Payments Landscape Review: Call for Evidence

Response to the HM Treasury's call for evidence on the Payment Landscape published in July 2020.

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Introduction

1. Link Scheme Holdings Ltd (LINK) manages the UK's main cash dispenser (ATM) network.
2. The LINK network connects the majority of ATMs (both free and charging) in the country and allows customers of card issuers who are LINK Members to make cash withdrawals and balance enquiries with their payment card at almost all ATMs. All major card issuers and ATM operators currently choose to become Members of LINK. This helps to ensure that consumers in the UK have the choice of using cash should they wish to.
3. The LINK network is based on a highly resilient real-time high-volume infrastructure, currently supplied by Vocalink. LINK is the operator of the network and the systemic risk manager.
4. LINK is regulated by the Payment Systems Regulator (PSR) and by the Bank of England as a systemically important payment system.
5. Cash is in long term decline in the UK and, whilst the Government committed in March 2020 to introduce legislation to protect access to cash[1], this has yet to be implemented meaning there are no obligations that give consumers the right to access cash (free or otherwise). LINK has therefore chosen to set itself the objective of ensuring that communities throughout the UK have satisfactory free access to cash whilst policymakers consider a longer-term strategy.
6. LINK works closely with the members of the Joint Authorities Cash Strategy (JACS) Group which is the Government's vehicle for developing a longer-term strategy.
7. Part of LINK's objective is to support the orderly transition of the UK from cash to digital payments. Hence, LINK has a broad interest in the successful development of the overall UK payments landscape and has responded to all of the consultation questions that concern UK payments.

Note: All sources are LINK's unless stated otherwise. The response is not confidential.

[1] See Section 1.188 of the March 2020 Government Budget paper https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/871799/Budget_2020_Web_Accessible_Complete.pdf.

Executive Summary

1. The Government's decision to focus on payments following the setting up of the Payment Systems regulator in 2014 was timely. The changing payment preferences of consumers in response to developments in digital technology are now self-evident and rapidly accelerating. Compared to what could have been the case had the enabling work not taken place over the last few years, the Government is well placed to achieve its objectives in payments.
2. Payment systems must be resilient, or they will lose the confidence of consumers and businesses and will stop being used. LINK therefore recommends that resilience continues to be a prime policy objective for all critical parts of the payments ecosystem. All developments should be assessed against a resilience test before progressing. The end-to-end approach being encouraged by regulators in the current Bank of England Consultation is important. In the case of cash, this will allow consideration of potential gaps in supervision such as wholesale cash and Post Office payment services.
3. As traditional payments methods such as cash decline, and consumers change their payment preferences, digital will take over. However, this means that digital financial inclusion needs to be as strong a policy focus as it has been with inclusive access to cash.
4. LINK supports the concept of the Government encouraging industry to develop a coordinated approach to manage the transition to digital similar to the Digital UK approach used to manage the move from analogue to Freeview TV. Ensuring that all parts of the UK have good connectivity to broadband should be part of this work, as should ensuring that consumers who need it can get support on developing the skills to make digital payments.
5. Clarity is required as soon as possible regarding the rollout of the New Payments Architecture (NPA). An effective NPA is required to encourage broader innovation in digital and will support LINK's work to help the UK move from cash to digital in a smooth and inclusive manner.
6. Maintaining a high level of consumer protection across all payment systems is important as payment systems develop. This includes establishing a level playing field in consumer protection for both existing and new consumer payment mechanisms opened up through innovations such as open banking.
7. A CBDC has the potential to affect cash and the providers of bank accounts significantly, depending on how it is introduced. Although authorities' thinking is still at an early stage, should a CBDC be made widely available to consumers as well as to wholesale users, it may well prove more attractive than cash and commercial bank accounts in some circumstances (due to its Government guarantee, its potentially lower cost relative to other payment methods, and depending on design features such as the degree of anonymity and ability to use for payments). Therefore, LINK is carefully monitoring the plans for a CBDC and its consequent impact on cash.

Responses to Detailed Questions

Q1: To what extent do you consider that the government's objective that UK payments networks operate for the benefit of end users has been met?

