



Consumer Protections in Payments

Summary Paper

November 2020



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Foreword

The way we pay for goods and services in the UK has changed dramatically over the past few years. Whether it's using a contactless card in a shop or making a Faster Payment transaction on a smartphone, the advent of new payment methods has combined with technological innovation to completely transform how we make payments. Coupled with this, the advent of both Open Banking and the Payment Services Directive (PSD2) provides even more scope for customers to experience new payments products and services in the near future.



Paul Horlock
Chief Executive Officer
Pay.UK

At Pay.UK we are committed to ensuring that consumers continue to have a range of effective, robust and reliable payment systems available to them. Just as important though is that consumers have faith in these systems – that these payment systems work and that consumers are appropriately protected in the event of a payment dispute.

In light of this, and following a recommendation from our End User Advisory Council, we commissioned PwC Research to conduct research on our behalf to provide key insights into the current payments and consumer protection landscape. For the purposes of this research and paper, we have focussed on consumer protection as it relates to disputes. While the issues of fraud and APP scams are critical, we didn't target our research in these areas because we feel that there is no doubt that there is a current detriment to consumers arising from these scams and the focus should be on further embedding and improving solutions, rather than on research into the nature of the problem.

The following paper provides an overview of the secondary research findings into the UK's payment landscape, as well as insights into the real-time payments situation in the Netherlands, Singapore and Australia.

Useful as these findings are, this is only the first step in thinking about the appropriate consumer protections for disputed retail payments.

One of the key findings from this research is that most of the work available in the public domain that focuses on consumer protection is based on industry speculation and hypothesis on consumer understanding.

This has led us to undertake further, primary research that will provide the much-needed consumer perspective to our work on this topic. This work has already been commissioned and, at the time of

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writing, is well underway. It is crucial that we gain insight into consumer understanding about the UK's popular payment methods and the protection associated with each of them.

The findings from the primary research will then be fed into our ongoing policy work, which will look at whether, and how, Pay.UK's rules and standards could be used to help improve consumer protections in payments.

We are also keen to ensure we are joined-up with the wider payments industry as we take this initiative forward, and we have created a working group with UK Finance that will provide input and challenge into this process.

It is important that our approach in this field is open and all-encompassing. For instance, offering genuine consumer choice regarding additional protection as a paid for option is a key avenue to investigate. Considering all the possibilities available to us is crucial. Simply providing a 'one size fits all' solution may lack the necessary breadth to properly address what is a complex topic.

The payments sector is evolving at a rapid pace. It is vital that we remain focused on making sure that our payment systems and the consumer protections associated with them remain fit for purpose - for the benefit of consumers, businesses, and the UK economy as a whole.



At Pay.UK we are committed to ensuring that consumers continue to have a range of effective, robust and reliable payment systems available to them.



1 Introduction

This document provides an overview of the first piece of work that was undertaken by Pay.UK to explore the consumer protection landscape in the UK in relation to disputed transactions. The paper is informed by secondary research commissioned at the end of 2019, which is to be supplemented by further primary research to support the next phase of this project. The primary research is well underway and the results of this will be used to inform the policy project that we expect will follow later this year.

1.1 Background and Purpose

Pay.UK was formed in July 2017 (initially under the name New Payment System Operator or NPSO). We are a not-for-profit company, with independent governance. Pay.UK operates the UK's three interbank retail payment systems: the Faster Payment System (FPS); the Bacs Payment System; and the Image Clearing System (ICS). We also deliver a range of 'managed services' which offer capabilities to enhance the three payments systems, such as Paym and the Current Account Switch Service.

FPS and Bacs are both designated as recognised payment systems. As a result, Pay.UK's operation of both Bacs and FPS is subject to supervision by the Bank of England (BoE) and specifically, the Financial Market Infrastructure Directorate (FMID). In addition, Bacs, FPS, and the ICS are designated as regulated payment systems and Pay.UK's operation of the systems is subject to regulation by the Payment Systems Regulator (PSR).

In 2019, we commissioned PwC Research to undertake secondary research to provide key insights into the current payments and consumer protection landscape (further details on the secondary research, including scope of the research is included in Appendix A). This piece of work was initiated following engagement with Pay.UK's End-User Advisory Council (EUAC), which asked us to look into the issue of real-time FPS consumer-business (C-to-B) payments. This was because the use of our systems had started to change albeit it in small volumes, such as through the introduction of PSD2 and Open Banking propositions. This led to questions regarding the details of protections, if any, for consumers using these payment methods.

As a result of the request from EUAC to explore real-time FPS C-to-B payments, a joint industry working group was set up, between Pay.UK and UK Finance to explore this further. The group produced a draft position paper, but work was put on hold due to industry discussions on Authorised Push Payment (APP) scams and the no-blame funding mechanism, which took place at the same time. Upon the request from EUAC to maintain momentum on the work, we commissioned PwC Research to conduct the secondary research into the payment landscape and consumer protections. The research explored the UK C-to-B payment landscape and the current consumer protection provisions in this area. The landscape of real-time payments outside the UK (in the Netherlands, Singapore and Australia) was also assessed.

