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Dear Chief Executive Officer

### **FCA priorities for payments portfolio firms**

This letter sets out our priorities for firms supervised by the FCA in the payments portfolio. This includes firms authorised or registered under the Payment Services Regulations 2017 and the Electronic Money Regulations 2011 (EMRs), such as Payment Institutions (PIs), Electronic Money Institutions (EMIs), and Registered Account Information Service Providers (RAISPs).

The National Payments Vision (the Vision) sets out the Government's ambition for a trusted, world-leading payments ecosystem delivered on next generation technology, where consumers and businesses have greater choice of payment solutions to meet their needs. It has three pillars – innovation, competition, and security – and highlights the importance of payments to the UK economy, including as a source of growth.

We welcome the Government's approach, which is consistent with our objectives of protecting consumers and markets, promoting effective competition, and facilitating international competitiveness and growth. We will fulfil the function of the UK regulator for Open Banking, engaging closely with the Payment Systems Regulator (PSR) on payment system issues and managing any overlap between us both, including on fraud.

We are excited by the continuing potential for innovation in payments to enhance growth and competition in the UK financial services sector. Despite the economic and wider challenges faced by firms, the sector has continued to develop, driven by technological change. We expect this to continue, accelerated by innovative advancements such as Open Banking, Open Finance, and digital currencies.

Since our [letter](#) of 16 March 2023 highlighting our priorities for payments firms, we have seen improvements by firms to deliver the outcomes we set, for example in some firms' Board and governance arrangements, risk management frameworks and customer outcomes. However, there is still more for firms to do.

High standards instil trust and confidence, which are essential for innovation, competition, growth, and the UK's international competitiveness. We remain concerned that there are still risks of harm to consumers and financial system integrity. Accordingly, in this letter, we have set out three key outcomes for firms, which we believe are essential to good customer outcomes:

1. Effective competition and innovation to meet customers' needs, characteristics and objectives.
2. Firms do not compromise financial system integrity.
3. Firms keep customers' money safe.

As the Chief Executive Officer, you are responsible for your firm consistently delivering these outcomes. We have set out below what we expect from your firm, and what we intend to do to support each outcome. You should identify the messages in this letter that are relevant to your firm and your conditions of authorisation and/or registration and take appropriate action.

### **Outcome 1: Effective competition and innovation to meet customers' needs, characteristics and objectives**

We have seen effective competition and innovation, including in areas such as Open Banking, benefit customers. We have also seen better outcomes for customers where firms have effectively implemented the Consumer Duty. However, we continue to see cases where products and services do not consistently deliver good customer outcomes and/or firms not acting in customers' best interests. Some of our priorities to ensure customers' needs, characteristics and objectives are met are outlined below.

#### Innovation

We are committed to supporting firms to innovate in the interest of consumers and markets through our [Innovation Hub support services](#) and our Early and High Growth Oversight function (we now have 50% more dedicated supervisors to support early and high growth firms). We are also happy to speak to firms looking to offer new and innovative products and services. We encourage market participants to attend our Tech and Policy Sprints to share insights with us (upcoming Sprints will be published on our [website](#), where you can apply to attend), and those that meet the criteria for our [innovation services](#) to apply.

#### Consumer Duty

Our recent [multi-firm work](#) identified that many firms had implemented the Consumer Duty as we would expect. However, it also showed that a significant proportion of firms had more to do. You should have adequately considered the requirements of the Consumer Duty and have fully implemented these in a way that is appropriate to your business, as outlined in our recent [communications](#). Please see our recent communications for good practice.

We will continue to monitor firms' implementation of the Consumer Duty, support firms through remediation of any deficiencies, and take appropriate action against firms consistently failing to meet standards and/or demonstrate reasonable steps to ensure remediation.

Alongside this overall focus, one sector-specific priority for us in relation to payments is examining the clarity of foreign exchange pricing in payment services. We will be assessing the extent to which firms' approaches help ensure consumers are able to clearly understand the price they pay for these services.

### **Outcome 2: Firms do not compromise financial system integrity**

We are committed to delivering our operational objective of protecting and enhancing the integrity of the UK financial system to make sure that markets are effective, efficient, and reliable. Two of our focus areas to enhance financial system integrity in the payments sector are financial crime and operational resilience.

