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## Future of Payments Review 2023: Call for Input

LINK's response to Future of Payments Review 2023: Call for Input  
Published by HM Treasury on 11<sup>th</sup> July 2023

3<sup>rd</sup> August 2023

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Classification: Public and available on [www.link.co.uk](http://www.link.co.uk).

### Introduction

1. LINK is a not-for-profit company with a public interest objective to protect access to cash across the UK. It is governed by an independent Board.
2. LINK sustains access to cash through the operation of its well-established financial inclusion programme.
3. LINK's access to cash role is supported by a voluntary commitment from the UK's banking and ATM industry. The 2023 Financial Services and Markets Act places new obligations on a number of banks to support access to cash. LINK expects that some of its work on financial inclusion will become regulated by the Financial Conduct Authority (FCA) as a result, alongside existing regulation by the Payment Systems Regulator (PSR).
4. As part of its work, LINK manages the UK's main cash machine (ATM) network. LINK's network connects the vast majority of ATMs (both free and charging) in the country and allows customers of banks and building societies (card issuers) that are LINK Members to make cash withdrawals and balance enquiries with their payment cards at almost all ATMs. All of the UK's major card issuers and ATM operators currently choose to become Members of LINK. In 2022, LINK processed 1.5 billion transactions and dispensed £83 billion in cash through a network of around 50,000 ATMs.
5. LINK also assesses whether intervention is required to provide cash access facilities on behalf of the banking industry in all communities where cash infrastructure (such as bank branches) closes. Where there is inadequate access to cash after a closure, LINK specifies new shared facilities such as shared banking hubs and deposit services. These are then put in place by a bank-owned infrastructure company called Cash Access UK.
6. LINK is already regulated by the PSR, and by the Bank of England (the Bank) as a systemically important payment system and is recognised as such by the Treasury (HMT).
7. Although cash is in long term decline in the UK, it still plays a significant role in many peoples' lives. There were 6 billion consumer cash payments in the UK in 2021 (17% of all payments), a fall of 1.7% from 2020, second after debit cards (55%) and above Direct Debit (12%) credit and charge cards (10%) and Faster Payments (3%)<sup>1</sup>. Around 43.4 million people used cash machines in 2021, with 51% of cash machine users

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<sup>1</sup> UK Finance: UK Payment Markets Summary 2022.



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withdrawing cash at least once a month. Cash machines are by far the most common method of acquiring cash, accounting for 93% of all cash acquired in 2021<sup>2</sup>. LINK is committed to protecting access to cash for as long as is needed by consumers.

8. However, the UK will eventually be a low cash use economy with payments by cash becoming increasingly uncommon. LINK agrees with the forecasts that cash use for payments will be around 6% by 2031<sup>3</sup>. Increasingly, those consumers not able to access digital payments will face significant disadvantage. In particular, this will be because of increasing lack of cash acceptance by some retailers, and inability to access the benefits available by using some digital services such as lower prices and broader choice of services. These problems are already starting to be seen as cash usage declines.
9. LINK therefore believes that building a very high degree of digital payments inclusion over the rest of this decade is important if some consumers are not to be disadvantaged once cash payments become uncommon. LINK's assessment is that the current rate of improvement is inadequate and there is a risk that some cash users will become unacceptably disadvantaged through lack of ability to access and use digital payments.
10. LINK's response to this Review highlights the excellent work that has been done in the UK to provide an inclusive payment system. It notes the UK's cutting-edge initiatives on maintaining access to cash, while the country improves digital payments inclusion. It explains how the current levels of digital payments inclusion are too low and that the UK still risks leaving many consumers excluded as the country moves to become a very low cash use economy. It makes recommendations that build on the UK's strong position on digital payments in areas such as open banking, payments regulation and payment systems operation that will bring digital payments inclusion to the required level and maintain the UK's lead in global payments.