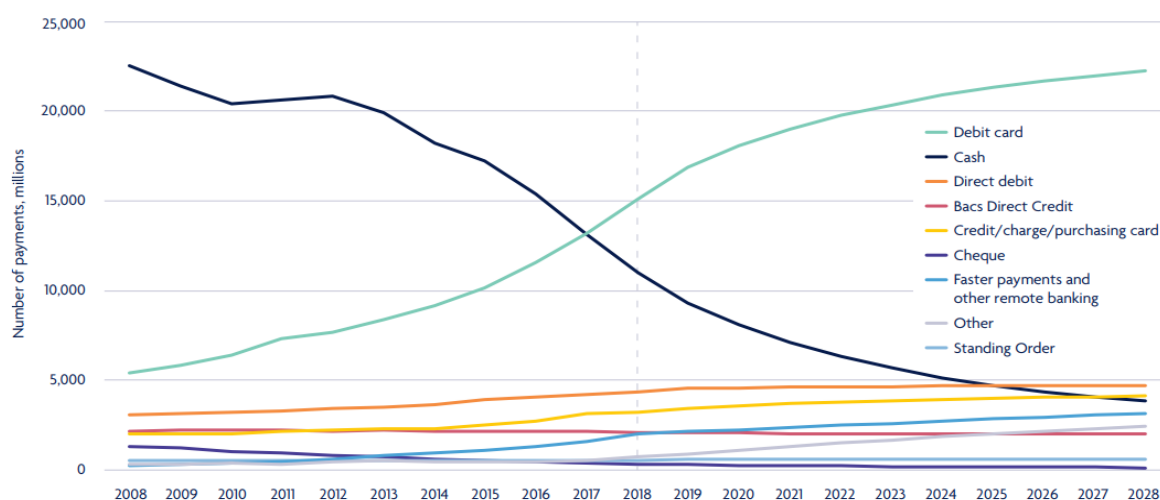
The following paper covers a summary of the research findings and insights from the secondary research on the evolving payments and consumer protection landscape and regulatory perspectives. It also highlights consumer perceptions and a global perspective on consumer protection. The paper concludes with next steps, including the primary research project, which will be followed by policy work on the topic.

2 The Payments Landscape

The UK payments landscape has evolved rapidly in recent years, with innovation driven by a combination of regulatory intervention, consumer needs and technological developments. Together with more recent developments such as e-Wallets and cryptocurrencies, there are a growing number of ways to make payments in UK, enabling consumers to pick and choose payment methods that suit them best for different transactions. With new payment methods, initiation mechanisms and protection terms and conditions being introduced to the market every day, understanding consumer reasons for choosing specific payment methods for specific transactions has become more important than ever.

2.1 Overview

Credit and debit cards are still the most popular way to pay online – for all e-commerce purchases in the UK around 75% are made by a debit or credit card, or card-based e-Wallets. There is a wide range of options now available in the UK, including PayPal, Apple Pay, and Google Pay. New technologies like cryptocurrencies offer consumers new ways to pay electronically, beyond using a card. While wider acceptance from merchants and attractive reward programmes have driven a continued rise in the use of credit cards, the popularity of contactless payments is what has spurred on the use of debit cards. According to UK Finance, 98% of the UK adult population now has a debit card.¹



UK Payment Volumes in Millions, 2008 – 2028 (Source: UK Finance)

(Above chart does not take into account the impact of the 2020 pandemic, which has impacted both consumer and corporate take-up of different payment methods.)



Cash is still the second most popularly used payment mechanism (in volume terms), but is falling steadily. Amid the 2020 pandemic, cash withdrawals in the UK dropped by 60%. According to research from ATM network provider LINK, 72% of people said that the pandemic would affect their future use of cash, giving way to more widespread use of different payment methods.²

¹ <https://uk.finance.yahoo.com/news/coronavirus-covid-19-marks-the-real-beginning-of-the-end-of-cash-104855087.html>

² <https://www.computerweekly.com/news/252482337/Coronavirus-Cash-use-plummets-during-UK-lockdown>

2.2 Changing Use of Interbank Payments



When FPS was launched in May 2008, with 14 banks as the founding members of the scheme, it gave consumers the ability to make bank-to-bank payments on demand and see their balance updated in real time. Since then, the use of FPS has increased steadily. The number of remote banking payments processed via the Faster Payments Service (or cleared in-house by banks) during 2018 was nearly 2 billion. This is expected to grow to 3.2 billion payments by 2028. Today, almost all online and telephone bank-bank payments use FPS.³

2.3 Consumer-Business FPS Payments

Although FPS was initially established as a mechanism for online bank-to-bank transfers, the system has recently seen an increase in use as a consumer payment platform for the purchase of goods and services. This increase in usage is expected to grow steadily, mainly as a result of increase in the number of *Payment Initiation Service Providers* (PISPs, sometimes referred to as Third Party Providers (TPPs))⁴, made possible by the opening up of consumer data under the UK's Open Banking initiative and the European PSD2 Regulation. Connecting to their customer's bank accounts and initiating payments on their behalf, PISPs are able to make use of the FPS scheme and are anticipated to be one of the main facilitators of C-to-B FPS transactions in the future. However, banks will require strong customer authentication for PISP payments that could cause friction in the user experience. We expect these journeys to evolve and friction to be lessened whilst banks still retain the security requirements for strong customer authentication.

