

FUTURE PAYMENTS FORUM

Meeting Review

26th March 2024

In the first meeting of 2024, the Forum met to consider the Future of Payments Review led by Mr Joe Garner and its recommendation for the future of payments in the UK.

The meeting began with an overview of the Garner Review and its recommendations, by **Mr Chris Moore, Director, Witsstock Limited**. Chris encouraged an interactive session with the forum members, and it sparked a conversation that ranged from the use of cash to the success or otherwise of the Open Banking programme and the New Payments Architecture programmes. Whilst the views of the members were varied, there was a consensus that not one of the programmes that have been pursued in the last 7 years have achieved the results needed despite considerable expenditure. Notably the New Payments Architecture programme had failed to achieve the most fundamental of steps to appoint a supplier to build the infrastructure required.

The meeting especially noted the Garner Review's assessment of the performance of Open Banking in the UK compared with similar innovations in India and Brazil. The Indian and Brazilian projects have seen significant traction compared with Open Banking in the UK and have been largely welcomed by retailers and consumers. This traction was driven because they were government-led and had a clear purpose which was to replace cash. However, both projects had also experienced significant fraud, which was yet to be addressed and it was therefore questioned whether they should be used as a benchmark for Open Banking in the UK.

Tom Kiedrowski, Lead Associate, Payment Services Regulator, updated the forum on the PSR's focus and drew its attention to a focus on merchant acquiring among other areas of concern. Tom likened the role of the PSR as the implementors of strategy change that is defined elsewhere, and set out the limitations that a regulator has when driving change in the UK payments industry.

The balance between compulsion and encouragement is difficult to strike. Some members of the Forum expressed the concern that the PSR is not able to capture and address the concerns of payment service providers, and that this had made some of the desired change harder to achieve than otherwise could have been the case. Tom was clear that the PSR was very keen to receive and act on that input where it could, and reiterated the challenges any regulator has in balancing compunction with encouragement.

Tom especially noted that limitations of price caps and the need to have effective markets that worked for payment users. The members discussed the impact of EU interchange regulations has not fully benefited the retail sector and that scheme fees (that are not covered by the regulation) have risen to levels that offset any benefit of interchange reduction.

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This was currently subject to market review by the PSR. The meeting considered the other ways of driving change and agreed that above all else it was competition for payment services that would reduce prices.

This led to the thought that a true test of any strategy that arises from the Garner Review and subsequent actions by regulators would be to see how much easier it would be for a non-bank business or consortium to build a rival retail payment service after these changes were made. The Garner Review's limited purview focused on changes to the central clearings, but these are a small part of any retail payment service, and hurdles to competition exist at every level beyond that.

The meeting's final presenter, **Mr Ron Delnevo, Chair, Payment Choice Alliance** gave the perspective of its members, which include many businesses involved in cash management and distribution as well as major UK retailers. Ron set out the PCA's perspective on the Garner Review and drew the meeting's attention to the limitations of its remit, the speed with which it was conducted and the weakness of its recommendations.

Ron drew the meeting's attention to the importance of cash and its use by a broad section of society. He noted that this was not only used by those who have no choice, but by many others who consider cash a valuable tool for managing their financial affairs. He further noted that the impact on bank branch closures and the failure to preserve the extent of the UK's ATM network limit access to cash to the detriment of consumer choice. Ron made the point that consumer needs were not the same as consumer wants. The Garner Review and UK regulators are focused on serving needs in ways that are most convenient to those that are responsible for doing so, as opposed to addressing what consumers want.

Ron then made a set of recommendations for the industry. Notably, that choice of payment method should be protected by law and that the systems and processes that operate at local levels in non-digital ways, such as the distribution of cash, are also protected. He further suggested that there should be a wholly independent regulator that ensured the economics of alternative payment methods were open and transparent and based on publicly understood pricing models. He echoed the concerns noted by the Forum that the issues of fraud must be at the heart of any change, to protect the British public and moreover that the payment services Britain relies on should be in the control of the British nation.

Next Future Payments Forum Meeting: May 14th, London

If your organisation would like to present at a future meeting please contact Annabel Cartwright at annabel@smartex.com

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