

UK digital payments regulatory landscape



Sam Emery

Director,
Payments, Industry & Development
Lloyds Bank



The UK's payment systems are being modernised; large scale transformation projects are being undertaken to ensure customer needs are being met both now, and in the future. This paper summarises key UK domestic digital payments developments, provides a step through on current 'hot topics', and takes a look ahead to ongoing and future initiatives shaping the landscape.

One of the strengths of the payments industry worldwide is its dynamism; it is at the forefront of technological change, facilitating new ways of not just paying for goods and services but enabling new business models, helping families budget, and both reflecting and contributing to societal change. In the UK, Lloyds Bank has been at the forefront of these changes, driving value for our customers and helping to shape key industry developments.

The pace of change initiatives in payments in the UK has continued to ramp up; this year, key initiatives are in progress to build scalable and resilient payment systems that are fit for the future, for example, the New Payments Architecture (NPA), and the Bank of England's renewal of its RTGS (Real-Time Gross Settlement) system. Industry working groups on innovative new payments ideas continue at pace, with a pilot for Open Banking Variable Recurring Payments being considered. Multiple industry workstreams aimed at making payments safer for our consumers are also ongoing, including Consumer Duty, and mandatory reimbursement for Authorised Push Payments. These initiatives are summarised within this paper.



LLOYDS BANK

Payment infrastructure

The UK is currently undergoing two major change programmes: RTGS Renewal Programme and the NPA. These will harness the new global payments messaging standard ISO 20022, bringing the benefits of this richer data standard for customers and greater payments interoperability for Payment Service Providers (PSPs), alongside delivering high standards of resilience, accessibility, and security.

To quote Sir Winston Churchill, “To improve is to change: to be perfect is to change often”. Our vision is to change often, and to do so in partnership with industry³.

New Payments Architecture (NPA)

The New Payments Architecture is the UK’s next-generation payments platform that will replace the current retail interbank systems. It will enable innovation via adoption of the ISO 20022 messaging standard and will also provide opportunities for overlay services to further shape payments developments in the near future. Pay.UK is the payment system operator delivering the NPA for the UK market.

This year, Pay.UK has progressed in its preparation for delivery of the NPA. It is navigating the final stages of its vendor selection, with an announcement expected imminently. Migration is expected to begin in 2025, as Pay.UK take the first step by consolidating Faster Payments into the NPA, focusing first on ‘priority payments’, which include Single Immediate Payments, Standing Order Payments and Forward Dated Payments as like-for-like migrations.

Pay.UK is also set to consult on its strategy for migrating BACS, the home of Direct Debit. BACS has been used by UK businesses since 1968 and, as such, we expect interesting discussions on how best to shape the scheme to allow it to continue to serve our customers’ needs.

Real-Time Gross Settlement (RTGS)

The Bank of England’s RTGS service sits at the heart of the UK payments infrastructure as the sterling settlements system and, as a result of an industry-wide programme, is being renewed to ensure it is fit for the future. The new system will deliver benefits for the payments industry by increasing resilience and access, providing greater interoperability, improving user functionality and strengthening end-to-end risk management.

In June 2023, the Bank of England and its direct participants successfully delivered the implementation of CHAPS payments to the new global payments messaging standard ISO 20022. This allows participants to send and receive richer, more structured payment messages, improving straight-through processing and fraud detection. The use of the ISO 20022 standard also allows for more effective communication with overseas counterparts and enhances cross border payments by supporting the global effort to combat fraud.

The second phase of development is set to launch in the summer of 2024 and deliver the new core settlement engine for RTGS, bringing additional benefits like increasing resilience, access, and user functionality.

2022 saw Faster Payments break the record for the highest number of payments processed in a single year to over 3.9 billion payments (3.4 billion payments processed in 2021)¹.

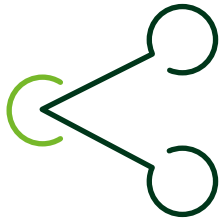
In July 2023, CHAPS processed 4.3 million payments worth £7.4 trillion over 21 settlement processing days².

Open Banking



Open Banking (OB) is a simple and secure way to help customers access and share their account information across multiple providers, through a single consolidated financial view. This functionality can help customers to understand their finances, make financial decisions and provide them with an alternative way to make payments.

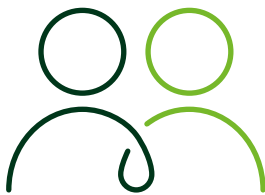
Since the launch of OB in 2018, more than 6.5 million consumers and SMEs in the UK have used Open Banking-enabled products and services resulting in over 68m OB payments in 2022 (twice the number seen in 2021).



