THE NATIONAL PAYMENTS VISION: WHAT ARE ITS CHANCES OF SUCCESS?

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Payment ecosystems have evolved significantly in recent years. Digital wallets, contactless technologies, and regulatory changes – including Open Banking, clearer information obligations and capped interchange card fees – are all bringing market changes for the benefit of consumers and merchants. Payment choice is greater than ever before (cash, card, digital wallet, Account to Account (A2A) payments) and competition in payments has been significantly strengthened. It may therefore be surprising to many that the Government has seen the need for a new National Payments Vision (NPV)[1]. However, at the tail end of her Mansion House speech in late November, Rachel Reeves said:

> *"And finally, we are publishing our National Payments Vision…*
>
> *… including decisive action to progress Open Banking…*
>
> *… and support our fintech businesses."*

Following this announcement, various documents have appeared on the H M Treasury (HMT) website, including:

- The National Payments Vision[2] (40 pages, with a 3-page Executive Summary)
- The Terms of Reference for the Payments Vision Delivery Committee[3] (PVDC) (the body to be established to deliver the NPV)
- Remit letters to the Financial Conduct Authority (FCA) and the Payment Systems Regulator (PSR) on payments regulation.[4]

The NPV follows a long line of reviews and regulatory interventions and is in part a response to the Garner Review which called upon government to set out a clear strategic vision for payments:[5]

> *"The top recommendation is that the Government develop a National Payments Vision and Strategy…it is recommended that Government provide more central, highest level forward-looking direction."*

The NPV picks up this challenge and emphasizes that policy in regard of payments should be founded on three key pillars: innovation, competition and security. It sets out its ambition for payment systems as:

> *"a trusted, world-leading payments ecosystem delivered on next generation technology, where consumers and businesses have a choice of payment methods to meet their needs".[6]*

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[1] HM Treasury (2024) 'National Payments Vision'

[2] Full paper https://bit.ly/NPVpaper

[3] Terms of reference https://bit.ly/3ChYXYl

[4] Remit letter https://bit.ly/42d887e

[5] Joe Garner (2023) 'Future of Payments Review' November

[6] HM Treasury (2024) 'Terms of Reference – Payments Vision Delivery Committee'

The Government emphasizes that two foundations are needed to deliver this: (i) clear, proportionate regulation and (ii) a resilient payments infrastructure that supports innovation.

In addition to setting out this ambition, the NPV also sets out some important decisions on the regulatory landscape and how the Government envisages the future development of the payments ecosystem.

While the NPV is a Government - and more specifically an HMT - publication, it is clear that there have been extensive consultations with the PSR, the FCA and the Bank of England (The Bank), as witnessed by their immediate joint statement welcoming the NPV.[7]

In the paragraphs below, we first place this initiative in the wider policy context, and then examine the key elements of the NPV. Finally, we examine whether the Government's approach is likely to succeed.

THE WIDER POLICY CONTEXT: THE FAILURE TO INVEST

One of the themes of the Mansion House speech was the low level of investment in the UK. Rachel Reeves said:

> *"Public investment was set to fall by nearly 1% of GDP under the plans that I inherited.*
>
> *That would have held back our growth potential for many years to come.*
>
> *As the International Monetary Fund have set out…*
>
> *… low levels of public investment have been a major contributing factor to the UK's weak growth performance…"*

