TrueLayer – Written evidence (SCG0070)

About TrueLayer

Founded in London in 2016, we are an open banking payments network, operating in the UK and across Europe. We are regulated by the FCA as an Electronic Money Institution, which enables us to build additional payment services on top of open banking. We are backed by leading venture capital investors including Tiger Global, Stripe, Tencent, Temasek, Northzone, Anthemis, and Connect Ventures.

Building an open banking network

Groundbreaking open banking legislation in Europe and the UK in 2016 aimed to boost competition and innovation in financial services by opening up bank account data and payments functionality to third parties, using internet-era technology - APIs (application programming interfaces).

TrueLayer's founders were early to realise that a new network could be created, by connecting to all the banks' APIs - and providing a single connection to other fintechs and businesses, providing additional services such as payments and enriched data.

We now offer access to our network of bank connections to hundreds of businesses, so they can harness open banking payments and data (Ryanair, Revolut, Nutmeg, JustEat, LastMinute.com, Freetrade, Plum, Stripe, Nectar, Uber, Amazon, Chip and many more). We process one third of all UK open banking payments, including over **1 million variable recurring payments (VRPs) per month.**

Background

It is welcome that the Financial Services Regulation Committee is looking specifically at the FCA and PRA's role in facilitating the growth potential of the UK's financial services sector. We welcome the opportunity to provide this written evidence as a follow up to our oral evidence session on 23 October 2024.

The financial services sector, but especially fintech, has a central role in delivering on the Government's growth mission, by enabling innovation and delivering efficiencies across the economy.

This is what TrueLayer does. Payments are a central driver of productivity in businesses, and TrueLayer removes frictions for consumers at the checkout and reduces payment costs for UK businesses - freeing up these businesses to reinvest cost savings into their own growth. The open banking sector has generated £4 billion for the economy, driven investment into the UK and created 5,000 skilled jobs across the country directly contributing to UK GDP.[1]

We see Pay By Bank (account to account payments powered by open banking) as a vital pillar to driving the UK's economic growth by -

1. Driving bigger savings for business, lower prices for consumers, growing the on-demand economy
2. Bringing more investment into the UK as we develop a world-leading Pay By Bank solution that we can export to Europe and beyond
3. Boosting our infrastructural resilience and stability through payments choice

As the market currently stands, UK payments are dominated by the use of Visa and MasterCard, further entrenched by the use of digital wallets provided by Google and Apple which embed card payment solutions. This is bad for competition, maintains

[1] https://startupcoalition.io/news/the-4bn-open-banking-ecosystem/

high fees for business and poses a resilience risk.

The recently published National Payments Vision (NPV) acknowledges the need to develop account-to-account (A2A) payments, powered by open banking (which we refer to as Pay by Bank), as a ubiquitous payment method. The NPV states this will provide greater choice to consumers and merchants to spur innovation and downward competitive pressure on the cost of payments.

There is a huge opportunity to grow companies in the UK that can rival some of the largest payment networks in the world. We are just at the start of that journey, and we need a regulatory environment that can support us and others to tackle that challenge head on.

The sector has made considerable progress since its creation, supported by the fact that over 23 million payments a month are now being made through Pay by Bank.
However, it is still a relatively young industry that needs continued and consistent support to grow.

Delays to unlocking new Pay by Bank functionality acts as a deterrent to our growth. This is most evident in a lack of regulatory decision on introducing recurring payments for Pay by Bank. Despite the technology being ready to deploy, alongside demand from businesses to use it, regulatory stasis means we, and other open banking firms, are prevented from offering this functionality to the market.

The FCA and PRA’s secondary growth and competitiveness objectives are a clear challenge to the regulators to articulate how regulation can either help or hinder the wider financial services sector to deliver growth but, recently, we have seen that choices made by the regulators, or inertia on the part of regulators, have failed to deliver on these growth and competition objectives holding back the UK’s development of a diverse payments ecosystem that delivers competition and choice to merchants and consumers.

Mr Kerrigan agreed to share a list of perceived unnecessary regulations/constraints, including specific rules and duplication in process.