The uptake of FPS as a payment method for the purchase of goods and services in the UK is dependent on a number of factors. Listed below are a few factors that could potentially accelerate the rate of take-up of FPS for C-to-B payments:

- Open Banking could create a new market of innovative and competitive PISPs, some of which will offer FPS payments for the purchase of goods and services.
- The speed of C-to-B FPS payments could also appeal to consumers, who are increasingly used to getting information (such as updated account balances) immediately.
- C-to-B FPS payments is expected to be increasingly used for e-commerce, which is booming in the UK, with a forecast to continue to grow.

Other factors that could influence take up:

- Local payment culture: In the UK, cards are a widely accepted way of paying. In 2019 half of all payments in the UK were made by cards (credit and debit). Online shopping experiences when paying by card are typically quick, convenient and nearly frictionless. For consumers to consistently opt for FPS as the payment method for C-to-B transactions, the



³ <https://www.ukfinance.org.uk/sites/default/files/uploads/pdf/UK-Finance-UK-Payment-Markets-Report-2019-SUMMARY.pdf>

⁴ PISPs are businesses that can ask for a consumer's permission to connect to their bank account and initiate payments on that consumer's behalf, directly from their bank account. PISPs are regulated by the Financial Conduct Authority (FCA), and must have FCA authorisation before offering services. The FCA began authorising the first of these firms in January 2018. PISPs are also considered and sometimes referred to as third-party providers (TPPs), as they act as an intermediary between the consumer's bank and the merchant's bank.

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user experience will have to be comparable, if not better, than when cards are used. Presently, several factors result in additional friction in the consumer experience.

- Appetite for technology and payments innovation: The UK is one of the most technically mature nations, with 90% of adults regularly using the internet (99% for 16-34 year olds). Smartphone penetration is also high at 82%. Online banking is the new norm, with 73% of individuals classified as regular users, including 69% using mobile banking. This maturity has created the third largest e-commerce market globally.⁵
- Consumer cost and experience are also factors that will influence take-up. As more and more touch-points in our daily lives becomes digital and technology continues to facilitate frictionless, invisible payments economy for most products, services and experiences, it is anticipated that the UK will become a centre of innovation in payments, with a focus on real-time payments.



There are several other industry, sector and consumer factors that could positively or negatively impact the take up of FPS for C-to-B transactions in the UK. Considering the current growth rate and pace of innovation in the market, FPS transactions are expected to grow to 3.2 billion by 2028. It now becomes increasingly important to not just consider whether FPS will grow to account for a significant portion of C-to-B transactions over the next few years, but to consider the various aspects the industry will need to pay attention to, if this happens. This underpins the need to assess whether there is potential for consumer detriment.



⁵ Internet users, UK: 2018. <https://www.ons.gov.uk/businessindustryandtrade/itandinternetindustry/bulletins/internetusers/2018>

3 Consumer Protection Landscape

3.1 UK

The consumer protections landscape in the UK is complex. In the case of dispute⁶(e.g. goods and/or services not as described or not received) consumers have the option to seek compensation through a number of protections:

- General protections written into law, such as the Consumer Rights Act.
- Retailer protections that form part of their competitive offer.
- Personal protections, such as insurance.
- Payment protections – protections based on *how* the payment was made.



Our research highlighted that, while consumers are often familiar with retailer protections, detailed understanding of payment protections can be less sophisticated, as the protections available per payment mechanism differ. The table below summarises the protections available to consumers based on the payment mechanism, and the reasons these protections were originally implemented.

Payment Type	Payment Protection	Liability Model	Drivers of Protection	Issues/ Limitations
Direct Debit	Direct Debit guarantee	Provider will refund the consumer and seek repayment from the merchant	Encourage uptake and trust in Direct Debit	Doesn't cover contractual disputes
Credit Cards	Section 75 if conditions met, Chargeback	Credit card company is jointly liable by law for any breach of contract	Part of the Consumer Credit Act, created to standardise consumer credit law	Use of third parties can invalidate protection
Debit Cards	Chargebacks	Merchant is liable: card issuer will 'claw back' from the merchant	Compel merchants to offer quality goods	Time: most schemes have 120 day limit
Faster Payments	Credit Payment Recovery	Credit Payment Recovery may recover payments on a reasonable effort basis	Originally as bank-to-bank – little protection	Minimal protection in case of disputes

3.2 Consumer Protection and FPS

As FPS was originally intended to be used for consumer bank-bank transactions, there is no official consumer protection in place when FPS payments are used to buy goods and services. Most consumer protection work to date has been centred on creating strong and secure customer authentication, implementing credit recovery in case of payment errors; and combating fraud, as evidenced by the work on preventing APP scams.⁷ The growth in popularity of FPS as a payment mechanism could mean that it is increasingly being used by consumers to pay for goods and services, making the conversation around consumer protections for FPS pertinent and timely.