The Government's decision to focus on payments following the setting up of the Payment Systems regulator in 2014 was timely. The changing payment preferences of consumers in response to developments in digital technology are now self-evident and rapidly accelerating. Whilst this sort of change was envisaged a decade ago, the consequences and how to manage them had not really entered mainstream debate. Even as recently as five years' ago, when the PSR was created, cash still accounted for 45% of payments (24% in 2019 – less now as a result of the coronavirus crisis), the value of online purchases was around £160 billion compared to over £260 billion in 2019 (more now as a result of the coronavirus crisis). There were less than one billion contactless debit card transactions compared to over seven billion in 2019[2]. Today, the issue of payments is mainstream. Rarely a week goes by without the media exploring related issues including how to maintain declining physical infrastructures such as cash and branches for as long as is needed, what is the right way to protect consumers from increasingly problematic cybercriminals, and how to regulate an industry that used to be primarily made up of retail banks but that now encompasses a rich and diverse global ecosystem of technology organisations.

As a result of the Government's foresight, the UK is better positioned than many other countries to deal with these challenges as it has a regulatory framework in place that is led by increasingly knowledgeable practitioners, a policy framework that is focused on a number of the key issues, and emerging solutions in a number of critical areas including digital fraud, operational resilience and access to cash. It is true that much remains to be done to meet the various issues facing payments and that some of the policy objectives, regulatory structures and enabling legislation are a little patchwork and in need of more coordination. It is also not clear that the balance between managing for inclusive consumer benefit versus innovation and competition is always quite right. For example, in the case of LINK, the mandated procurements of central infrastructure was less pressing than maintaining access to cash in a declining market and yet was prioritised at the time. However, overall, the UK is increasingly well placed to transition successfully into the fully digital world that is rapidly approaching.

A good example of the strong foundations in place is given by the Government's work on cash. Whilst the risks to the cash industry are severe, the fact is that the UK now has a coordinated approach through the Joint Authorities Cash Strategy (JACS) Group chaired by the Treasury, a broadly aligned political consensus that access to cash needs protecting, and legislation in the pipeline. This is supported by an extensive body of evidence on what the issues are and how to resolve them such as the Access to Cash Review and the outputs from the PSR's research programme. There is a mature and effective regulated payment scheme in the shape of LINK in place capable of implementing policy. Market participants are encouraged to consider at a senior level how they provide cash access to their customers and whether they should be a member of an organisation such as LINK. Compared to what could have been the case had the enabling work not taken place over the last few years, the Government is well placed to achieve its objectives in cash, as in other areas of payments.

[2] Source UK Finance: UK Payment Markets 2020.

Q2. What do you think industry, regulators and government should do in order to further ensure that UK payments networks operate for the benefit of end users?

Payment systems must be resilient, or they will lose the confidence of consumers and businesses and will stop being used. LINK therefore recommends that resilience continues to be a prime objective for all critical parts of the payments ecosystem. All developments should be assessed against a resilience test before progressing. LINK therefore welcomes the Government's strong focus on operational reliance and fraud prevention. One of LINK's most important roles is its status as the Systemic Risk Manager of the LINK payment system. This requires heavy investment in skills and capabilities and hands-on Board leadership. This approach is needed for all systemically important components of the UK's payment ecosystem.

The Bank's consultation on operational resilience closed on 1st October. In its response, LINK noted the huge importance of the work and the opportunities to take an end-to-end view of regulation to promote resilience, as against the sometimes siloed approach today. LINK believes that regulators should take a cross-cutting view of the various elements of a payment system when overseeing its operational resilience. In the case of cash, this means having strong resilience not just for LINK but also across the cash value chain, including for wholesale cash, and for the full set of major cash retail distribution options beyond ATMs. Helpfully, the Bank of England is already consulting on a utility solution for wholesale cash. In addition to this, there is also merit in more coordinated oversight of the Post Office's counter service and of cashback-type services.

LINK also welcomes the Government's emphasis on seeking to prevent digital fraud. Digital fraud represents a significant threat to consumers and businesses with consequential impact on their trust in the developing payments ecosystem. LINK therefore supports the announcement in July 2020 by the Lending Standards Board of its review of the Contingent Reimbursement Model Code (CRM) to deal with Authorised Push Payment (APP) scams. Whilst noting that, at the time of review's launch, only nine institutions were signed up to the Code, LINK believe regulators should closely monitor this to ensure that appropriate fraud prevention and reimbursement measures are in place across the various payment channels. LINK would also suggest that further regulatory focus should be present on Internet Service Providers and Telecommunication providers to attempt to reduce (at source) the number of deception attempts aimed at UK consumers and businesses. If such attempts can be reduced, so will the number of frauds perpetrated and trust in the payments eco-system can improve.

