?**
- **What would be the most appropriate way of setting and designing reference fraud rates?**
- **Which risk-based factors should be included, if any?**
- **Which scenarios should prevent the proposed exemption being applied, and what should happen when a firm breaches a specified fraud rate?**
- **What approaches might firms adopt for in-person transactions if there was a risk-based exemption?**

The exemption framework should be outcomes-focused, using objective and risk-based criteria such as reference fraud rates for net fraud attributed to the regulated service provider that seeks to benefit from the exemption. These rates should be based on transparent, industry-wide data and methodology for attributing recorded fraud that reflects differences

across transaction types and payment methods (card-based, account-based). Crucially, they must be designed to avoid discriminating against smaller, non-bank UK PSPs (including TPPs and Open Banking service providers) compared to larger UK credit institutions, ensuring a level playing field.

Fraud thresholds should be benchmarked against industry averages and reviewed periodically to reflect emerging fraud patterns. Risk-based factors should include observed fraud rates, transaction volume, and transaction type, enabling targeted application of exemptions. Additional merchant and transaction-specific fraud risk indicators would support fraud prevention without adding unnecessary friction to low-risk payments. The transaction risk-factors (for remote transactions) listed in Art. 18(3) of the UK RTS on SCA and CSC also apply to contactless transactions. A new risk-based factor to consider for contactless transactions that may trigger SCA is the first use of a new/unregistered customer device to complete a transaction.

A new risk-based SCA exemption should seek to establish a range of reference fraud rates and associated Exemption Threshold Values (ETVs) for card and account-based contactless transactions that reflect UK payment (i) industry average transaction values (ATVs) for contactless transactions and (ii) observed fraud rates. SCA exemptions could be provided to merchants in specific contactless transaction use cases (transport, parking) or whether the underlying payment instrument (card, account) is only made available to payers that are not consumers (commercial/corporate payments).

Access to risk-based exemptions for contactless transactions should be afforded both to the payer PSP (ASPSP, PISP/Open banking service provider and to the payee PSP (e.g. Merchant Acquirer). The use of the risk-based exemption should trigger a shift in the liability of the transaction to the PSP that uses it. This approach is consistent with the current use of the TRA SCA exemption for remote electronic payments by Merchant Acquirers for card-based payments.

We believe it is important to monitor the correct and appropriate application of risk-based contactless exemptions by all PSPs (including in transactions initiated by TPPs). The thresholds (RFRs, ETVs) associated with any risk-based exemption should be reviewed regularly to reflect changes in fraud patterns, customer behaviour and the emergence of new payment use cases.

Any exemptions should not be applied in scenarios where there is an elevated risk of fraud, such as in cases of new or unverified merchants, high-risk geographical regions, where a merchant has experienced a recent history of elevated fraud rates or when a new customer device is used in a contactless transaction.

If a firm's recorded fraud rate breaches a reference fraud rate threshold for contactless transactions for the latest calendar quarter, it should not be able to benefit from the risk-based SCA until it demonstrates the deployment of improved fraud management practices and records a lower fraud rate than the relevant reference fraud rate for an entire quarter. Such a review mechanism would ensure that firms are incentivised to maintain robust fraud prevention measures and would prevent the exemption from being misused.

For in-person transactions, we anticipate that firms will likely adopt a range of approaches to assess fraud risk for contactless transactions and to complete SCA if that is required. Firms are increasingly using real-time, AI-based fraud monitoring systems that monitor hundreds of fraud signals/risk factors to trigger step-up customer authentication, if required. Firms may also employ dynamic limits based on transaction risk, using factors like the size and type of the transaction to determine when SCA is required. The ability to adjust fraud prevention measures dynamically, depending on transaction risk, will help maintain a frictionless customer experience while ensuring strong security controls.

Firms are keen to leverage low-friction customer authentication methods to complete SCA if required; these comprise inherence-based authentication elements (biometrics, behavioural biometrics) and possession-based elements. In this context, a future revision of the UK SCA requirements by the FCA should consider allowing the use of two elements of the same (Inherence-based) type to complete SCA to allow the deployment of low-friction customer authentication strategies for contactless transactions.