Since FPS was not initially designed for C-to-B payments, it does not offer in-built protection as some of the other payment methods listed above. New C-to-B use cases for FPS means that some of the new PISPs offering C-to-B FPS payments are offering consumer protections in the case that

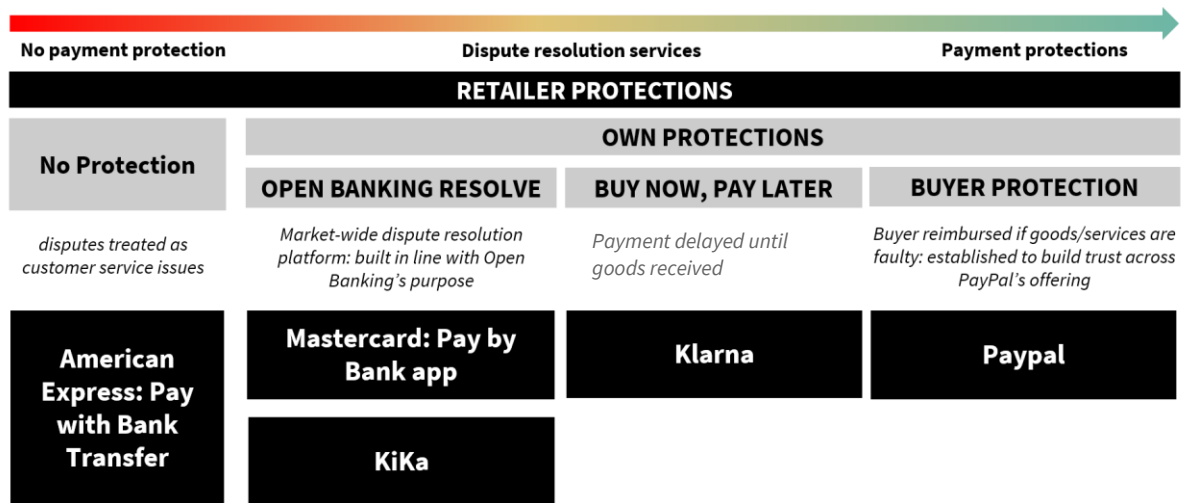
⁶ For the purposes of this research and paper, we have focussed on consumer protection issues as it relates to disputes only.

⁷ Faster Payments – new Help for Customers to Recover Payments Sent in Error <http://www.fasterpayments.org.uk/press-release/new-help-customers-recover-payments-sent-error>

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there is an issue with the goods or services purchased. As the market is nascent, these payment as well as protection propositions are at various stages of development.

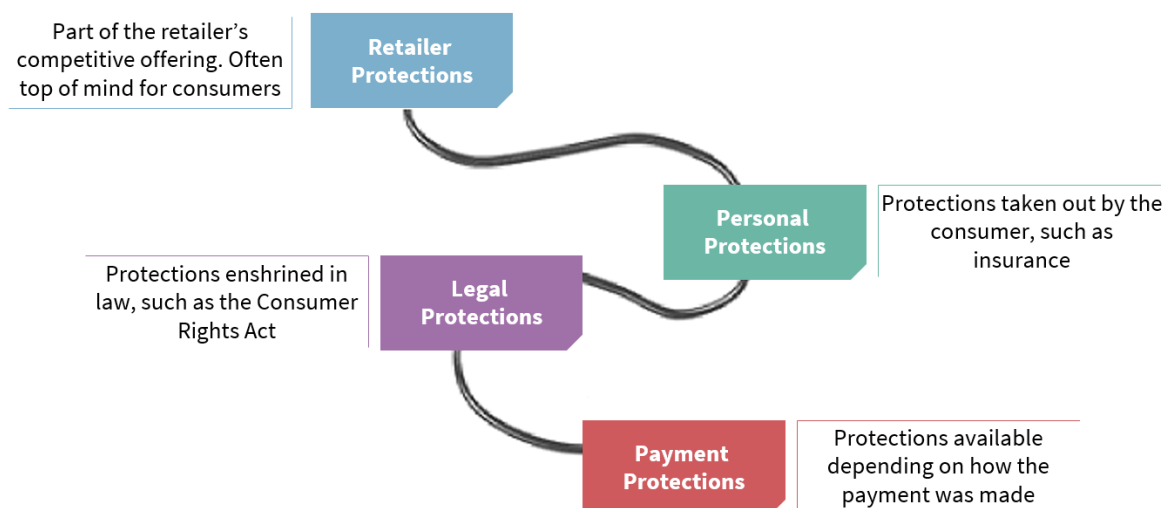
The figure below presents case-studies of companies providing C-to-B FPS payments, their business cases, and whether they offer consumer protections at present.



C-to-B FPS payment options in UK and the protections offered
(Details on the proposition and protections for each of the above listed payment methods is presented in Appendix C)

3.3 Other Consumer Protections

In the UK, it is seen that payment protections don't exist in isolation. In case of a dispute, consumers are likely to consider a number of options, especially retailer protections, before investigating payment protections.