## **LINK's Response to the Consultation Questions**

### **Question 1**

***What are the most important consumer retail payment journeys both today and in the next 5 years? For example, paying a friend, paying a bill, paying businesses for goods and services, in the UK or internationally, etc.***

11. **Timed payments** (such as Direct Debits, Direct Credits and Standing Orders) represent the majority of transactions over the principal UK retail payment systems (mainly though Bacs and some through Faster Payment System (FPS)) totalling 7.1 billion transactions in the year to May 2023, or 64% of payments processed<sup>4</sup>. They are the mechanism whereby most consumers pay their regular bill obligations (eg, mortgages) and receive their salaries (via Bacs direct credit) and therefore represent a very important consumer retail payment mechanism. The current infrastructure supporting this has its roots in the 1960s and the associated business processes are embedded in a variety of ways across the back offices of virtually every company of any significant size in the UK. This varied integration across so many businesses means that it will be challenging to modernise this infrastructure. Yet doing so will be vital if the approach to UK payments is to remain at the leading edge. In the five-year horizon, LINK does not see much likelihood of actual change in this space (aside from some regular payments currently being undertaken via Direct Debit being replaced with a "Request to Pay" mechanism, if that technology continues to evolve). However, developing a modernisation strategy,

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<sup>2</sup> Ibid.

<sup>3</sup> Ibid.

<sup>4</sup> Pay.UK's Monthly Payment Statistics, May 2023.



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especially for Bacs, is vital. As the slow progress to replace the much simpler FPS infrastructure via the New Payments Architecture (NPA) shows, this will be challenging and require leadership and determination. However, failure to do so will leave many UK businesses using increasingly out-of-date batch processing technology with low ability to integrate in the additional intelligence and data that will be important to maintain the UK's competitiveness. The key will be to look at Direct Debits, and models such as Request to Pay and Variable Recurring Payments strategically and think about how the modernisation of recurring payments as a unified and flexible proposition could develop the way we pay for goods and services.

12. Cash use for payments in the UK is in long term decline. However, **cash** is still a very important mechanism for consumer transactions, particularly for those of the population that suffer digital and financial exclusion. The 2022 Cash Census<sup>5</sup> found that one in five people stated they would struggle to cope in a cashless society. ATM withdrawals across the LINK network continue to trend at £7 billion per month<sup>6</sup> with ATM transactions (including balance enquiries) at 130 million per month. Balance enquiries at around 30% of transactions provide an indication of the number of consumers that may not be digitally connected on a regular basis to their bank. Looking ahead, it is likely that cash usage will continue to decline (driven more by cash acceptance challenges than cash access challenges). Eventually, the UK will become a very low cash use country and many retail outlets will not accept cash. For those currently dependent upon cash for their day-to-day payments, much more vigorous work will be needed to improve the accessibility of digital payment mechanisms if they are not to be left behind.
13. **Immediate payments** over the bank-to-bank payment rails FPS represent those most likely made by consumers using their banking apps or online applications for non-regularly occurring bills and one-off payments. These have seen significant growth in recent years (up 17% in the year to May 2023) and now represent 80% of the transaction volume handled by FPS<sup>7</sup>. Over the next five years, this figure is likely to increase further. How far will depend, in part, on the efforts made to support digital inclusion in general. It will also depend on the market share between bank-to-bank payments and payments over the International Card Schemes (VISA and Mastercard). Regardless of the rails, there are now serious barriers to increasing digital inclusion such as digital fraud worries and the proportion of the population that is not digitally enabled. Immediate payments have particular fraud risks to address due to the speed and finality of payment and it is clear that the original FPS design did not get this right for consumers. Dealing with these inclusion problems will be vital to realise the full potential of immediate payments. Whether it is card rails or bank-to-bank rails that dominate, will depend on initiatives such as the NPA and Open Banking, where the UK has traditionally had a leading role. Peer-to-peer payments is a particular area of immediate payments which will need consideration. Here, the UK now lags behind other leading countries. Examples include Venmo in the US, Tikkie in the Netherlands, and Swish in Sweden which all have established app-to-app payment approaches for person-to-person transactions. These mechanisms have reached significant scale, and their names are widely recognised. In contrast, the default approach for most UK citizens is to manually send bank transfers, which creates friction and necessitates sharing payment details outside of a secure payment channel. There is also growth in the use of pay by link and social media, with associated fraud problems.

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<sup>5</sup> [the-cash-census-report\\_v3.pdf \(thersa.org\)](#).

<sup>6</sup> [LINK / Statistics and trends](#).

<sup>7</sup> Pay.UK's Monthly Payment Statistics, May 2023.