As well as resilience, the other key payments challenge facing policy makers is maintaining financial inclusion. As traditional payments methods such as cash decline, digital will take over. However, this means that digital financial inclusion needs to be as strong a policy focus as it has been with inclusive access to cash. The coronavirus crisis has demonstrated the effectiveness of digital payments in terms of resilience and their ability to support many consumers' payment requirements as an alternative to cash. It is now harder to argue that cash will remain a dominant payment mechanism beyond the next decade. However, this means that digital inclusion is now a key issue. The Access to Cash Review chaired by Natalie Ceeney CBE, pointed out a number of problems that need solving before satisfactory digital inclusion can be achieved. These include the requirement for national broadband access, as well as incentives for innovators to develop solutions that work for all consumers, including segments with specific vulnerabilities but limited profit opportunities. Natalie

Ceeney has also called for a coordinated approach to transition the UK from analogue to digital payments, perhaps similar to the independent not-for-profit company called Digital UK that the Government at the time established to manage the successful and highly inclusive transition from analogue to digital TV, completed in 2012. Whilst much has been achieved to sustain cash for as long as is needed, the digital side of the transition also needs to be strongly led to an inclusive solution. Failure to do so would leave a rump of often more vulnerable consumers forced to use cash and unable enjoy or even fully understand the benefits of a digital world. LINK is keen to help with this transition and agrees with the suggestion of the Government encouraging industry to develop a coordinated approach similar to Digital UK.

The Bank of England is considering if a Central Bank Digital Currency (CBDC) should be introduced in the UK. Although authorities' thinking is still at an early stage, a CBDC has the potential to affect cash and the providers of bank accounts significantly, depending on how it is introduced. Should a CBDC be made widely available to consumers as well as to wholesale users, it may well prove more attractive than cash and commercial bank accounts in some circumstances (due to its Government guarantee, its potentially lower cost relative to other payment methods, and depending on design features such as the degree of anonymity and ability to use for payments). Widespread availability of a CDBD to consumers may well also accelerate the decline of use of physical banknotes even further. This is because physical cash remains a popular store of value for many and this popularity would reduce with the rapid retail adoption of CDBC. Should commercial bank account demand also decline, this would require changes to the business models of the commercial banks. Should the intention be widespread retail use, then an inclusive design for the UK's CBDC would be a desirable feature as would its integration into the broader UK end-to-end payments infrastructure. Therefore, although at an early stage of development, LINK is carefully monitoring the plans for a CBDC in the UK. Given the extent of cross-border payments made in open economies such as the UK, the developments of CBDCs elsewhere may affect the UK's implementation decisions. Therefore, LINK is also monitoring CBDC developments overseas as there is strong interest in other jurisdictions including Europe and China.

Q3: To what extent do you consider the government's objective for a UK payments industry that promotes and develops new and existing payments networks has been met?

Much has been achieved in setting up UK payments as a well governed and effective industry with appropriate focus on resilience and innovation. Important work that will support continued development is underway. In particular:

- The progress that has been made with the development of the Bank of England's new RTGS system.
- Progress (all be it tentatively) with the New Payments Architecture (NPA). Whilst not immediately relevant to LINK as structured today, it is important that the NPA work successfully concludes as it in a key enabler of effective payments infrastructure longer term.
- The opportunities that Open Banking provides (both for Account Information and Payment Initiation services).

Some areas also demonstrate the need for care in taking decisions where implementation costs, especially in technology developments, can be very expensive and crowd out other important work. The development of the cheque imaging platform was arguably not the highest priority given the massive growth of digital already underway at the time with its broad impact on consumers. It is also difficult to see how the decision to maintain the status quo in bronze coin is sustainable longer term, given the costs involved and alternative ways developing to provide benefit to consumers.

Overall, much has been achieved and there is now an effective policy and regulatory framework to carry matters forward.

Q4: What do you think industry, regulators and government should do in order to further promote and develop new and existing payments networks?