Range of consumer protections that are considered viable options in the UK

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a) Retailer Protections:



Retailers in the UK offer additional guarantees, product care and insurance that build on the protections offered by the consumer protections enshrined in law. Retailers may also offer added care at additional cost to consumers, which prolong the legislated time period for repairs and replacements, along with providing extra support such as technology queries. Retailers are incentivised to offer these additional consumer protections as they form part of their competitive strategy, and offer a means of distinguishing their brand.

b) Legal Protections:

In the UK, consumer rights include any interactions consumers have with merchants. Each time the consumer buys a product or service from a merchant, whatever it might be, the two parties form a contract. Both the buyer and seller agree to terms and conditions, where the seller agrees to provide the buyer with their statutory rights. UK laws covering consumer rights in transactions are independent of the payment mechanism used. In light of this, it is necessary to take a holistic view and consider the full range of legal and retailer protections through which a consumer might seek compensation, rather than the payment protections alone.

The Consumer Rights Act (2015) protects UK consumers in almost all purchases they make. Products and services must be of satisfactory quality, fit for purpose and as described before the purchase. If the consumer believes the products aren't right under the terms of the act, they can raise a claim against the retailer. Under the law, consumers have 30 days after taking ownership (provided the product is non-perishable) to reject goods that are not of satisfactory quality, unfit for purpose or not as described and get a full refund. There are varying levels of protections available even outside of these 30 days. Consumers also have rights to challenge hidden fees and charges in contracts, including the small print, disproportionate default charges and excessive early termination charges.⁸

The UK has the benefit of a number of regulatory enforcement agencies which oversee the implementation and dispute resolution of consumer rights in the UK, including the Financial Conduct Authority (FCA); Competition and Markets Authority (CMA); Payment Systems Regulator (PSR); Financial Ombudsman Service; and the European Commission. Consumers have the right to access information about their rights through Citizens Advice and Trading Standards departments.



⁸ <https://www.which.co.uk/consumer-rights/regulation/consumer-rights-act>

3.4 Regulatory perspectives on Consumer Protections

Regulation has been a key theme in the UK financial sector following the 2008 financial crisis. The UK payments sector is primarily regulated and overseen by four entities – the FCA, PSR, BoE⁹ and the CMA. While the FCA and the PSR (a subsidiary of the FCA) regulate the financial sector, the CMA is relevant in the payments landscape in that it works to protect consumer rights in the UK, including C-to-B transactions for goods and services. The Information Commissioner's Office (ICO) also has a role in regulating newer payment initiatives (such as Open Banking) that involve issues of information rights and the use of personal data.



To date, regulatory work on related to FPS has centred on fraud (APP scams) and user errors when initiating bank-to-bank payments (e.g. entering payee details incorrectly). As the market for C-to-B FPS transactions is small, the FCA, PSR and CMA are yet to release specific guidelines on this payment method. (An overview of industry developments around this context is provided in Appendix B). However, there are three key themes common across all three regulator's frameworks that are relevant to consumer protection in payments:

a) Protecting consumers:

All three main regulators that cover payments conduct reviews and research into areas where consumer detriment is suspected to be occurring, are authorised to act based on the findings. Consumer protection is central to the FCA's regulatory framework. A key aspect of the FCA's vision for a well-functioning market is that customers will be protected from harm and that, if things go wrong, there are mechanisms in place to support redress.¹⁰ Similarly, both the PSR and the CMA have highlighted that promoting the interests of consumers is central to their role.

b) Developing competitive markets:

All three regulators have a strong focus on fostering consumer-centric market development. The FCA and PSR's broad regulatory approach is to ensure that adequate consumer protections are in place while stimulating market competition in order to benefit consumers.¹¹ Likewise, the CMA's purpose is to promote market competition in the interest of consumers.

c) Regulating for the future:

The three regulators follow the principle of anticipating rather than reacting to challenges and issues. The FCA has highlighted that technology is increasingly important as a driver of change, and therefore one of its key areas of focus and interest.¹²

In the UK, the topic of consumer protections commands significant regulatory and industry interest and action. Though Pay.UK as a payment systems operator continues to monitor and engage, it is important to recognise that there are limitations to our role and industry consensus and/or regulatory involvement might be needed as and when deemed appropriate.

⁹ The Bank of England supervises Financial Market Infrastructures, due to the reliance of financial markets on the continuity of services they provide, to ensure stability of markets and wider financial systems.

¹⁰ FCA Mission. Approach to Consumers. <https://www.fca.org.uk/publication/corporate/approach-to-consumers.pdf>

¹¹ FCA Mission: Approach to Consumers, PSR Regulatory Framework

¹² FCA Sector Views, 2018. <https://www.fca.org.uk/publications/corporate-documents/sector-views-2018>

4 Implications of the Changing Landscape for Consumer Protections

4.1 Areas of Potential Detriment

There are no official protections in place when using FPS for C-to-B transactions and not all PISPs offering these payments have consumer protections built into their competitive offering. With increasing use of FPS in C-to-B transactions there is a clear need to assess whether the lack of official consumer protection may lead to consumer detriment in the future. The potential areas of detriment have been mapped against the UK's key regulatory principles for payments.

a) Protecting consumers:

Due to the low number of C-to-B FPS payments today, it has not yet been possible to exhaustively study the landscape and/or identify specific cases where customers have been left unprotected. What is clear is the fact that lack of consumer clarity on payment mechanisms and corresponding protections will contribute to consumer detriments.

