

Open Finance Association response to Future of Payments Review 2023: Call for Input

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About OFA

The [Open Finance Association \(OFA\)](#) represents leading fintech companies focused on empowering consumers and businesses to access account data and make safe and secure payments through open APIs (application programming interfaces). We represent open finance providers and users of open finance. OFA members are responsible for the majority of all payment and data API calls initiated in the UK Open Banking ecosystem. We have brought [multiple billions of pounds](#) of investment to the UK and employ thousands of highly skilled staff.

Our members are:



Introduction

The OFA welcomes the opportunity to respond to the Future of Payments Review 2023: Call for Input. We believe open banking can, and should be the future of retail payments. In our response below, we outline the additional initiatives, building on open banking's current success, that can help to achieve that future.

Open banking was initiated in 2016 to stimulate competition in banking — to open up access to both bank account data and payments to fintechs, so they could provide innovative services to consumers and businesses.

Fast forward to 2023 and open banking payments have over [11 million payments](#) each month as of July 2023. Open banking payments have become a key driver of volumes over the UK's world leading account-to-account (A2A) Faster Payment Service (FPS). Prior to open banking, FPS was predominantly used in a retail context for making payments to friends and family. Open banking means FPS is now being used everyday to pay individuals, businesses and the government.

As a result of its success, the Payment Systems Regulator has identified open banking as a "secure and cost-effective alternative to using card networks, which could introduce more competition in the long term – which should help ensure fair prices and innovative services". It has [launched](#) its own initiative to identify and address barriers to greater adoption of A2A payments for retail transactions.

Enabling A2A payments as a competitor to cards is crucial because, despite measures in 2015 to curb excessive card fees for merchants, scheme and processing fees have [increased by up to 600%](#).

We believe that in order to deliver a world class payment ecosystem in the UK we need a **UK Payments Strategy** that brings together the current in flight initiatives, sets out the vision for the short, medium and long term and details the delivery mechanism and timelines to ensure that our payments ecosystem build on global innovation and is fit for the digital ecosystems of the future.

We have limited our response to question 3. OFA members will respond to questions 1 and 2 individually.

3. 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.

As above, we believe open banking can, and should be the future of retail payments. We outline the additional initiatives, building on open banking's current success, that we believe are essential to deliver world leading payments for UK consumers, powered by open banking.

1. Address gaps in open banking functionality

Open banking is not yet complete as an initiative. There are several gaps to address, relating to the functionality available in open banking payments, and how open banking payments is supported and managed by each party in the payments chain. Some key gaps are:

- **Recurring payments** - originally, open banking only supported single immediate payments. From 2022, capability was added for recurring payments, but only for the purpose of sweeping money between accounts in the same name e.g. to help consumers save money, or pay off debt. To unlock the potential of open banking for retail payments, the industry and regulators are now working towards developing recurring payments beyond sweeping, with [government and regulators](#) seeking a delivery plan and framework for Q3 2023.
- **Dispute management** - as open banking payments develop from simply moving funds between accounts, to enabling purchases of goods and services, there will inevitably be more issues and disputes to resolve between parties in the payments chain. Despite attempts to develop a [Dispute Management System](#) for open banking from 2018, no single system is in use between open banking participants. This means communication and resolution in the event of issues or disputes can be slow and inefficient. As open banking scales into retail payments, the need for such a system increases. [Government and regulators](#) have tasked the Open Banking Implementation Entity (OBIE) with performing a gap analysis of disputes by Q4 2023.
- **Purchase protection** - All types of payments can go wrong. This is why all electronic payments, including open banking payments, are governed by consumer protection rules set out in the [Payment Service Regulations](#). These rules mean that if a problem with a payment is the fault of the payment service provider (PSP), such as the bank, or the open banking provider, it is the PSP's responsibility to put the customer right — for example, issue a refund or compensate costs incurred.

The PSRs do not govern what happens if a *purchase* goes wrong. For example, if goods or services are defective or not provided on payment, or if a merchant becomes insolvent. In general, this means that for open banking payments covered by the regulations, it is the responsibility of the merchant to put the consumer right in the event of purchase issues. Nevertheless, all purchases, regardless of payment type are covered by the Consumer Rights Act, which requires merchants to provide satisfactory goods and services as well as enabling consumers to escalate complaints through an Ombudsman or the court system.

Whether additional purchase protection options are needed for open banking payments, and how they would be delivered, is currently being debated by [industry and regulators](#). On the one hand, card scheme arrangements and chargeback processes suffer from high costs, high rates of friendly fraud and slow and uncertain consumer processes. On the other hand, there may be certain types of purchases where additional protections are useful for consumers. How purchase protection is delivered in open banking is an important issue to resolve for the future of retail payments.

- **Physical point of sale** - while open banking payments are taking off in the digital space, there are barriers for take-up at physical point of sale, which were identified by the [PSR's Independent panel report](#) in April 2022. Although QR codes are being used, the report recommends that *'the PSR should investigate what actions may be needed to enable consumers to use their devices to make open banking retail payments at physical point of sale via contactless technology.'*

Other functional gaps or issues which exist and need to be addressed to ensure open banking can power the future of retail payments are outlined by the Open Finance Association (OFA) [here](#).