The Government has already consulted on opportunities to streamline the regulatory framework and LINK set out in its response the potential to align and consolidate the PSR more closely into the FCA. There has already been excellent progress on getting a better balance between resilience and innovation/competition objectives and the Bank of England and FCA together would be a very credible team. LINK also noted earlier the benefits of taking a more joined up view across the whole payments ecosystem, and opportunities for broader leadership when moving the UK from analogue to digital.

With a significant change agenda already in place across the industry (e.g. the phased introduction of RTGS V2 and the commencement of SWIFT ISO20022 adoption), clarity is required as soon as possible regarding the rollout of NPA. Whilst not directly affecting LINK's core business, this will encourage broader innovation in digital and will support LINK's work to help the UK move from cash to digital in a smooth and inclusive manner.

Q5: To what extent do you consider the government's objective to facilitate competition by permitting open access to participants or potential participants on reasonable commercial terms has been met?

The increased participation cited in the paper highlights that there has been a good degree of success in this space. Whilst not mentioned, the work performed by Faster Payments in accrediting Technical Aggregators (which assists smaller entities reach the required technical standard to participate in the system) has also assisted.

LINK notes the Bank of England's intention to consult further on *"appropriate levels of access to the Bank's payments infrastructure and balance sheet"*[3]. Whilst not an immediate focus of LINK, it is possible that further direct access can be aspired to. It is helpful to compare the situation in other countries. For example, at the High Value Payment System level, compared to the other major traded currencies, the UK has a far lower direct participation. The position in 2020 is CHAPS (GBP): 33, Target 2 (EUR) > 1,000, Fedwire (USD) > 7,000, BOJNet (JPY) > 350. LINK itself is already fully open and all 35 members are direct participants. LINK assumes that this will be the direction of travel in the UK for other payment systems.

[3] https://www.bankofengland.co.uk/-/media/boe/files/payments/rtgs-chaps-annual-report-201920.pdf

Q6: Are there further barriers preventing open access to participants or potential participants on reasonable commercial terms?

Whilst not immediately relevant to LINK's current infrastructure, LINK is keen to see the open access approach develop as, in due course, there will no doubt be opportunities to innovate how LINK operates. LINK notes that, at present, firms must directly join BACS, Faster Payments (FPS), CHAPS and the International Card Schemes (ICS) if they wish to avoid the need to utilise agency arrangements for the principal UK payment systems. These systems still use different messaging and technical standards for direct participation which brings considerable cost and complexity for smaller institutions. When the approach to NPA becomes clearer (see above) this represents an opportunity to streamline and simplify matters.

The other area that LINK believes is worth attention is that directly connected participants must undertake extensive due diligence on firms that wish to connect via them on an agency basis in order to ensure that undue risk is not introduced into their own systems (given they will be handling the payment traffic initiated by the customers of the indirect entity). The potential impact around Anti Money Laundering, sanctions, liquidity risk and operational resilience are all factors that a bank has to consider if it is to take on the payment flows arising from indirect participants. Opportunities for a more "utility" or standardised approach are therefore worthy of consideration.

Q7: What do you think industry, regulators and government should do in order to remove these barriers?

Reducing the barriers for direct entry into the UK Payment Systems is likely to be more effective than attempting further to encourage banks to take on indirect participants, given that the banks' risk appetite for that is arguably close to being reached.

LINK notes that NPA and RTGS V2 will utilise the same ISO20022 Common Credit Message and that this will go a long way to easing the current technical challenges affecting firms wishing to participate in the UK Payment Systems. Further alignment of the participation rules between CHAPS and NPA (as the replacement for FPS and BACS) is also likely to further reduce the current burden on firms wishing directly to participate in these systems. A common participant base between CHAPS and NPA will also assist with any planned interoperability between these systems.

For retail transactions, the potential arrival of a UK CBDC would add a further element to this, if interoperability between CBDC and retail payment systems is desired by authorities. The Bank of England has noted this in its recent discussion paper. Payment Interface Providers (PIPs - as defined in the paper[4]) could play a key role in the CBDC eco-system and may need to interface with the existing payment systems (particular in the early stages of the CBDC when interoperability with existing payment channels may be more necessary to ensure that CBDCs can easily be used). PIPs would then need to connect directly to the Central/Distributed CBDC system and, as such, the access requirements for this are likely to influence how wide this participant base will be.