Low consumer awareness of payment mechanisms and payment protections: With the advent of new payment mechanisms, payment interfaces and PISPs, it is highly unlikely that consumers are aware of differences between various payment types and the payment protections that are offered in each case. This lack of understanding or in many cases misunderstanding of payment methods and, more importantly, associated payment protections could pose serious consumer detriment.

b) Developing competitive markets:

Regulating too early may quash innovation that would benefit consumers: Open Banking originated from the CMA's Retail Banking Market Investigation (RBMI) Order which set up the OBIE and mandated the sharing of API data by the "CMA 9". The CMA saw this as a wide-ranging remedy to address concerns around personal and SME banking and in particular as a way to ease information/awareness and the ability to compare the key current account propositions as gateway products. A key aim of Open Banking was to increase competition in the financial marketplace by 'driving innovation in the quality of products and services that customers receive'. The UK has a rigid (payments) regulatory landscape requiring authorisation licences, which can be expensive, to be obtained. In addition, firms must compete for brand recognition. It therefore becomes doubly important not to stifle innovation and suppress competition by introducing too many regulatory requirements too early. It is also important to consider how a 'protection fee' will be financed and the impact this could have on encouraging both consumers and merchants to use FPS for C-to-B transactions.

c) Regulating for the future:

While maintaining a proactive posture and regulating by anticipating consumer detriments is the stance of the regulator, it is important to note in this case that there are too many factors that could impact a 'critical mass' take-up of FPS for C-to-B payments. Adding to the complexity is the fact that there are several new PISPs – many of which offer/plan to offer payment protection to inspire confidence in their offering and to gain a competitive advantage.

4.2 Consumer Perceptions of Consumer Protections

Secondary research on the topic of consumer protection was initiated to take stock of the landscape and to collate insights from any research already commissioned by the industry on the topic. The research captured the landscape – considerations, opportunities and detriments, as FPS becomes more and more prevalent as a means to pay for goods and services. It also identified gaps in information available on the topic.

One of the key aspects of the topic that we set out to investigate was the “consumer perception of consumer protection”. Through the secondary research it has been made clear that not much exists in the public domain that provides insights into the consumer perception.

4.3 Expectations around refunds

It is evident from secondary research that, as an industry, there is limited understanding of consumer expectations, awareness and understanding of the protections they are afforded when making payments. Other than a research published by Bacs in 2017¹³, that studied the awareness of the Direct Debit guarantee among consumers, there is no comprehensive study in the public domain that has addressed this, though consumer attitudes towards payments and disputes more generally have appeared in industry reports in recent years.



As highlighted in an industry proposition paper on reverse payments (P7), issued in 2019, refunds occur often in the UK and are especially prevalent in the online market-. They particularly occur in the fashion retail industry where 23% of all purchases are returned. Business models that allow customers to try and return with ease have led consumers to increasingly expect a seamless refund to be possible when they purchase goods and services.

Related to this there is also evidence of consumer demand for a faster refund system. Although sending items back is easy and simple, receiving returned funds is a lengthy process. Card-based refunds can take between two to five days for the issuing and acquiring bank to settle. This low speed prompts consumers to make complaints. Early responses to Open Banking indicate that customers are happy to adopt new technologies if they can see a clear use case and this could be one.

¹³ Bacs Direct Debit Consultation Outcomes. https://www.bacs.co.uk/documentlibrary/dd_consultation_outcomes.pdf

4.4 Expectations around protection



As the consumer protections afforded to credit card and Bacs payments indicate, establishing trust is a key means of encouraging consumer uptake of new payment systems. It is therefore possible that consumers will require enhanced consumer protections before they are willing to consider using this new payment type. However, consumer research has also shown that brand is a key element in establishing consumer trust in new technologies.

4.5 Expectations around retailers/other protections available

Given the complexity of the UK consumer protections landscape, there is a need to take a holistic view and consider the full range of protections through which a consumer might seek compensation, and not the payment mechanism protections alone. Research has indicated that in the case of slow refund returns, consumers will typically complain to the retailer first as they blame the retailer for the cause of the refund not being processed fast enough. This indicates that there are gaps in consumer understanding of the refund process and the role of the merchant relative to the PSP.



4.6 Consumer Protection – A Global Perspective

Current volumes of C-to-B FPS transactions are low in the UK, and the market for new PISPs is nascent and undefined. It is difficult to know how the UK's evolving payments landscape may influence consumer payment protections in the future. However, as the use of real-time payments for C-to-B transactions grows in the UK, comparing and contrasting this roll-out with the global landscape allows us to identify key considerations and best practice examples that could be applicable for UK.