2. Include open banking payments in a UK payments strategy

While some of the gaps outlined above are being addressed through the [PSR's A2A initiative](#), and the [Joint Regulatory Oversight Committee](#) (JROC), to ensure open banking payments can power the future of retail payments, there needs to be an overarching strategy for the development of UK payments, which coordinates the activities of government, regulators and bodies involved in payments infrastructure delivery, i.e. HM Treasury, the FCA, PSR, Pay.UK and OBIE (or its successor). This strategy should address the interlinkages between open banking and other major initiatives, including:

- **New Payments Architecture**: the [project](#) to deliver a new retail payments system for the UK, replacing the Faster Payments System. Since open banking payments will increasingly power instant retail payments, the NPA needs to be developed with open banking in mind. In particular, the NPA needs to be developed in a way which prevents prohibitive costs for instant payments. It currently costs a sending bank and a receiving bank around ~1p to submit and receive payments through Faster Payments (see Section 13 of [Faster Payments Service Principles](#)). This compares to the €0.002 (i.e. less than half a penny) central infrastructure cost paid by European banks sending/receiving instant payments via [TIPS](#). Merchants are then typically charged by their banks much

higher fees (by way of example fees between 10p and £1 have been identified) to receive a single Faster Payment into their bank account. By comparison, when using Card payments, low value transactions are typically charged at a single, variable basis points based fee. The BRC recently reported that merchants on average pay [26bps of turnover](#) to accept debit cards (small merchants can pay significantly more than this). On an absolute basis this amounts to 3p for a £10 sale. If they were to transition to Open Banking, this would cost the merchant at least double, making Open Banking Payments uncompetitive in the low-value retail forum. **This situation is likely to get worse with the introduction of the NPA.** We understand that over the next few years, banks are expecting the cost of faster payments to increase, because of the costs of implementing the New Payments Architecture. NPA is expected to cost £400m, spread over all the direct FPS participants based on usage. Depending on how many years the cost is amortised over, this could add between 1 and 6 pence per payment to the cost of settling an inbound FPS.

- **Anti-fraud measures:** while measures are clearly needed to combat [authorised push payment fraud](#), which can have a devastating impact on victims, there also needs to be more consideration of the unintended consequences that the current liability split of 50/50 has both on open banking and the ‘stopping’ of payment. Placing liability on the [sending](#) bank incentivises banks to [stop payments](#), not prevent fraud. Placing liability on the [receiving](#) bank incentivises banks to conduct proper due diligence of their customer and appropriately monitor received funds, Banks de-risking payments to minimise liability will likely lead to a lowering of transaction limits, unnecessary friction and a cascade impact on open banking, it will be more difficult to deliver cost savings to businesses, a consistent service to customers and the competition that open banking was intended to create.
- **Digital pound:** if the digital currency proposed by the Bank of England is launched, it will be used to make in-store or online payments. There needs to be consideration of how Digital Pound payments are facilitated, and the role of open banking providers. The EU has already in its legislative proposal been clear that digital euro wallets should be accessible for open banking payment.
- **Future regulatory framework:** following Brexit, the UK is developing its own payments regulation as part of the future regulatory framework. The EU has already [introduced a draft of ‘PSD3’](#) which includes a number of measures to improve the performance and uptake of open banking. The UK will need to move quickly to keep pace with the EU, and develop an equally forward looking and robust regulatory framework for payments and open banking.

3. Secure an open banking delivery body

The OBIE was established in 2016 and employs technical experts to develop and maintain standards which help UK banks and third party providers to deliver open banking and monitor its implementation. We believe it has been critical to making UK open banking a success.

But the OBIE isn't a permanent body and its future is now the subject of much discussion, following the [end of the Open Banking Roadmap](#). The decision about OBIE's future ultimately falls to the [Joint Regulatory Oversight Committee](#) (JROC).

For open banking to power the future of retail payments, a permanent open banking delivery body should be established, which can develop and deliver standards, guidelines and frameworks to address some of the issues and functional gaps outlined above. However, the successor body needs:

- **A new home:** open banking standards for both payments and data should continue to be developed by a single, independent body. Splitting payments and data into new or existing organisations would lead to inefficiencies (such as additional regulatory requirements, different certification regimes and incompatible standards). Much of the value of open banking, and in the future open finance, is built on a seamless combined use of data and payments, so standards should be developed together.
- **A new mandate:** the OBIE's narrow mandate has constrained the development of open banking in the UK. The CMA Order empowered the OBIE to develop standards for both payments and data APIs, which have supported a huge amount of innovation and competition. But it hasn't been possible to go beyond what was prescribed by the Order. Variable Recurring Payments (VRP) is one example of this. The [Data Protection and Digital Information Bill](#) contains new provisions that can be used by HM Treasury to give legal underpinning to a successor body. We believe these powers should be used as soon as possible to ensure the continued growth of open banking.
- **A new roadmap:** the OBIE has focused on delivering core functionality, such as APIs to access data and payments, and more recently VRPs, but as outlined above, there are shortcomings in the way these APIs have been implemented or designed, which continue to hold back the adoption and development of open banking. The successor body should be tasked with delivering the open banking aspects of a future **UK Payments Strategy**.

4. Move to a sustainable commercial model for open banking

One advantage of open banking for retail payments is its low cost. This can be explained by the fact that open banking uses technology to cut out a number of other layers in the payment chain, such as acquirers and card schemes. The inherent security of open banking also reduces instances of fraud, which generally add to the cost of card payments.

But the low cost can also be explained partly by the fact that there are no fees currently paid to the bank (due to prohibitions on contracts in [regulations](#)).

The OFA was established to promote a sustainable, well-functioning Open Finance ecosystem by creating the right balance of requirements and incentives. We are closely involved in work to develop premium APIs and a commercial model for open banking which has the right balance of incentives for all participants.

Conclusion

We would agree with the comment by Joe Garner in the roundtable that the UK's current problem and lack of innovation and speed of innovation is not a need for more innovative services; it is a problem of congestion, competition and bandwidth and we believe this can be solved with a **UK Payments Strategy**.

Should you wish to discuss this matter, please do not hesitate to Nilixa Devlukia, Chair , Open Finance Association.