## Financial crime

Reducing and preventing financial crime to instil trust and confidence in the market, which are essential for innovation, competition, and growth, is a commitment in our [2024/2025 business plan](#) and a key theme in our upcoming strategy. Over the last year, we have been encouraged by some firms significantly enhancing their financial crime controls. However, there is still more for firms to do. It remains the case that weaknesses in some firms' governance, oversight, and systems and controls make them a target for bad actors and risks the loss of critical services for customers.

You should ensure that your firm's governance arrangements and systems and controls, including reporting mechanisms, are effective and proportionate to the nature, scale, and complexity of your business, and the risks to which it is exposed.

You should also read our October 2024 [Dear CEO letter](#) regarding the PSR's reimbursement requirements for APP fraud carried out through the Faster Payments System and CHAPS to understand our expectations in relation to these measures, and how to comply with them. We expect your approach to compliance and also your approach to 'on-us' or intra-firm payment APP fraud to ensure good consumer outcomes, in line with your obligations under the Consumer Duty. We have been working with the PSR to monitor firm compliance with APP fraud rules, and we will be engaging with firms to ensure good consumer outcomes for victims of APP fraud. For unauthorised fraud you should show the same diligence as with APP Fraud.

Further, you should be aware of our [guidance](#) on the recently introduced payment delays legislation. The ability to delay certain payments can be an important tool in mitigating consumer harm. However, we expect you to minimise the impact on legitimate payments if you apply payment delays. We will continue to monitor the impact of this new legislation.

## Operational resilience

Operational disruptions and the unavailability of important business services, which may arise due to internal or external factors (e.g., cyber-attacks, IT system outages, or third-party supplier failure), have the potential to cause wide reaching harm to consumers, threaten the viability of firms, and cause instability in the financial system. We have seen weaknesses in some firms' technological resilience, in some cases, coupled with a lack of oversight of change programmes, which has resulted in weakened resilience and/or business interruption.

You should ensure that your firm's governance arrangements and systems and controls, including reporting mechanisms, are effective and proportionate to the nature, scale, and complexity of your business, and the risks to which it is exposed.

We have set out our [final rules and guidance](#) on new requirements to strengthen operational resilience in the financial services sector. The transitional period for the new rules, which require firms to identify their important business services and set impact tolerances, ends on 31 March 2025. You must have performed mapping and testing so that your firm is able to remain within impact tolerances for each important business service, and you should make the necessary investment to enable your firm to operate consistently within its impact tolerances.

## **Outcome 3: Firms keep customers' money safe**

Over the past year, we have seen improvements in some firms' financial resilience. However, we remain concerned that customer money may not always be safe if payments firms fail. You

should focus on ensuring adequate governance, oversight, and systems and controls to keep customer money safe. We have outlined areas of focus below, relating to specific weaknesses we have seen in the sector. Action by firms to deliver this outcome and our policy work on safeguarding rules, which we have recently [consulted](#) on, will help mitigate risks surrounding the potential loss of, or loss of access to, customers' funds.

### Safeguarding

You should ensure that your firm is safeguarding customers' funds in line with the Payment Services Regulations 2017/EMRs (as applicable) and guidance set out in our [Approach Document](#). In particular, you should:

- Appropriately identify which funds are relevant funds for the purposes of safeguarding to mitigate the risk of a shortfall in customers' funds in the event of a firm failure. You should seek advice if you are not certain which funds are relevant funds in your business model.
- Ensure that your books and records are up to date and accessible, including by undertaking reconciliations at least daily, and notify us of any material adverse findings in your safeguarding audits, and take immediate action to rectify them.
- Where your firm uses safeguarding insurance, you should consider potential changes in its availability and cost when assessing your firm's financial resilience. You should also notify us if you are intending to use safeguarding insurance and ensure that your insurance policies are in line with the guidance in our [Approach Document](#).

We have [consulted](#) on new safeguarding rules, which we propose to introduce in two stages: interim rules and end state rules. We will publish final interim rules in mid-2025 and, as set out in our consultation, you should prepare for any changes you may need to make to your safeguarding arrangements, and we will give firms time to do so.