4.7 Overview of International Markets

International markets have approached the uptake and management of real-time payments systems in a variety of ways. In Asia, countries leading the adoption of real-time payments have encouraged uptake by creating innovative use cases to increase acceptance. In contrast, in the UK, Australia and Europe the roll-out of real-time payments has been encouraged centrally, with involved regulatory entities taking a structured, collaborative approach.¹⁴ For the purposes of this research, we have focused on three territories currently using real-time payments for C-to-B transactions:

- **The Netherlands** has one of the most advanced use-cases of real-time payments for C-to-B transactions – the e-commerce payment system, iDEAL. The Dutch payments landscape differs from the UK in that credit card transactions are comparatively low, due to a cultural emphasis on saving and a resistance to debt. As in the UK, C-to-B real-time payments have no built-in consumer protections in the Netherlands – this is significant, as the Dutch market for C-to-B real-time payments is much more developed than the UK equivalent.
- **Singapore's** retail payments landscape is predominately split between cheques, eGIRO, card payments, and real-time payments, made through the country's Fast and Secure Transfers (FAST) Service. As in the UK, real-time payments were originally rolled out in Singapore as a peer-to-peer transfer system, with the intention of moving the country away from cash and cheque payments. Also, as in both the UK and the Netherlands, C-to-B real-time payment transactions do not have any built-in consumer protections in Singapore at present.

¹⁴ Flavors of Fast Report. <http://empower1.fisglobal.com/rs/650-KGE-239/images/FLAVOR-OF-FAST-Report-2018.pdf>

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- **Australia's** payments landscape is similar to the UK, with debit cards accounting for the majority of transactions (in volume), followed by credit cards, cash, and bank transfers.¹⁵ However, Australia is frequently distinguished from other markets by its high internet and smartphone penetration, and the willingness of consumers to adopt digital and electronic payment systems. Australia's real-time payments scheme, the New Payments Platform (NPP) was launched in February 2018. Like Singapore, Australia is making use of proxies and aliases for real-time payments. Consumer payment protections in Australia are similar to those available in the UK, and though there are no built-in protections for real-time C-to-B payments, real-time payments are covered by consumer retail protection law.

It has to be noted that, while the take-up of C-to-B real-time payments varies widely between the above mentioned international territories and the UK, the approach to consumer protection appear vaguely similar to that of the UK.

Country	Main Schemes	Use in consumer-business transactions	Consumer-Business Real-Time Payments Market	Typical Protection Model	Key Regulators/ and Organisations	Consumer Drivers
UK	Faster Payments Service	-	Fragmented – multiple players emerging	Mixture of retailer, legal and payment protections	FCA, PSR, CMA, Pay.UK	Trust
Netherlands	European SCT Inst	↑	Consolidated – iDEAL the only real player	Mainly legal and retailer protections	Currence, Netherlands Authority for Financial Markets	Low Cost
Singapore	Fast and Secure Transfers Service	↑	Diverse – PayNow dominates but new players are emerging	Mainly legal and retailer protections	Monetary Authority of Singapore	Ease of Use
Australia	New Payments Platform	↓	Fragmented – multiple players emerging	Mixture of retailer, legal and payment protections	Australian Securities & Investments Commission and the Australian Prudential Regulatory Authority	Trust

¹⁵ Merchant Services Insight Report – Australia. JP Morgan. 2019. <https://www.jpmorgan.com/merchant-services/insights/reports/australia>

4.8 Key Considerations for the UK

- Both the Netherlands (strong uptake of real-time C-to-B payments) and Singapore (growing real time C-to-B payments) have a lower proportion of credit card usage than the UK – it is therefore arguable that consumers in these territories have less expectation of built-in consumer payment protections, and that legal and retailer protections are the first port of call.
- Like the UK, Australia has a higher proportion of credit card use than Singapore and the Netherlands, and consumers are arguably more accustomed to chargeback protection.
- Australia is similar to the UK in that trust is considered an important driver in the uptake of Open Banking and real-time C-to-B payments. In the Netherlands and Singapore, low cost and ease of payment are the main drivers respectively.
- However, as in the UK, research on the Australian market has highlighted that association with a well-known and trusted brand may be a stronger way of building consumer trust than implementing payment protections. It will therefore be worth monitoring how Australian PISPs build trust going forward, and the impact this may have on the consumer protections available in real-time payments.



Given the similarities between the stages of uptake and lack of consumer protection specifically around real time C-to-B payments between UK and these international markets, continued research and focus on Australia, the Netherlands and Singapore could prove to be beneficial for the UK. Continued market tracking could help trace factors that act as accelerators and barriers to take up of real-time C-to-B payments, and approach to consumer protection.

5 Conclusion

The secondary research project that concluded in late 2019 provided an overview of: the UK payment landscape; consumer protection (payment protections and other protections) in the UK and across three international markets; regulatory perspectives; and what the implications are of the rapidly-changing landscape around consumer protections.



In taking a holistic view of the consumer protection landscape in the UK, the research highlights:

- There are several viable payment mechanisms available as options to consumers – all of them offering varying levels of payment protection.
- Open Banking and PSD2 mean that there will be a lot more activity in the market, in terms of new payment methods and PISPs, which will accelerate the use of FPS for the purchase of goods and services.
- Payment protections in the UK do not exist in isolation. They are viewed by consumers in conjunction with and/or as supplemental to legal, personal and retailer protections.



6 Next Steps

6.1 Primary Research

One of the key elements identified during the initial scoping for this project as necessary for us to understand this landscape comprehensively, was the consumer perception of consumer protection. However, through the secondary research it was found that most of the work available in the public domain that focusses on consumer protection is based on industry speculation and hypothesis on consumer understanding.