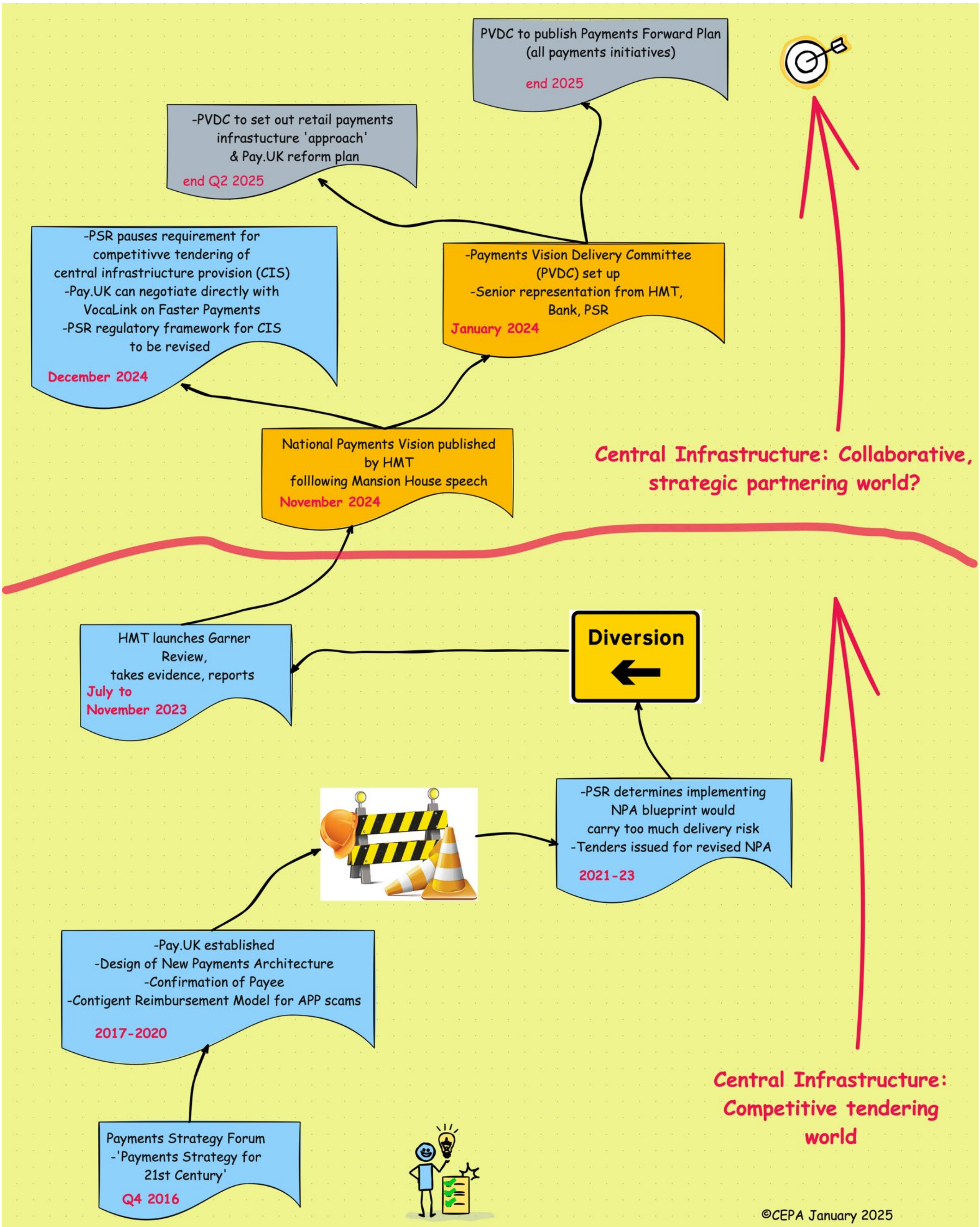
But as the speech made clear, it is not only public investment that has been low – a point made forcefully by Torsten Bell in his recent book:[8]

> *"British private sector [investment]? It's in a league of its own: non-government investment in almost every other G7 economy is in a narrow range from 16.8 to 18.7% of GDP, but in the UK it's not even 15%. ….Taking a broader group of 21 richer OECD countries and ranking them by business investment (as a share of GDP), the UK has fallen from low (16th in 1995 to 2007) to diabolical (20th in 2008 to 2021)."*

Retail payments infrastructure provides a sad example of this. Despite the 2016 ambitions of the Payments Strategy Forum to have a 'platform for the future' – the New Payments Architecture (NPA) – in place within five or so years, we are still in a position where no contracts have been awarded to implement the NPA – see the diagram on page 3.