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14. Many consumers would say that their **card transactions** (either debit or credit) are one of their most important payment mechanisms. Volumes are not included in Pay.UK's monthly statistics but are collated by UK Finance<sup>8</sup>. These represent a significant "immediate" payment mechanism for consumers. UK cardholders made 2 billion debit card transactions in the UK and abroad in January 2023 (of which 74% were contactless) and 321 million credit card transactions (50% contactless). Acceptance levels and trust levels for the International Card Schemes are very high with consumers. Retailers often complain about the fees but there is little choice for them but to offer what is the most widely accepted payment mechanism after cash across much of the world. The PSR has made it clear in its Strategy that it intends to encourage initiatives such as the NPA and Open Banking to enable competitive challenge to the International Card Schemes by bank-to-bank rails such as FPS. However, the challenges to overcoming the strong competitive positions of the incumbents are formidable, and few other western countries have succeeded in doing this yet. A key feature that underpins VISA and Mastercard's trusted position is the very effective management of digital fraud. The International Card Schemes know who their customers (retailers and consumers) are and also offer strong protection via credit cards (Section 75 of the Consumer Credit Act) and some debit cards (through a voluntary chargeback scheme). Payments made via FPS for consumers are much riskier from a digital fraud perspective, as the enormous growth in Authorised Push Payments Fraud shows. LINK's view is that the management of fraud is a higher priority rather than, for example, competition between infrastructures. Our preference would be for a strong centralised fraud management component to the infrastructure rather than the current NPA approach which relies on competition between payment providers to develop fraud solutions. LINK is also not certain that the regulatory focus on promoting competition with the International Card Scheme is right. This seems a very western-centric world view and the larger challenges to western payments may well be from markets such as India and China. Consideration of these important issue could be useful as part of this Review.
  15. CHAPS is the mechanism most often used by consumers for important, **high value (non-wholesale) transactions** such as house purchases, business supplier payments and cross-border commercial payments. To put this into context, the total value of transactions across Bacs and FPS in the year to May 2023 was £8.9 trillion<sup>9</sup> whereas the total "retail and commercial transactions" across CHAPS in the same period was £27.2 trillion (wholesale was an additional £72 trillion). Whether these infrequent but very important consumer payments stay with CHAPS or migrate to another payment system such as FPS is an important decision for the industry over the next 5 years.
  16. The multicultural nature of the UK, with its diverse population, has resulted in varied payment preferences and requirements for **international remittances**. A one-size-fits-all approach to payments is not helpful for this situation, and it is important that the UK continues to encourage a thriving FinTech ecosystem to support the many and varied needs across its broad demographic.
  17. Much is being said at the moment about **digital currencies** and how they can drive new advances in payments (for example, through a Central Bank Digital Currency (CBDC) or a well-structured and secure GBP Stablecoin). The UK is a leader in this area, both from a regulatory and market perspective. The impact of digital currencies will be felt across all the mechanisms listed above and will need to be factored into every aspect of the Review's consideration. LINK notes that there is considerable scepticism about the value of digital currencies amongst the public to overcome. LINK's own research shows

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<sup>8</sup> [Card Spending Update - January 2023.pdf \(ukfinance.org.uk\)](#).

<sup>9</sup> [monthly-payment-statistics-may-2023.pdf \(wearepay.uk\)](#).



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that 52% say that they would be unlikely to use a CBDC, versus 25% who said they would. This will make it hard to launch a national digital currency and LINK's working assumption is that competitive options are more likely to develop first, aimed at those consumer segments who will value the offer sufficiently to take them up on a voluntary basis. This means that the UK's approach with its strong focus on an appropriate regulatory framework, and on GBP Stablecoin regulation in particular, is wise. However, in time, digital currencies will probably become important for all UK consumers, and this presents a digital inclusion issue. The Review could usefully consider how all consumers will get access to necessary infrastructure and tools when the time comes, such as digital wallets, ensuring that, like cash, they are universally available.