The primary research project that we have commenced (Aug 2020) will be centred on this topic – The Consumer Perception of Consumer Protection. The project will be based on key questions to consumers which address what their understanding is about popular payment methods and the protection associated with each of them.

Below is a broad set of questions that we aim to address through the research:

The research objectives can be grouped into four broad areas:

1. Understanding current payment method behaviours and the role of protection
2. Understanding usage and attitudes to Faster Payments
3. Exploring perceptions of consumer payment protection
4. Identifying any potential gaps in payment protection provisions



By covering the above topics, with a representative, diverse audience, we will be able to understand whether all/any of the above differ based on age; life stage; location in the UK; and financial literacy (with a focus on vulnerable population).

The primary research will provide the much-needed consumer perspective to our work on the topic.

6.2 Policy Work

The findings from this Summary Paper and the subsequent primary research will be fed into Pay.UK's policy work, which is supported by a broad-based working group (co-chaired by UK Finance) that provides input and challenge into the process. The policy work will consider whether, and how, Pay.UK rules and standards could be used to help improve consumer protections in payments. We are aware of a broad range of public policy and industry activity underway in relation to consumer protection and we will look to coordinate work with the relevant organisations as our work progresses

6.3 Market Tracking and Desk research

Upon completion of the secondary research, Pay.UK undertook an action to continue monitoring the real-time payments landscape in the UK and around the globe. The activity was intended to identify novel use cases for real-time payments and growing uptake and interest in using real-time payments for C-to-B transactions. This activity will continue beyond the primary research and alongside the policy work. It will provide valuable input as well as bring to light the growing popularity and novel use-cases for real-time payments.

Appendix A

Secondary research – Background and Scope

The secondary research completed in 2019 took into account the existing resources and research undertaken by organisations not just in the UK, but globally, into the issue of consumer protections regarding various payment mechanisms. It also explored available payment protections, gaps in protection and the rapidly growing use-cases for real-time payments around the world.

The scope for secondary research was set around the following topics:

- a.** To map the existing consumer payment landscape in the UK, outlining the protections in place and any gaps which exist; regulatory perspective and consumer detriments.
- b.** To provide an overview of consumer protection principles around the world including good practice and potential pitfalls.
- c.** To look into how the evolving payments landscape actually impacts consumer protection both in the UK and globally.
- d.** To identify consumer perceptions of consumer protection.
- e.** To outline how primary research can provide insights to the consumer perspective on this issue as we progress.

Appendix B

Area		Explanation
Authorised Push Payments (APP)	CRM Code	The voluntary code was put in place to increase consumer protection standards to help reduce the number of APP scams. The Lending Standards Board oversees this Code.
	Funding	Pay.UK's call for information in response to the CRM Fee Change request found this could not be taken forward. The current no-blame pot runs out at the end of the year, therefore a solution must be found.
Stop Scams UK		This initiative brings together key stakeholders with the aim of producing a strategy and programme of future work in the fight against scams.
OBIE payment reversal proposal		Open Banking is evaluating delivering a functionality to enable payees (or their PISP) to return payments in a frictionless and reconcilable manner to the payer where the payee may be a consumer or merchant.
CMA Retail Banking Market Investigation – PISPs and reverse payments		The CMA considered that it was important that “the general question of consumer protection when using FPS, including payment initiation services, is adequately addressed”. The CMA tasked the Implementation Trustee and Implementation Entity stakeholders to assist the PSR in this process; and asked the Implementation Trustee “to convene and co-chair with the PSR a working group of open banking stakeholders, including consumer representatives, to identify the options for addressing these issues within the open banking ecosystem”.
Transaction Analytics (TDA)	Data	The PSF developed a conceptual TDA solution to allow data and intelligence sharing, and the ability to perform interaction with payments in real time. This was the handed to Pay.UK to develop.
Confirmation of Payee (CoP)		CoP is the industry-agreed way of ensuring that names of payment recipients are checked before payments are sent, as an initiative to help reduce losses from APP scams and accidentally misdirected payments.
HMT economic crime plan		The HMT published an economic crime plan for 2019 to 2022 that set priority areas for combatting economic crime.

Appendix C

The following section provides brief details on FPS options in the UK and their propositions.

Pay with Bank Transfer

The proposition: For consumers, payments are cheaper than by card and no need for payment details. For merchants, it offers one simple fee and no chargebacks.

Pay by Bank App

The Proposition: Consumers can pay easily without the need to enter account or card details, but still with the trusted security of their bank.

Kika

The Proposition: Currently in the start-up phase, KiKa is seeking to attract customers by offering the simplicity of real-time payments, directly from their bank account. For merchants, KiKa offers reduced transaction fees compared to card payments and assumes liability for fraud.

Klarna

The Proposition: For consumers, Klarna gives the option to ‘buy now and pay later’, with no charges or fees. For merchants, Klarna assumes the payment claim and handles the payment.

PayPal

Propositions: PayPal now has a number of products, with its offering spanning several payment mechanisms. These include:

- PayPal: Can now be used for consumer bank-merchant payments using FPS.
- PayPal.Me: Released in 2015 to offer peer-peer faster payments
- PayPal cash card: debit card – money can be loaded onto the card.
- PayPal credit: A digital line of credit for online purchases only, with no card provided

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