[7] Joint statement https://bit.ly/Jointstate

[8] Bell, Torsten (2024) Great Britain? How We Get Our Future Back, the Bodley Head, p108.


PVDC to publish Payments Forward Plan
(all payments initiatives)
end 2025
-PVDC to set out retail payments
infrastucture 'approach'
& Pay.UK reform plan
end Q2 2025
-PSR pauses requirement for
competitivve tendering of
central infrastriucture provision (CIS)
-Pay.UK can negotiate directly with
VocaLink on Faster Payments
-PSR regulatory framework for CIS
to be revised
December 2024
-Payments Vision Delivery Committee
(PVDC) set up
-Senior representation from HMT,
Bank, PSR
January 2024
National Payments Vision published
by HMT
folllowing Mansion House speech
November 2024
Central Infrastructure: Collaborative,
strategic partnering world?
HMT launches Garner
Review,
takes evidence, reports
July to
November 2023
Diversion
-PSR determines implementing
NPA blueprint would
carry too much delivery risk
-Tenders issued for revised NPA
2021-23
-Pay.UK established
-Design of New Payments Architecture
-Confirmation of Payee
-Contigent Reimbursement Model for APP scams
2017-2020
Payments Strategy Forum
-'Payments Strategy for
21st Century'
Q4 2016
Central Infrastructure:
Competitive tendering
world
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The key elements of the National Payments Vision

The Government's response to this issue – as outlined in the NPV – is threefold: it wants more political input, a more effective Pay.UK, and to put Open Banking centre stage as a way of driving further progress on A2A services which bypass the cards' networks. In addition, in a major but unheralded change of policy, it is allowing the PSR to change its procurement approach to facilitate a rapid updating of the UK's Faster Payments System.

1. More political input

A key paragraph in the NPV can be found on page 22:

> *"It has become clear that the government needs to have greater involvement, at least in the short to medium term, in future decisions relating to payments infrastructure than it has had in the past."*

So, the Government is strengthening the political input into retail payments infrastructure by appointing a senior official from HMT to chair the PVDC.

The other members of this body will be the Deputy Governor of The Bank's Financial Stability division, the CEO of the FCA, and the Managing Director of the PSR.

The terms of reference for this body specify that the committee is being established:

> *"to ensure coordination between the regulators and provide a mechanism to facilitate prioritisation decisions on initiative."*

Having a senior official from HMT as the chair will ensure effective political input into this prioritisation - no doubt they will be consulting ministers (especially the Economic Secretary) for their steer on policy priorities prior to committee meetings - thus addressing one of the findings of the Garner Review that there were a lot of initiatives in the payment ecosystem – frequently leading to what was described as 'regulatory congestion' - but no clear sense of priority. The senior level of representation from the Bank and the FCA and PSR should also facilitate prioritisation.

Establishing the PVDC is a major change from the approach taken in 2016, where the Payments Strategy Forum, under the auspices of the PSR, developed the payments roadmap, and then handed it over to Pay.UK, under the supervision of the PSR, to implement.

2. Reforming Pay.UK

Pay.UK is the body originally charged with implementing the 2016 NPA vision (see the page 3 diagram). It is structured as a company limited by guarantee, and a majority of its board are independent directors (50%) and non-executive directors (25%). It is funded largely by a per transaction charge on the payments systems it runs – Faster Payments, BACS, and the Image Clearing System for cheques. This charge is reviewed annually and has recently been reduced owing to the rapid growth in Faster Payments volumes.[9] It contracts with VocaLink (now owned by MasterCard) for the provision of central infrastructure services in its payments systems.