[4] https://www.bankofengland.co.uk/-/media/boe/files/paper/2020/central-bank-digital-currency-opportunities-challenges-and-design.pdf

Q8: To what extent do you consider the government's objective for UK payment systems that are stable, reliable and efficient has been met?

As one of the Recognised Payment Systems cited in the Call for Evidence, LINK fully supports the need for robust and resilient systems and would observe that, for the most part, this aim has been achieved.

However, with bank branch access restricted, COVID-19 has further highlighted the importance of all elements of the digital payments eco-system being robust and resilient since it only requires one element to be absent to cause considerable consumer and business detriment. For those consumers and businesses with such access, it has also demonstrated the robustness of digital payments and the ability to operate without an extensive fallback (like cash) operating in parallel.

As referred to in the responses to Q1 and Q2, LINK would highlight that there are still parts of the UK where digital access remains weak (either due to poor 3G/4G mobile reception or poor broadband speed/accessibility), with consequential impact on the ability of local consumers and businesses reliably to access digital payment mechanisms.

Furthermore, with cash access and usage reducing, the opportunity for cash to provide a fall-back solution in the event of digital payments methods failing is diminishing. This highlights the need for digital payment methods to be more robust than ever.

Q9: What do you think industry, regulators and government should do in order to further ensure UK payment systems that are stable, reliable and efficient?

As set out earlier, the Bank of England 's consultation on operational resilience is hugely important and there are opportunities to take an end-to-end view of regulation to promote resilience, as against the sometimes siloed approach today. In the case of cash, this means having strong resilience not just for LINK, but also across the cash value chain, including for wholesale cash, and for the full set of major retail distribution options beyond ATMs.

Q10: What is the impact of not having comprehensive scheme rules to deal with how participants should collectively act to resolve disputes and assign liability when a Faster Payment goes wrong?

LINK notes from the text that the context of this question is around "person-to-business" electronic payments. Whilst not directly within LINK's scope, LINK observes that it is helpful to have a collective and consistent basis for dispute resolution across the Recognised Payment Systems. It also seems anomalous for different processes to be in place for non-card-based transactions.

Q11: Are additional scheme rules needed to ensure opportunities for person-to-business payments over the system can effectively compete with major card schemes? If so, how could scheme rules achieve this?

Whilst not directly within LINK's scope, LINK observes that it is anomalous for different processes to exist across recognised Payment System Operators that share common regulation in the UK. Such deviation can increase if differing legislation is present for certain payment methods (e.g. differing consumer protection for goods purchased with a debit card as opposed to a credit card). If it is felt that consumers and businesses warrant a common baseline of protection irrespective of the payment channel selected, then that should be reflected in regulation that each Payment Scheme Operator must mirror within its operational processes. A common baseline should then act as an enabler for competition.

Q12: Why are payments with a longer clearing cycle still used and what are the barriers to moving these payments to a platform with faster clearing, e.g. Faster Payments?

LINK agrees that long clearing cycles should be minimised as far as possible. However, as highlighted by Pay.UK's regular statistics, Single Immediate Payments represent only 21% of the total volume of payments handled by FPS and BACS. The vast majority of payments do not require immediate processing since they take place on a known date each month (either for routine payments such as standing orders and direct debits or via company invoice runs). By being processed in this way, significant netting efficiency takes place within BACS.

If these timed payments were to be "injected" into the real-time Faster Payments engine, considerable care would be needed to ensure that urgent immediate payments are not prevented from take place as a consequence of Participants' Net Sender Caps being temporarily locked due to large batches of future dated outbound payments.

Q13: What is required to enable Payments Initiation Services to take off in the UK in a way which is safe and secure for the consumer?

LINK has no direct view on this but can provide the following observations:

- Consumers are most likely to switch payment methods if (i) they are unhappy with their current payment methods or (ii) they are incentivised to do so. Slow adoption therefore does not necessarily mean that consumers are being dissuaded from using alternative Payment Initiation mechanisms. It could simply mean that they are happy using their existing payment method(s) and see no reason to switch.
- Many consumers use payment methods offering reward or loyalty arrangements. Any switch from these to another provider is likely to require a similar level of incentivisation.
- It can take some time for a new payment service to reach critical mass. It should be remembered that contactless payments saw very low usage from 2008 until their rapid growth from 2015 onwards when both consumers and retailers began to see them as an acceptable alternative to chip-and-pin and low value cash payments.
- Consumers are often actively encouraged via the media to consider paying by credit card, given the protection this provides under the Consumer Credit Act. Moving to an alternative payment initiation service could therefore introduce additional risk unless clear advice is provided to the consumer on how their level of protection might vary from payment method to payment method. This, in turn, prompts the question of whether additional legislation is required to provide a common baseline of protection mechanisms (see Question 11 above).