Q4: On amending the existing contactless payments exemption:

- **What factors should we consider when setting regulatory contactless payment limits?**
- **At what level should we set the single limit? At £200 or a higher alternative?**
- **At what level should we set the cumulative and consecutive limits? What cumulative limit to single limit ratio would be most appropriate? Would a cumulative limit of £2000 or a consecutive limit of 10 transactions be appropriate?**
- **Should we remove the consecutive and/or cumulative limits?**

As stated in the response to Question 3, we believe that the replacement of the current, fixed regulatory SCA limits (and associated exemptions) for contactless transactions by a risk-based exemption offers the most effective means of combating fraud and enabling the delivery of new contactless payment services (including A2A and Open Banking solutions).

When setting regulatory contactless payment limits, the core priority should be to ensure a flexible, consumer-centric framework that balances convenience, security, and access to multiple service options.

In terms of broader fraud controls, we support a risk-based, dynamic approach—where firms use real-time risk assessment mechanisms (such as behavioural data and transaction history) to manage security, rather than rely solely on hard limits. It is not clear to us that there is industry or consumer group demand for an increase to the current regulatory limits for contactless transactions (value of a single transaction, value/volume of consecutive contactless transactions without SCA). The continued increase in the market share of contactless transactions among UK in-person transactions (>90%) and the modest ATV (c.£16) as recorded in the latest statistics suggest that the current limits do not impede consumer adoption of contactless transactions. There are also concerns - raised by certain

consumer demographics - about the potential for higher fraud losses associated with the use of lost/stolen payment cards in contactless payment use cases.

Overall, we perceive that a consistent application of risk-based SCA exemption for contactless transactions across all payment methods, including card payments, digital wallets, and open banking, is essential for fostering innovation and competition while maintaining strong consumer protections.

Q5: Do you support alternative approaches to contactless limits?

- **Could we achieve appropriate outcomes if we relied substantively on the Consumer Duty, potentially following legislation?**
- **In the event that your preferred approach requires changes to legislation, would you prefer that we delay regulatory change, or take forward interim measures under the existing framework pending legislative change?**
- **If your preferred approach has not been raised in this paper, can you provide further details?**

As we move toward an increasingly digital economy, we believe that a comprehensive, balanced approach is required to ensure that payment solutions, including both card and open banking solutions, are secure, seamless, and competitive. The use of Open banking, account-to-account (A2A) solutions has the potential to offer consumers more flexibility, choice and competitive service charges at the contactless Point of Interaction (POI). While we acknowledge that the Consumer Duty framework is designed to ensure that consumers are treated fairly and protected in the financial services landscape, we do not believe that relying solely on this framework can provide an effective regulatory solution to address the competitive obstacles associated with the use of open banking and A2A solutions for contactless transactions.

Our preferred approach centres on revising the current SCA RTS framework to better align with the needs of both traditional card payments and open banking/A2A solutions. We would also advocate for the implementation of interim measures by revising the existing SCA framework to address immediate challenges rather than wait for changes to primary legislation (e.g. the UK PSRs). These interim measures could focus on revising the existing SCA exemptions, particularly for low-value transactions, to reduce friction in the authentication process and prevent unnecessary delays in the execution of payments. We believe that a more risk-based, mandatory exemption framework should be implemented, which would apply to low-value transactions and to certain other low-risk use cases, allowing smoother and faster payments while ensuring security. Additionally, ensuring a more inclusive approach that allows non-bank PSPs, like open banking providers, to benefit from these exemptions would help level the playing field and encourage competition.

Q6: Is there still a benefit to separate exemptions based on use cases, such as the exemption in Article 12 of the SCA RTS for payments at unattended terminals for transport fares and parking fees?