Given the lack of progress on implementing the 2016 NPA vision, it is not surprising that the NPV calls for reform of Pay.UK – the body charged with its delivery.[10] The NPV states that this is likely to require more effective governance arrangements and a more sustainable funding model for Pay.UK. The current governance arrangements, according to the NPV, mean that it is able:

> *"to progress activities such as funding new infrastructure or enhancement projects only with the consent of its members or through the imposition of regulatory obligations."[11]*

3 Centre stage for Open Banking

The NPV makes clear that the government sees a key role for Open Banking in the future payments

[9] Pay.UK (2023) p26 https://bit.ly/PayUKaccounts

[10] There is no direct criticism of Pay.UK in the Garner Review itself, although there is criticism of the NPA: *'[we] would observe that confidence in a timely and successful delivery of NPA appears variable at best.' (p77)*

[11] NPV p23, para 2.29

ecosystem, particularly as a key enabler of A2A services.

Open Banking and A2A services

Open Banking is a financial technology framework allowing authorized Third-Party Providers (TPPs) to access bank account data and initiate payments, with the customer's explicit consent, through open, common, and secure Application Programming Interfaces (APIs). This enables the creation of innovative financial services, particularly by fintech companies, who can target areas where traditional banking services offer poor customer experience or poor value (or both). It was introduced into the UK following the Competition and Markets Authority's (CMA) Market Investigation into Retail Banking in 2016.

The European Commission's Revised Payment Services Directive (PSD2) of 2018 widened the extent of Open Banking in the UK, by requiring all payment account providers (including building societies and smaller banks) to provide access to authorized TPPs, significantly expanding the number of participants in the Open Banking ecosystem.

To understand why the NPV places so much emphasis on Open Banking we need to examine the state of competition in the card payment services market and the potential role of A2A services as a competing payments rail.

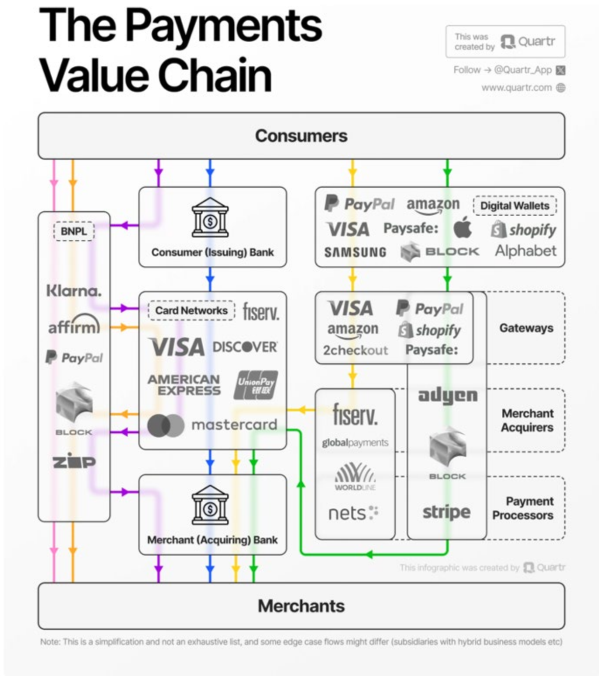
Recall that one of the objectives of the PSR is:

> *"to promote effective competition in (a) the market for payment systems, and (b) the markets for services provided by payment systems"*

And that this objective applies:

> *"(a)between different operators of payment systems,*
>
> *(b)between different payment service providers, and*
>
> *(c)between different infrastructure providers."*

In the cards market (illustrated in the diagram below)[12]



items (b) and (c) face the difficulty of the dominance of the major card schemes, where the PSR has recently concluded that:[13]

> *"Visa and MasterCard do not face effective competition in the supply of scheme and processing services to acquirers."*

In addition, in the card-acquiring services market, the PSR concluded, in its market review:

> *"We find that the supply of card-acquiring services does not work well for small and medium-sized merchants, and large merchants with annual card turnover up to £50 million. These merchants could make savings by shopping around or negotiating with their current supplier – but many don't."*[14]

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[12] With thanks to Quartr (2023) https://quartr.com/insights/company-research/the-payments-value-chain-a-complex-ecosystem

[13] PSR (2024) https://bit.ly/psrinterimcards

[14] PSR (2021) 'Market review into card-acquiring services: Final report' November, MR18/1.8, p3

While some measures have been put in place to limit the adverse effects on competition (including the caps on interchange fees), the Government and PSR appear to have concluded that the best way to increase competition is to encourage an alternative payments rail – A2A services, enabled by Open Banking.