## **Question 2**

***For these journeys today, how does the UK consumer experience for individuals and businesses compare versus other leading countries? For example, the quality of experience, security or cost.***

18. The UK has a strong position to build from with respect to other leading countries. However, competition from overseas is more intense now than ever before and the UK's dominance in areas such as immediate payments, Open Banking and FinTech in general cannot be taken for granted. The Review offers an excellent opportunity to address the main opportunities and challenges.
19. **Firstly, the NPA is taking too long and this approach to digital infrastructure innovation and renewal needs to be reformed.** 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<sup>10</sup>. 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. In response, the flagship initiative arising from the 2015/16 Payment Strategy Forum was the proposed replacement for FPS, Bacs and the Image Clearing System with the NPA. Several years on, this has still to be delivered and, in the intervening period, has been downsized in terms of scope at the request of the PSR to mitigate risk. As a result, 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. It is not clear when NPA will be launched by Pay.UK and, with the various initiatives around CBDCs and cross-border payments being announced on a near-weekly basis elsewhere in the world (many of which are under the auspices of the various Bank for International Settlements (BIS) Innovation hubs<sup>11</sup>), there is a significant risk that the NPA will be outdated at launch. One of the original design aims of NPA was the ability for service layers to be constructed on top of the core settlement layer with ISO20022 messaging providing flexibility, richer data and facilitating further competitive payment services for consumers and businesses. While work has been done between the Bank of England and Pay.UK to arrive at a set of messaging standards underpinning the new "Common Credit Message", it is not at all

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<sup>10</sup> [FedNow Service \(frb.org\)](https://www.frb.org/services/fednow).

<sup>11</sup> [About the BIS Innovation Hub](#).





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clear yet whether or when these service layers will be introduced. Given the time taken to get the NPA to where it is, a different approach should be taken going forward.

20. **Secondly, we need a strategy for digital inclusion in the UK.** There is a generational and societal gap between those in the UK who can afford to participate fully digitally (with the skills to do so) and those that cannot. The European Commission is taking significant steps to address this issue<sup>12</sup> whereas, in the UK, the House of Lords Communications and Digital Parliamentary Committee's latest report on Digital Exclusion (published on 29<sup>th</sup> June 2023)<sup>13</sup> sets out that *"The government has "no credible strategy" to tackle digital exclusion"*. The report's summary highlights that *"fully 1.7 million households have no mobile or broadband internet at home. Up to a million people have cut back or cancelled internet packages in the past year as cost-of-living challenges bite. Around 2.4 million people are unable to complete a single basic task to get online, such as opening an internet browser. Over 5 million employed adults cannot complete essential digital work tasks. Basic digital skills are set to become the UK's largest skills gap by 2030"*.
21. The removal of cash acceptance facilities in the UK is now affecting the wider consumer experience. A good example is the widely publicised ongoing removal of cash acceptance for public car park charges. This brings numerous challenges to those that are digitally excluded (as opposed to financially excluded). Furthermore, the absence of a well thought through nationally applicable replacement has resulted in a proliferation of parking apps through multiple providers (with different providers often present in adjoining towns) resulting in further consumer frustration and detriment. The proliferation of parking apps is a cautionary tale and it may well be that consumer digital empowerment will need to be through a ubiquitous app that serves any underlying bank account (such as Sweden's Swish).
22. Protecting access to cash and banking services will buy time to ensure a smooth transition to a society where nearly all payments are made digitally. Helping all consumers to be able to use digital will be a long and challenging task and we are running out of time to do this. To ensure that all communities and consumers benefit from growth in digital technology, we should invest in digital infrastructure (such as the digital wallet equivalent of Basic Bank Accounts, and consumer digital access) and provide training and support for those who lack digital skills. This will require initiatives such as a national awareness campaign, like those seen when the nation switched to decimalisation in 1971, and when we completed the switch from analogue television to digital just over a decade ago. As part of this, training will be best delivered at a grassroots level by trusted and well-connected community organisers, and delivered at scale – with initiatives to teach digital skills to older adults or people with disabilities, and digital training and support for low-income communities. By investing in such digital skills, training and support a government can help to ensure that everyone is able to participate in the digital economy and benefit from its opportunities. High street locations such as post offices and the new banking hubs that are being opened could play a useful role in delivering this.
23. **Finally, digital fraud represents a significant consumer detriment where the UK is lagging behind other countries, and we need to take firmer action.** Analysis of card fraud undertaken by Merchant Machine in 2022<sup>14</sup> highlighted that, when compared against eighteen other European countries, the UK ranked second worst overall, with the highest fraud value per 1,000 inhabitants at €10,414. This sadly correlates to