We perceive that there is still benefit from maintaining standalone SCA exemptions for contactless transactions initiated at unattended terminals operated by/for public transport service providers (including road tolls) and vehicle parking use cases. These use cases typically involve high-volume/quick-throughput transactions with a low ATV; a requirement to complete SCA would severely degrade the customer experience and disrupt the delivery of payment solutions that support these use cases. It may also be appropriate to expand the availability of these exemptions to other unattended terminals supporting public micro-mobility (e.g. city bike rental schemes) and electric vehicle charging use cases.

We encourage the FCA to ensure that these SCA exemptions at contactless unattended terminals are also available and usable by payment methods beyond cards (e.g. A2A solutions) and by payments initiated by Open Banking service providers.

Q7: What different needs do consumers have for contactless payments? What role should consumers have in setting their own contactless limits?

One of the primary reasons consumers favour contactless payments is the speed and ease of the transaction. For small, everyday purchases such as public transport fares, coffee, or groceries, consumers value quick, hassle-free payments without the need to enter a PIN or to go through additional authentication steps. Contactless payments fulfil this need by offering a fast and seamless experience.

While convenience is crucial, consumers are also concerned about the security of their payments and the potential for unauthorised transactions that result in loss of their funds.

Consumers should be empowered to configure their own contactless payment limits, with the appropriate tools, guidance and security protections in place. This gives them the ability to adjust their limits based on personal preferences, changing circumstances or risk tolerance. For example, some users might prefer to set lower limits to reduce the risk of unauthorised transactions, while others might want flexibility to complete contactless transactions for larger amounts without triggering SCA.

Financial institutions and payment service providers should offer transparent, easy-to-understand information about how these limits work and provide simple, intuitive tools to manage them. Additionally, educational resources should be available to help consumers understand the risks involved and how to set limits that balance convenience with security. This would not only enhance trust in the system but also enable consumers to make informed decisions and take control of their payment settings.

It is important to ensure that ASPSPs do not encourage users to set tighter limits for contactless transactions initiated by Open Banking service providers in the absence of objective, data-based reasons that point to increased risks associated with such transactions.

Q8: Are there any competition considerations we should take into account for contactless limits?

- **Should firms be able to set their own individual limits, or should there be coordinated industry caps?**

- **What is your view on contactless limits in relation to new ways of making payments, such as digital wallets and/or open banking?**

We perceive that allowing PSPs to set their own contactless transaction limits (within the perimeter established by reference fraud rate and exemption threshold value limits associated with a risk-based exemption) as the most effective approach to meeting fraud and customer choice/experience objectives. Where possible, consumers should be afforded the opportunity to further configure the contactless transaction limits for the payment instruments that they use.

In the context of contactless payment limits, consumer flexibility is paramount, ensuring they have control over their own limits. However any system permitting firms to set their own limits must be carefully regulated, with safeguards in place, including consistent security standards, transparency, and clear communication about the limits and associated risks. Restrictive limits could prevent providers from differentiating themselves with higher or more personalised limits, which could benefit specific customer segments and impede the development of secure, frictionless payment technologies.

Digital wallets currently benefit from access to a greater range of authentication elements (inherence, possession) available through the registered customer device where these wallets operate. Their seamless integration with customer devices makes them a secure low-friction option to complete contactless transactions below and above current contactless transaction limits especially for younger customer demographics. This is a trend that is likely to continue going forward..

We believe that the large deployment of open banking/account-based solutions at the physical POI in the UK will require regulatory intervention to:

- Ensure access to the NFC communication components (NFC controller) and secure storage (Secure Element-SE) in customer devices by regulated third-party PSPs. Such access is currently controlled by device/OS providers; the providers of some devices (e.g. iOS) are still limiting such access to UK PSPs.

- Encourage payment card ecosystem participants (Acquirers, Issuers and the Card Schemes) to open up the physical payment acceptance infrastructure that is deployed at merchant locations to allow access to account-based solutions.

Finally, we encourage the FCA to ensure that any changes to the UK contactless transaction limits do not disadvantage any payment method or payment initiation flow and that the relevant limits are applied consistently and fairly by all regulated parties.

Such regulatory fairness is crucial; open banking solutions must be able to compete on an equal footing with payment card transactions card schemes, without facing unnecessary technical or regulatory barriers.

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