4. Changing the approach to Faster Payments central infrastructure provision

The Garner Review reported stakeholder feedback that was critical of the progress made on the NPA vision, and noted that, on Faster Payments (FP) in particular, a number of countries (including Brazil and Sweden) had now implemented FP systems offering a better 'less clunky' customer experience.

One reason for the slow progress – not explored in the Garner Review – may be that the UK has persisted with a purchaser / provider model in which the purchaser (Pay.UK) is required to undertake a competitive procurement exercise. As the diagram on page 3 shows, there have now been two attempts at this without a successful conclusion to the competitive tendering exercise.

The PSR is now consulting on changing its guidance on this[15] to allow Pay.UK to negotiate directly with the incumbent central infrastructure provider, VocaLink:

> *"we are proposing to remove the deadline in SD3 by which Pay.UK must have migrated all Faster Payments transactions to competitively procured infrastructure, and to consult on a proposed new approach.*
>
> *Removing this deadline would enable Pay.UK to engage directly in negotiations with the incumbent central infrastructure provider, VocaLink, to extend the current Faster Payments contract. However, engaging directly with the incumbent provider significantly enhances monopoly, horizontal, and vertical risks. To address these risks, we intend to implement appropriate enhancements to the 2021 Regulatory Framework".*[16]

Needless to say, this represents a major change of policy by the PSR.

Will this approach work?

1. More political input

We think it makes sense to have greater political input into the future of retail payments. The major steps forward we have made in the UK have normally been the result of some form of government intervention. This is true of FP and also of the move to an Image Clearing System for cheques. In other instances, the CMA has given the necessary impetus – for example to encourage the greater uptake of basic bank accounts, and to encourage Open Banking.[17]

The experience with Pay.UK confirms again that the banking industry, left to its own devices, has difficulty implementing innovative payments initiatives which benefit the final consumer. One of the key issues lies in the nature of collective choice. Agreeing to make a collective investment normally requires either unanimity amongst the participants, or a dictator who can enforce a decision. Given the complex nature of the payments landscape, and the different positioning of major banks compared to the competitive fringe, it is not surprising that unanimity on the way forward is difficult to achieve. Unanimity is required not only in the overall vision, but also in the more detailed decisions required to complete the design and implement it.

In view of the difficulty of reaching unanimity, it makes sense for the Government (aided by The Bank and the PSR) to adopt a leading role via the PVDC – although it comes at the cost of adding another level of bureaucracy to the decision-taking process.

However, it cannot quite be the 'dictator' required to solve the collective choice problem, as some degree of consent will still be required, particularly from the banking industry which will be required to make the necessary investments in payments modernisation.

We assume that this will be the role of the Vision Engagement Group, which is envisaged in the terms

[15] PSR (2024) https://bit.ly/ConsultSD3

[16] PSR (2024) p15, para 4.1 in CP24/13

[17] Retail Banking Market Investigation Order (2017) https://bit.ly/CMAopenbankingorder

of reference for the PVDC. Again, however this is another level of bureaucracy and consultation, which duplicates other structures: the PSR already has a Panel,[18] which includes representatives from various stakeholder groups, including banks, consumer advocacy groups, and businesses and merchants; and Pay.UK also has an End User Advisory Council (EUAC), and an Industry Advisory Council (IAC).

We think it would have been preferable, rather than setting up a new 'closed door' stakeholder group, to have set up a more open forum where the ideas and approach of the PVDC could have been shared and discussed, modelled on the original Payments Strategy Forum. In our view, too much of the discussion of the NPA has taken place behind closed doors, with remarkably little detail of its design available in the public domain.

2. Reforming Pay.UK

While it is clear that Pay.UK has not delivered on the NPA, there are some important considerations for the PVDC to bear in mind in deciding on what 'reforms' are required.

