

Joint call for evidence from the Payment Systems Regulator and the Financial Conduct Authority on digital wallets

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THE POINT!



On 15 July 2024, the Payment Systems Regulator (PSR) and Financial Conduct Authority (FCA) published a joint call for information on big tech and digital wallets. The regulators are keen to better understand the impact on UK consumers and businesses that digital wallets' increasing popularity is creating. This section sets out the range of issues that the regulators are exploring in assessing the risks and benefits that digital wallets present.

In the UK, the adoption of digital wallets by consumers has experienced rapid growth. Big Tech has been the driving force behind this expansion, enabled by the widespread use of smartphones and wearable technologies like smartwatches.

FCA and the PSR [launched](#) a Call for Information to gather insights into the intersection of Big Tech and the digital wallet sector, aiming to understand both the advantages and potential risks involved.

This Call for Information focuses on a range of issues, including the following:

- **Digital Wallet and its Ecosystem:** The FCA and PSR are examining whether digital wallets effectively serve consumers and businesses, examining different payment methodologies that they can facilitate from peer-to-peer transfers to contactless in-store payments. With Apple Pay, Google Pay, and PayPal dominating the market, concerns have arisen about consumer choice limitations and the implications for competition, innovation, and service provision. iPhone users, for example, are generally restricted to Apple Pay, while Android users can use Google Pay or Samsung Pay. The regulators believe that the dominance of a few providers may stifle competition and innovation, potentially leading to higher fees and lower service quality. Recent developments, such as the European Commission's acceptance of Apple's commitments to allow third-party access to iPhone's NFC functionality, aim to address these competition concerns.
- **Fee Models:** The FCA and PSR are also investigating the fee structures of digital wallets and their evolution over time. Understanding these fee models is crucial to assessing their impact on UK consumers and the broader market. Additionally, the regulators are interested in exploring

alternative revenue sources for digital wallet providers and how these might influence the market dynamics.

- **Account-to-Account Payments:** The paper recognises that digital wallets have the potential to unlock the benefits of account-to-account payments, fostering competition among payment systems. However, it finds that e-wallet providers currently show limited interest or ability to promote lower-cost payment options. The integration of account-to-account payments by digital wallet providers could offer significant advantages, such as reduced fees, introduce more options for consumers and thus influence consumer transaction behaviours in retail settings.
- **Consumer Protection and Market Integrity:** The increasing reliance on digital wallets also raises questions about consumer protection and market integrity. Operational failures in digital wallets could cause significant financial loss to users. The FCA and PSR are keen to understand the balance between the security features of digital wallets, like biometric authentication, and the risks posed by their speed and convenience, which might attract fraudsters. They also aim to clarify the responsibilities and liabilities associated with payments, especially those in relation to payments made through pass-through digital wallets.
- **Integration with Open Banking:** The potential integration of digital wallets with open banking is another area of interest. This integration could change how consumers engage with digital wallets by facilitating direct connections to their bank accounts. While on one hand, this offers new opportunities and innovations, it also introduces potential risks as more financial information is shared between different parties.
- **Regulatory Effectiveness:** Finally, the FCA and PSR are evaluating the effectiveness of the current regulatory framework in addressing the complexities of the digital wallet ecosystem. This assessment will help determine whether existing regulations are adequate or if new measures are needed to ensure a fair and competitive market.

The FCA and PSR's Call for Information represents an effort to understand and address the multifaceted implications of digital wallets and Big Tech's involvement in this space. With this, the regulators aim to create a balanced and competitive environment that benefits all users of digital payment systems.

So what?

- The FCA and PSR's Call for Information on digital wallets has significant implications for various stakeholders in the UK's financial ecosystem. For consumers, it could serve to help promote alternative payment options, driving choice. For merchant, more consumer choice could help lower costs of accepting payments. For payment service providers, this could lead to an opportunity to gain access to more device functionality, driving innovation and opening the market to more competition.
- In particular, the inquiry also delves into how digital wallets could enhance account-to-account payments and their impact on the competitiveness of payment systems, alongside probing significant concerns related to consumer protection and market integrity. This could also impact other innovations in the market in relation to account-to-account payments, such as sweeping and non-sweeping variable recurring payments. Similarly, the integration of digital wallets with open banking could revolutionize how payments are made, steering the market towards more efficient, lower-cost payment systems. This could benefit consumers by providing more choices and more competitive rates for transactions fees.

- Amidst Big Tech's expansion into financial services, concerns about financial resilience and the adequacy of existing regulations in overseeing these activities becomes increasingly important. The FCA currently views the potential failure of digital wallet services as a disruption to individual parties (such as consumers, card issuers and retailers) rather than a systemic risk to the wider financial system. Nonetheless, the ongoing discussions surrounding Big Tech highlight a growing regulatory emphasis on scrutinizing the role of Big Tech within the financial services sector.
- With that in mind, this inquiry also comes in the wake of the European Commission's intervention regarding Apple's exclusive control over NFC technology on iPhones for Apple Pay, highlighting the broader regulatory scrutiny over competitive practices in the technology sector. The FCA and PSR's investigations align with the interests of the Competition and Markets Authority (CMA) and a collaborative approach among UK regulators is anticipated, particularly in sharing information and insights pertinent to the digital market.

Next steps

Stakeholders are invited to respond to the call for information by Friday, 13 September 2024.

If you would like to discuss anything raised in this article, feel free to contact our payments team.