To ensure the momentum continues the Financial Conduct Authority (FCA), Payment Systems Regulator (PSR) and HM Treasury, along with the current Open Banking body (known as the Open Banking Implementation Entity, or OBIE) created a Joint Regulatory and Oversight Committee (JROC) to help shape recommendations for the future of Open Banking payments in the UK. Its responsibilities include:

- overseeing the planning and preparation for the organisational home of Open Banking (known as the 'future entity')
- overseeing the transition to the future framework
- considering the vision and strategic roadmap for further developing Open Banking
- overseeing and, where applicable, monitoring the future entity, once set up, until a permanent regulatory framework is in place.

The JROC published a report in April 2023, setting out a vision for Open Banking, next steps for the design and transition to a new future entity, and a delivery roadmap spanning 2023-2025, ahead of a future regulatory roadmap.



Key activities from the report include:

- Establishing a working group on Variable Recurring Payments (VRP). The initial focus of this group is to develop a blueprint for the phased roll-out of non-sweeping VRP. This group is considering key elements required to take VRP beyond 'sweeping' (where users move money between their own accounts) to wider use cases, which includes ensuring that payments are protected, the market is not fragmented, and a scalable operational framework and commercial model is in place. Lloyds Bank sit on the Steering Group, overseeing the work of subcommittees undertaking this work. A report is expected to be published in Autumn 2023.
- Establishing a working group on the plan for the 'future entity'. The JROC acknowledged the need for the open banking ecosystem to scale and become more economically sustainable while maintaining its reliability, resilience and efficiency. This working group is undertaking analysis to specify the role, structure, and funding of the future entity, seeking to ensure that it is economically sustainable and effectively governed.

Keep customers safe

The UK's fraud epidemic is an increasingly significant issue, which has a hugely damaging impact on customers. UK regulatory and governmental bodies have focused on efforts to minimise the impact on consumers, with new developments in the legislative and regulatory landscapes aimed at tackling the problem announced, or in development, throughout 2023 and beyond.

207,372 incidents of APP fraud were reported in 2022. These resulted in gross losses of £485.2 million ⁴.

Authorised Push Payments (APP) Fraud

APP scams happen when a person or business is tricked into sending money to a fraudster posing as a genuine payee. Fraudsters are exploiting instantaneous payments and using sophisticated social engineering, including via social media and telecommunications, to target victims of fraud, quickly moving funds out of reach.

In May 2023, the UK Government published a National Fraud Strategy, aiming to reduce fraud by 10% by December 2024. Alongside this, the Payment Systems Regulator has notified the payments industry of its intention for firms to reimburse most victims of APP fraud, with implementation expected around April 2024 (with exact implementation dates to be determined).

The PSR will direct Pay.UK, the operator of UK payment systems, to put the new reimbursement requirement into Faster Payments rules, which will be supported by a general direction that applies to all in-scope PSPs placing a regulatory obligation on these firms to comply. In addition, Pay.UK will be directed to create and implement an effective monitoring and data gathering system to ensure all PSPs adhere to the reimbursement rules.

Liability is to be split 50:50 between the sending and receiving firm, with the sending firm reimbursing the customer. The operational processes and details are the subject of significant focus to ensure a smooth implementation.

Lloyds Bank believe that preventing fraud is a shared responsibility going beyond just the role of banks, with social media, platform providers, and the telecommunications sector playing a key role in the enablement of scams. We have called for all actors within the fraud chain, particularly tech and telcos, to take responsibility for preventing fraud at source and be subject to a consistent regulatory standard of consumer protection.

The Bank of England has acknowledged and acted to support the industry objectives with regards to APP scams and has announced its intention to apply similar reimbursement requirements to the CHAPS payment system. It will draft the relevant scheme rules, which will be as similar as possible to those implemented in Faster Payments to ensure consistency. The PSR will formally consult in October on the direction required to ensure compliance with the CHAPS rulebook.

Confirmation of Payee

Confirmation of Payee (CoP), where a check is performed to see if the name on an account matches a payee's expectation, has been mandated since 2020, when the PSR directed the UK's six largest banking groups, including Lloyds Banking Group, to implement the API-based service.

CoP provides payers with greater assurance that payments are being routed to the correct account, by checking and confirming the name on the account before funds are transmitted. The service continues to grow in usage and recognition, and the payments industry now sees over a million CoP checks a day flowing through our payment systems in the UK.

This year the PSR has continued to implement its proposal to expand CoP, which is now set to cover around 400 payment firms. This migration is expected to be near completion by 2024, and by the end of October 2023 CoP is expected to cover 99% of Faster Payments transactions.

Future focused – other key drivers of UK payments change



Be in no doubt: the Duty will be a significant shift in what we expect of firms. It means making lasting changes to culture and behaviour to consistently deliver good outcomes.