First, it takes time to establish new bodies, especially if complex board structures and advisory groups are required. For example, while the PSR started work in April 2014 and became fully operational on April 1, 2015, Pay.UK was not created until 2017, when it effectively took over the non-regulatory roles of the defunct Payments Council.

Secondly, the reforms required to Pay.UK will depend on the scale of ambition for the UK's payments ecosystem. The NPA seemed to envisage a model under which an intelligent front end determined which payment rails were used for a specific payment, leading to the effective integration of BACS and FP. If that continues to be regarded as too high risk, and the separate schemes are to be continued and separately updated, there may be scope to slim down the functions of Pay.UK.

The postponement of a competitive tendering requirement for central infrastructure services will have similar implications.

Thirdly, the boundaries between what is done collectively – through Pay.UK – and either individually or through consortia arrangements may need to be rethought. For example, if the NPA is not going ahead as originally envisaged, some major banks may wish to build their own intelligent routing algorithm.

Finally, the NPV suggests *'drawing on international comparisons appropriately'* in making these reforms – and it is interesting to note that both FedNow in the US and the TARGET Instant Payment Settlement System in the Eurozone are owned by their respective national central banks. This may indicate that Government thinking is moving towards replacing the company limited by guarantee model to direct ownership by The Bank – with potentially significant savings in governance costs and complexity.

3. Centre stage for Open Banking

Since mandated by the C MA in 2017, Open Banking and the associated development of A2A services have proved their worth and improved choice and competitiveness in the UK payments ecosystem.

One of the remaining issues for Open Banking is governance, and the NPV takes the sensible approach that the FCA should be the lead regulator, taking over from the Joint Regulatory Oversight Committee (JROC).

It also has a sensible focus on e-commerce transactions, as this avoids the need for merchants to install new hardware and software on their Point of Sale terminals.

However, as the NPV acknowledges, other issues remain, including the need for a sustainable commercial model for Open Banking, which the FCA will now be tasked with developing, and addressing the 'consumer protection gap' for Open Banking – credit cards in particular offer a degree of consumer protection for major purchases not currently available for A2A services.

But even if these issues can be addressed, customer inertia and merchant concerns may limit the uptake of A2A services. Customers are creatures of habit, familiar with using debit and credit cards for purchasing both online and in store. There will need to be a 'pull' factor to A2A services – some form of

[18] PSR, How the PSR Panel Works https://bit.ly/PSRpanel

incentivisation – to persuade them to switch payments rails.

Major online merchants would have the opportunity to create this incentive via sharing their savings from switching payments from cards. But merchants face issues in payments media other than pure cost. For example, they have a major concern around abandoned transactions – items in an online basket that the customer does not then complete the purchase on – and they will want to ensure that any customer interface for A2A services is frictionless enough not to exacerbate this problem. These merchants would need to at least invest in website design to nudge the customer towards the new preferred payment rail.

An alternative approach would be for online retailers to use the existence of A2A services as a credible threat to put downward pressure on card transaction fees – thus helping the PSR in its competition remit.

4. Changing the approach to Faster Payments central infrastructure provision

This is a sensible reform. The PSR has persisted for too long with a competitive tendering approach, despite the difficulties in retendering a UK specific bespoke service (BACS) or the near-real time Faster Payments service with an established incumbent in place (VocaLink). There is plenty of scope for competition in the overlay services required to complete an end-to-end payments transaction, and the central switch provided by VocaLink only accounts for a small proportion of the overall cost.

However, as the PSR acknowledges in its Consultation Paper, this will require changes to its regulatory framework to deal with the issue of a monopoly supplier.

It may also create the opportunity for a more relational contract between Pay.UK and VocaLink, creating a flexible framework designed to foster collaboration in the development of the UK payments ecosystem.[19] VocaLink itself has implemented more modern faster payments solutions outside the UK (in Thailand and Singapore), and through its parent, MasterCard, has access to a wide pool of payments innovations. Rather than acting as a 'contract manufacturer' of specifications required by Pay.UK, this new world of strategic partnering may open up the opportunity for a more innovative, strategic relationship.