### Prudential risk

You should ensure effective prudential risk management. In particular, you should ensure that your firm meets its regulatory capital requirements at all times, considers and manages the financial risks it faces, and plans well ahead to ensure it has adequate financial resources on an ongoing basis.

### Wind-down planning

You should maintain effective and actionable wind-down plans that include clear triggers to commence an orderly, solvent winding down of your business in different scenarios in line with the guidance in our [Approach Document](#). These should be developed to take into account obstacles to an orderly wind-down, for example, customer money that may take a long time to return.

### **Governance, oversight and leadership to help achieve the outcomes**

In this letter, we have outlined the importance of governance, oversight and leadership. Weaknesses in these areas are a root cause of many of the regulatory issues we see in the portfolio. You should ensure that your firm's governance, oversight, and leadership meet our expectations. In particular, you should:

- Ensure that your firm's governance arrangements and systems and controls, including reporting mechanisms, are effective and proportionate to the nature, scale,

and complexity of your business, and the risks to which it is exposed. Your arrangements should provide effective and independent challenge to business and operational decisions, with non-executive directors playing a crucial role.

- Take a robust and holistic approach to agent and distributor oversight. You should be actively monitoring your agents to ensure your compliance with relevant regulations and to minimise potential customer harm, and you should actively address any shortfalls with them.
- Ensure that your outsourced functions are working as intended and remain compliant with all relevant obligations.
- If you are operating a hybrid business model and are subject to additional regulatory requirements, you should ensure that your firm has robust governance arrangements and controls in place to comply with these varying requirements.
- Further, a UK-authorized PI or EMI must have its head office in the UK. The directors and other senior management who make decisions relating to the firm's central direction, and the material management decisions of the firm on a day-to-day basis should be based in the UK head office.

### **Preparing for the future**

When developing future policy, we will seek to deliver proportionate, effective, and agile regulation that protects consumers and markets, and allows for effective competition, innovation, and growth. Accordingly, we want you to engage with us through responses to [consultation papers](#), your trade associations, and other [events](#) to ensure that future regulation is fit for purpose. Further, you will need to prepare your firm for change to ensure you can continue to meet the applicable regulation on an ongoing basis. In addition to the policy work outlined above, some of our policy priorities include:

- **Open Banking**: We are committed to fulfilling the function of the UK's regulator for Open Banking. We are already working at pace to progress Open Banking, continuing our focus on the development of the Future Entity, the prevention of fraud, consumer protection, as well as our work on premium APIs and the development of the long-term regulatory framework (LTRF). The LTRF will put the Open Banking ecosystem on a sustainable footing with an equitable funding arrangement in place to support the Future Entity. This regulatory framework will, over time, be expanded to cover new Open Finance use cases. Our work on variable recurring payments as a pilot for the roll out of wider Open Finance premium API use cases is a priority, and we are working with the PSR to deliver Phase 1 as soon as possible whilst progressing work on wider e-commerce uses.
- **Strong Customer Authentication**: In the Vision, the Government committed to revoking the payments authentication elements of Strong Customer Authentication (SCA). This will enable us to incorporate aspects of the technical standards into our rules. Throughout this year, we will engage with industry, consumer organisations, and other stakeholders on our approach to replacing the SCA, including on the contactless limits. We will focus on the outcomes we want to achieve, particularly enabling firms to innovate to reduce fraud and improve customer experience.

We will monitor the impact of regulatory change on payments, consumers, and firms to identify and manage emerging risks and opportunities. We will also continue our coordination and cooperation with other authorities, including the PSR and the Bank of England, to achieve the outcomes set out above and address congestion in the regulatory landscape. This will include through the Payments Vision Delivery Committee and through the plan of future initiatives as set out in the Vision.

## **Next steps**

This letter sets out the following priority outcomes:

Outcome 1: Effective competition and innovation to meet customers' needs, characteristics and objectives.

Outcome 2: Firms do not compromise financial system integrity.

Outcome 3: Firms keep customers' money safe.

We expect you and your Board to discuss this letter and take necessary steps to deliver on the outcomes we have set. We will be engaging with firms to ensure this is the case.

If you have any questions about this letter, please contact the FCA Supervision Hub on 0300 500 0597, or your normal supervisory contact.

Yours faithfully,

Matthew Long

Director of Payments and Digital Assets