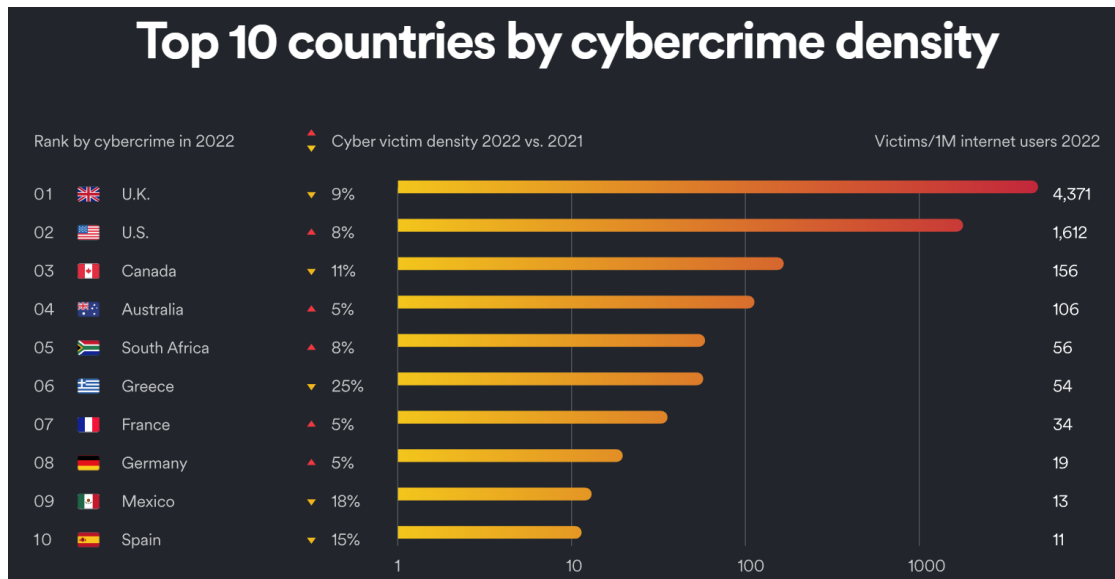
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<sup>12</sup> [Digital inclusion | Shaping Europe's digital future \(europa.eu\).](https://european-council.europa.eu/media/en/press-communications/infographic/infographic_digital_inclusion_en.pdf)

<sup>13</sup> [The Government has "no credible strategy" to tackle digital exclusion - Committees - UK Parliament.](https://www.parliament.uk/business/committees/committees-a-z/commons-select/communications-and-digital/committees-publications/committees-publications-digital-exclusion/)

<sup>14</sup> [Credit Card Fraud Capitals of Europe \(July 2023\) \(merchantmachine.co.uk\).](https://www.merchantmachine.co.uk/insights/credit-card-fraud-capitals-of-europe-july-2023/)

cybercrime density reports produced by the FBI which highlighted that the UK had the highest Cyber Victim density per million internet users in the world<sup>15</sup>.



24. The latest research from OFCOM<sup>16</sup> (March 2023) highlighted that around nine in ten online adults in the UK (87%) have come across content they suspected to be a scam or fraud. A quarter of those who said they'd encountered online scams had lost money as a result (25%) - with a fifth (21%) being scammed out of £1,000 or more. A third of all victims reported that the experience had an immediate negative impact on their mental health, increasing to nearly two-thirds (63%) among those who had lost money. Such issues create significant concern over the use of online methods (app or web) for making payments, particularly amongst the most vulnerable in society. While steps continue to be taken to attempt to reduce payment fraud in the UK (eg, the introduction and broadening of Confirmation of Payee), more needs to be done to create an environment where consumers and businesses feel totally safe in conducting business online. The approach taken with the NPA will be a key factor in the success or otherwise of the UK's approach. LINK's view is that a more centralised approach to fraud control is needed. The money when stolen is currently "lost" in the UK banking system. The existing infrastructure is unable to identify risky transactions before they happen or find the scammed money when it has been lost. As well as the enormous harm to the victims, the injection of £1 billion a year of scammed funds into the hands of criminals and organised crime will be creating untold and enormously expensive harm elsewhere in country. It should be a priority to reduce it. This is clearly addressable, given the capability of modern technology. The Review gives an excellent opportunity to deal with this serious fraud problem.