Conclusions – the chances of success?

There are different criteria we could use to assess the NPV's chances of success. The first, and obvious one is ***whether it will meet its timetable.*** The terms of reference for the PVDC say it should:

> *"Within 6 months (by end Q2 2025): set out an approach for the development and delivery of the UK's retail infrastructure needs and the required governance and funding model to achieve it, including proposals for the reform of Pay.UK*
>
> *In 9-12 months (by no later than end 2025): building on the above, publish a sequenced plan of broader future initiatives (the Payments Forward Plan), and a recommended monitoring approach."*

Given the history of progress to date, this is ambitious. But at least we will know within a year whether this criterion has been met.

A second, equally obvious criterion is ***whether it achieves its own ambition.*** As we have seen, this is set out as:

> *"a trusted, world-leading payments ecosystem delivered on next generation technology, where consumers and businesses have a choice of payment methods to meet their needs."*

[19] Frydlinger, Hart and Vitasek (2019) A New Approach to Contracts, Havard Business Review.

To have a *'world-leading payments ecosystem'* again will pose a challenge, neatly summed up in LINK's submission to the Garner Review:

> *"Fifteen years ago, the UK was a leader in the field of real-time payments with the launch of FPS. Since that time, more and more countries have introduced instant payment systems including Singapore (FAST – 2014), the Eurozone (TIPS - 2018), Australia (NPP – 2018) and the US with its FedNow instant payment system last month. The latter includes a series of anti-fraud measures from launch including risk-based transaction value limits, the ability for banks to specify certain conditions under which transactions would be rejected and enhanced reporting features and functionality. Such features have begun to highlight the inadequacies of the more basic functionality still present in the UK Faster Payment System. .., there is still no proposed way forward for replacing/upgrading Bacs, notwithstanding the substantial consumer-orientated payment volumes that are submitted across it on a daily basis."*

A greater possibility of success will lie in the *'choice of payments methods',* given the UK's early adoption of Open Banking. For example, in their 2021 paper[20], Adam Land and Bill Roberts from the CMA state:

> *"SME penetration is almost certainly higher than in consumer markets with perhaps 50 percent of SMEs using products that rely on open banking, driven particularly by the benefits that they can derive from automating input to their cloud-based accounting systems from their bank accounts and the ability of their advisors to model cash flows."*

And as the textbox about Wise highlights, there are now successful businesses leveraging the Open Banking opportunity.

We would suggest, however, that the most important criterion is one not explicitly stated in the NPV: ***will the final consumer benefit from this approach?*** Next generation technology and a wider choice of payment methods, are all very well, but will they lead to reductions in the end-to-end costs of processing payment transactions, offer greater functionality and/or reduce fraud? In our view, monitoring the success of the NPV should really focus on this consumer welfare metric.

How Wise uses Open Banking

Wise (formerly Transferwise) is a global money transfer platform that allows users to send, receive, and spend money in multiple currencies for personal and business customers. While these customers could use their own bank to make these transfers, Wise has developed a customer value proposition which:

- Addressed a real pain point: the high fees and poor exchange rates historically offered by traditional banks for international money transfers
- Shared the innovation benefits with customers: Wise introduced a peer-to-peer model, significantly reducing transfer costs by matching users' currency needs directly, and enabling them to offer better pricing than traditional banks
- Offered transparent pricing: Wise disrupted the market by offering real mid-market exchange rates without hidden markups, a key differentiator compared to traditional banks and other financial service providers.

Open Banking became key to its growth: through Open Banking APIs, Wise can access customers' bank account information (with their consent) to verify account details in real time, ensuring that funds are sent to the correct Wise account and enhancing the security of transactions. This allows them to offer A2A transfers without customers manually entering bank details, streamlining the process and reducing errors.

[20] Land and Roberts (2021) Open Banking, The UK Experience https://bit.ly/3DZ6M5G

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