Q14: How does the advent of Payment Initiation Services through Open Banking interact with your answer as to whether additional rules are needed as part of Faster Payments?

Again, LINK has no direct view on this. However, LINK would highlight that the greater the number of payment methods, the greater the risk that consumers may inadvertently pay using a mechanism that is less “protected” than others. As such (and, as above), consideration should be given to ensuring that a consistent, minimum level of consumer protection is afforded across all consumer orientated payment mechanisms.

LINK would also highlight that, with the planned demise of Faster Payments (to be replaced by NPA), it is important that any such rules are developed and published as soon as practically possible.

Q15: Will Open Banking deliver (and go beyond) the developments in account-to-account payments seen internationally? What are the lessons from international experiences that should be adopted in the UK, and what are the costs and benefits of doing so?

The partial recovery in cash usage post-lockdown highlights that a number of people will seek to retain use of the payment method they feel most comfortable with.

In the UK, such behaviour can be influenced by a number of factors including loyalty incentives/cashback and the protection afforded under the Consumer Credit Act for credit card purchases.

Whilst there will doubtless be further innovative payment channels launched in the coming few years (that may mirror some of those that are successful abroad), any success here in the UK will be linked to their ability to attract new business. As above, it will be important for regulators to ensure that these methods do not result in consumers inadvertently taking on additional risk should they be tempted to switch to these alternative new arrangements.

Q16: Do you agree with the trends in new service providers and payments chains identified?

From its position as the main UK ATM scheme operator and as highlighted in the Access to Cash Report, LINK believes that it is important that digital inclusion and financial inclusion are considered in emerging digital payment methods. To-date, emerging payment trends are focused on those in the population that are most likely to take up these opportunities and generate fees as a consequence, as opposed to those that are accessible by all segments of the population.

Q17: What further trends do you expect to see in payments chains in the next ten years?

Aside from those affected by financial and/or digital exclusion, fraud (and the fear of fraud) remains a significant impediment towards further digital payment adoption by those that already possess the means to do so. With an expectation that cash usage will fall significantly over the next ten years, it is essential that further steps are taken by the industry to reduce fraud levels further. LINK notes the Bank of England’s intent to introduce Legal Entity Identifiers (LEIs) into future ISO20022 CHAPS messages5 and LINK endorses the continuing work proposed in that document to investigate the opportunities for wider adoption of LEIs across the UK economy.

Linked to this, is the need for further work around identity verification which continues to be an impediment for a segment of consumers attempting to gain access to financial services. This challenge is exacerbated by the differing verification approaches taken by Payment

[5] https://www.bankofengland.co.uk/-/media/boe/files/payments/rtgs-renewal-programme/iso-20022/iso-20022-consultation-response.pdf

Service Providers. The scale of this problem has recently been highlighted by the fact that, of the 2.6 million people that made a claim for the Self-Employment Income Support Scheme after its launch on 13 May 2020, 1.4 million had no prior digital identity credentials and had to go through HMRC's identity verification service. LINK acknowledges that this is a broader subject than just payments and, to that end, LINK welcomes the announcement made by the Government's Digital Identity Strategy Board on 1st September 2020[6] which set out new principles to increase the secure use of digital identity. LINK would specifically highlight the importance of Principle 3 (Inclusivity) and Principle 4 (Interoperability). For an integrated identity verification approach to be present in the UK, LINK considers it as essential that the Payments Industry is part of this process so that a standardised approach to identity verification can be introduced across existing Payment Service Providers (PSPs) as well as new Account Information and Payment Initiation providers under Open Banking.

Q18: What opportunities and/or risks do these trends in new service providers and payments chains pose?

As highlighted in the answer to Question 16, there is a risk that a surfeit of commercially orientated payment methods might arise, most of which do not include financial inclusion in their USP or core functionality. As a consequence, there is a significant risk that segments of society will be left behind simply because they are not seen as commercially attractive by those developing new payment methods.