<sup>15</sup> [Cybercrime statistics \(surfshark.com\).](https://www.surfshark.com/cybercrime-statistics)

<sup>16</sup> [Scale and impact of online fraud revealed - Ofcom.](https://www.ofcom.gov.uk/consult/condocs/online-fraud/online-fraud-revealed/)



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### Question 3

***Looking at the in-flight plans and initiatives across the payments landscape, how likely are they to deliver world leading payment journeys for UK consumers? For example, we welcome suggestions that you feel would support, or are essential to delivering, world leading payments for UK consumers.***

25. LINK's analysis has identified three priority areas for action to sustain the UK's position as a payments leader:
  - 24.1 The NPA is taking too long and this approach to digital infrastructure innovation and renewal needs to be reformed.
  - 24.2 We need a strategy for digital inclusion in the UK.
  - 24.3 Digital fraud represents a significant consumer detriment where the UK is lagging behind other countries, and we need to take firmer action.
26. LINK suggests consideration of the following recommendations as part of the Review. They are designed to deliver rapid improvement for consumers, remove unnecessary costs and bureaucracy for industry, and lay firm foundations to maintain the UK's position as a leader in payments.
27. **Recommendations on Digital Infrastructure/NPA:** The NPA is taking too long and this approach to digital infrastructure innovation and renewal needs to be reformed:
  - 26.1 LINK has long argued that regulated mandated tenders in scheme infrastructure provision are unhelpful (see, for example, LINK's response to the Payment Systems Regulator's consultation paper of February 2021 on Delivery and Regulation of the New Payments Architecture<sup>17</sup>). The schemes themselves are best placed to decide how best to run the payment systems that they are responsible for.
  - 26.2 Therefore, the requirement for infrastructure tenders should be removed following the conclusion of the current FPS/NPA tender over the summer.
  - 26.3 For Bacs, this will allow the urgent focus on its strategic development that the tender process has hindered.
  - 26.4 For immediate payments, it will allow the provider of the NPA to work with Pay.UK to create the safe and open access rails that are aspired to in order to compete with the International Card Schemes.
28. **Recommendations on Digital Inclusion:** We need a strategy for digital inclusion in the UK:
  - 27.1 The Access to Cash review provides an excellent template on how to deliver practical and robust ways to address consumer payments issues.
  - 27.2 An Access to Digital Payments Review should be commissioned to develop a strategy to improve digital payments inclusion in the UK.
  - 27.3 The earlier analysis gave a number of examples of approaches to consider, such as a national awareness campaign, like those seen when the nation switched to decimalisation in 1971, and when we completed the switch from analogue television to digital just over a decade ago. It also identified the need to develop effective shared infrastructure so that all consumers have access to digital essentials such as wallets and connectivity.

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<sup>17</sup> [new-payments-architecture-link-response-final.pdf](#).





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- 27.4 The recent House of Lords Communications and Digital Parliamentary Committee's report on Digital Exclusion also recommends a number of possible initiatives. One of the Committee's key recommendations is "*boosting digital inclusion hubs*". High street locations such as post offices and the new banking hubs that are being opened could play a useful role in supporting this.
- 27.5 How to ensure a universal approach to a sterling digital currency(ies) should be part of the Review.
29. Digital fraud represents a significant consumer detriment where the UK is lagging behind other countries, and we need to take firmed action:
- 28.1 As well as the enormous harm to the victims, the injection of £1 billion a year of scammed funds into the hands of criminals and organised crime will be creating untold and enormously expensive harm elsewhere in country. It should be a priority to reduce it.
- 28.2 The current approach to addressing fraud tends to deal with the symptoms of loss (eg, by mandating refunds) rather than building fraud controls into the payment systems themselves.
- 28.3 Fraud controls do exist within individual firms, but they need building into the central infrastructure and scheme rules rather than relying only on a fragmented set of competitive solutions.
- 28.4 The money lost to fraudsters is not obviously leaving the UK banking system and a key problem is the lack of an ability to track fraud loses quickly and use shared data to identify risky transactions before they are made.
- 28.5 Regulatory effort should move from infrastructure competition (where it will no longer be needed, based on the recommendation above) to fraud control.
- 28.6 There are numerous international systems already in existence that can be quickly assessed and deployed into the core UK payment systems.
- 28.7 Regulatory support should focus on help to design approaches to collaboration and data sharing that are consistent with competition law but that allow the collaboration necessary to build strong central fraud control systems.