Sheldon Mills

Executive Director FCA ⁶

Consumer Duty

On July 31st, 2023, all in-scope UK financial services firms were required to comply with the new consumer duty ⁵. The Financial Conduct Authority (FCA) now requires firms to take an outcomes-focused approach to ensure their products and services are fit for purpose and offer fair value, and to help consumers make effective choices.

The Consumer Duty measures include:

- A new high-level Principle (Principle 12), which sets out expectations around conduct and associated outcomes. The FCA has removed two previous principles as being applicable for retail businesses.
- Cross-cutting rules that state a firm must: act in good faith towards retail customers, avoid foreseeable harm to retail customers, and enable and support retail customers to pursue their financial objectives.
- Four outcomes, which set the detailed expectations for how a firm should conduct itself. These are the products and services it offers, the price and value of these, its consumers' understanding, and the support it offers to consumers.

The FCA expects UK firms to focus on acting to deliver good outcomes, and that this principle should be at the heart of banks' objectives. Each in-scope firm's Board (or equivalent oversight) will be responsible for understanding and assessing whether the firm is delivering good outcomes for customers. The Senior Managers Regime will apply to this Principle.

Digital Pound

As in many countries and regions globally, the UK has seen developments in the discussion of whether a Central Bank Digital Currency should be developed, and if so, what it should look like. In the UK, the proposed CBDC has been coined a 'digital pound'. In February 2023, His Majesty's Treasury (HMT) and the Bank of England (BoE) launched a joint consultation, expressing their interest in exploring a Digital Pound, which the BoE judged is likely to be needed in the future.

Within its consultation, the BoE proposed that it would issue its digital pound to end consumers through private sector wallets, which would be known as Payments Interface Providers (PIPs). PIPs, as proposed, would not hold any funds on their balance sheet, but they would hold the data. The Bank, conversely, would hold the money but would only see any data in an anonymised format. The Bank also described its intention to provide a basic API, on which the private sector would be able to build in line with their own business models. As proposed, customers would be able to hold up to £20,000 in digital pounds.

The BoE's consultation closed in July 2023. A response is likely in Autumn 2023, and we will continue to engage closely as the programme develops.

Future of Payments Review and alignment of payment initiatives



In July 2023, the UK Chancellor of the Exchequer, Jeremy Hunt, announced a package of regulatory reforms aimed at supporting growth and innovation in financial services. One initiative was a new review into the UK payments landscape, known as the “Future of Payments Review”. It seeks input around important consumer retail payment journeys, the UK’s consumer experience versus other leading countries, and in-flight plans and initiatives across the payments landscape to ascertain which initiatives are essential to continue to deliver world leading payments for UK consumers.



The Review considers how payments are likely to be made in the future and will make recommendations on the steps needed to successfully deliver world leading retail payments, further boosting UK financial technology (‘fintech’) competitiveness. It is looking at this matter through a consumer lens (both for individual consumers and businesses making and receiving retail payments) and will make recommendations for government, financial services regulators and industry.

Lloyds Bank are responding to the call for input and support the review as a welcome opportunity at a critical time to review the UK payments landscape as a whole. In the context of global payments innovation and the myriad of ongoing changes, it is vital to ensure an integrated and coordinated vision for the future of UK payments. We understand the Review’s Chair will provide a report and recommendations to the government in Autumn 2023, and we will continue to engage closely on the progress of this initiative.

Conclusion

Lloyds Banking Group provides financial services to 26 million customers in the UK. We help millions of customers – individuals, families and businesses – to spend, save, borrow and invest and help Britain prosper. We will continue to harness emerging and developing technologies to ensure that the UK payments market remains dynamic, accessible and safe to ensure customer needs are being met both now, and in the future.

-
- 1 Faster Payment System statistics (wearepay.uk)
 - 2 CHAPS | Bank of England
 - 3 Payments: it's all change – speech by Victoria Cleland | Bank of England
 - 4 UK Finance 2023 Annual Fraud Report
 - 5 PS22/9: A new Consumer Duty | FCA
 - 6 What firms and customers can expect from the consumer duty and other regulatory reforms | FCA



Go online:
lloydsbank.com/financial-services



Speak to your
Relationship Manager

Please contact us if you would like this information in an alternative format such as Braille, large print or audio.

Lloyds Bank plc. Registered Office: 25 Gresham Street, London EC2V 7HN. Registered in England and Wales no. 2065. Telephone: 0207 626 1500. Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority under registration number 119278.

Lloyds Banking Group is a financial services group that incorporates a number of brands including Lloyds Bank. More information on Lloyds Banking Group can be found at lloydsbankinggroup.com.



LLOYDS BANK