LINK would also highlight that, whilst backed with extremely good intent, the introduction of Strong Customer Authentication (SCA) under the 2nd Payment Services Directive risks excluding vulnerable adults who may find the additional steps required in a payments transaction difficult to understand and initiate. Testing recently performed by Microsoft has highlighted the risk of transactions being abandoned[7] at point of sale on account of SCA.

Q19: What do you think industry, regulators and government should do in order to realise these opportunities and/or address these risks?

LINK encourages regulators to continue to monitor how financial inclusion is being represented in the various payment initiatives coming to market. With cash acceptance, usage and access likely to decline further in the coming few years, there is a clear risk that the option to use and make payments in cash by disadvantaged sectors of society may decrease and it is important that this is mitigated against up-front.

LINK would also encourage regulators to consider the impact that disparate forms of Secure Customer Authentication may be having on vulnerable consumers and whether steps should be taken to introduce a "kitemark" centralised standard for this.

As per the response to Question 17, LINK believes it is essential that the UK Payments Industry form part of any emerging national plan around digital identity and would encourage both Government and regulators to continue to monitor this closely.

[6] https://www.gov.uk/government/news/next-steps-outlined-for-uks-use-of-digital-identity

[7] https://www.fstech.co.uk/fst/Microsoft_Testing_Shows_Strong_Customer_Authentication_Puts_Customers_Off.php

Q20: Do you think any changes are needed to payments regulation to ensure it keeps pace with the changing technological landscape?

Should the risks outlined in the response to Question 19 not be voluntarily addressed by those developing payment initiation solutions, then there may be a need for regulatory intervention.

Separately, as highlighted in earlier responses, payments are already subject to differing regulations depending upon the channel utilised. This makes it challenging for consumers and businesses to understand their rights (both in terms of protection and recourse should something go wrong), This situation is only likely to get worse as additional payment channels are developed unless steps are taken to harmonise regulation in this area and consumer protection.

Q21: What further trends do you expect to see in cross-border payments in the next 10 years?

LINK observes that there are a number of cross-border payment initiatives under development which are looking to streamline existing correspondent payment processes so that they both faster and more economic. However, such initiatives can introduce risk if not properly regulated (see the response to Question 22 below). By their very nature, any cross-border payment would span payment providers in more than one country which highlights the importance of a consistent regulatory baseline across multiple jurisdictions.

LINK also notes the question of whether the potential introduction of a CBDC here in the UK would solely be for domestic use or whether it would also encompass wholesale and cross-border functionality (potentially interacting with other CBDCs issued in other currencies).

Q22: What do you think industry, regulators and government should do in order to improve the functioning, speed and cost of cross-border payments for consumers taking into account the G20 work?

Whilst LINK has no direct view on this, it is conscious that many consumers and businesses conduct business abroad and, whilst new domestic protection mechanisms (such as Confirmation of Payee) will go some way to protect payments here in the UK, very limited mechanisms are present for international payments (a fact that is often exploited by fraudsters operating from abroad). As such, LINK would suggest that Government, regulators and the UK payment bodies to work closely with their counterparts abroad with a view towards either (i) introducing interoperability so that domestic protection mechanisms can "reach" beyond "home" borders or (ii) establishing a separate cooperative arrangement for cross-border end beneficiary identity verification.

Furthermore, as set out in the Governor of the Bank of England's speech on 3rd September[8] aside from CBDCs there are a number of other initiatives (in particular stablecoin solutions) that are looking to challenge and disrupt existing cross-border payment mechanisms. LINK fully endorses the position set out in the speech that *"a stablecoin which intends to launch with sterling-based activities in the UK should first meet relevant standards and be appropriately regulated"* and that, for a global stablecoin, *"the regulatory response must be grounded in internationally agreed standards"*. It is essential that, if UK businesses and

[8] https://www.bankofengland.co.uk/speech/2020/andrew-bailey-speech-on-the-future-of-cryptocurrencies-and-stablecoins

consumers are to entrust funds to new cross-border payment mechanisms, they can trust the integrity and resilience of their operation.

Q23: Are there other opportunities and risks not captured by the questions elsewhere that you wish to highlight? If so, what do you believe the role is for government, regulators, and industry in responding to them?

Nothing further to add.