The Committee's inquiry has highlighted the difficulty that regulators have in balancing their risk appetite whilst sufficiently protecting consumers. Pursuing growth and innovation requires some degree of risk-taking. Appetite for this risk-taking is a fundamental difference between the USA and Europe.

Recently, there has been a steady stream of compliance-focused regulation that raises the barrier of entry to new players in the market and restricts the UK's ability to grow some of the world's most successful tech companies. For example:

- The FCA is proposing changes to the safeguarding regime for payments and e-money firms. We have concerns this will:
    - Impose new obligations on payment firms that go beyond the 'light touch' regulatory approach of the Payments Services Directive (PSD2) - which had a main objective of "leveling the playing field for payment service providers by including new players".
    - For UK payments firms that operate cross-border into the EU, the FCA's proposed changes will create new cost and burden due to maintaining systems for two different safeguarding regimes.
    - Any deviation from European requirements for safeguarding may inhibit UK firms' ability to access the EU Single Euro Payments Area (SEPA) payment scheme, thereby impacting the global competitiveness of our payments sector.

- The Payment Systems Regulator's (PSR) introduction of Authorised Push Payment (APP) fraud rules was a major shift for the payments sector:

    - The rules were rushed through with a lack of consideration on how they might impact more modern payment models.
    - Insufficient guidance was provided by the regulator on how the rules should be implemented and injected a high financial risk for early stage fintechs.
    - The rules do not tackle the main issue that the majority of push payment fraud stems from social media platforms.

- The Payments Services Regulations (PSRs) have been amended in a fragmented way, creating a burdensome environment for firms to adapt to:
    - Changes so far have focused on altering liability rules in relation to APP fraud, and introducing means to delay payment processing by four days instead of one.
    - No steps have been taken to review parts of the regulations that could be changed to drive competition and create new opportunities for innovation.
    - This is in direct contrast to the EU who have already made significant progress in holistically reviewing its payments rules, with a third Payments Services Directive (PSD3). PSD3 will improve enforcement and standardisation of existing rules which will improve user experience and increase adoption of Pay by Bank. It also points to the development of a commercial model for Pay by Bank which can help incentivise greater investment in open banking by the banks themselves.

Whilst regulators have prioritised compliance-focused regulation, we have seen consistent delays to the expansion of new Pay by Bank use cases and functionality which has constrained the sector’s growth.

- The PSR’s policy programme on Pay by Bank has been unresponsive - it consulted on expanding use cases in December 2023 and has not yet published a

final policy position.
- This has led to confusion and uncertainty in the market around whether the PSR will intervene or not.
- Delays to unlocking new functionality for our business acts as a deterrent to our growth.

Ultimately, increased friction and compliance burden makes it harder to grow businesses and attract capital - demonstrating growth is vital and a supportive regulatory environment has a crucial role to play here.

We hope that the recently published National Payments Vision (NPV) will prove to be a helpful means of coordinating regulatory output moving forward, allowing regulators to identify and prioritise growth-focused regulation. However, we note this is reliant on the creation of another 'delivery committee' which could be prone to delay, and avoid difficult decisions, without strong leadership.

We would strongly encourage the Financial Services Regulation Committee to hold the regulators to account for progressing the work of the NPV.

Mr Kerrigan agreed to share reflections on perceived stasis in regulation, where the UK risked lagging behind international competitors.

The UK has had a lot of success promoting innovation, taking a leading position in the development of Pay by Bank. Due to consistent regulatory delays and indecision, the UK is now falling behind.

We have seen persistent delays to unlocking more functionality for Pay by Bank, including the introduction of recurring payments to level the playing field with other payment types.
- As it currently stands, Pay by Bank can only be used in a limited number of scenarios.
- There are a number of other ways Pay by Bank can give users more convenience, control and flexibility. The true potential of Pay by Bank is the ability to make regular

or recurring payments.

- These types of payments can help consumers to take greater control of their regular payments. They would enable alternative options for subscriptions, online checkout, bill payments and more.
- Unlike other payment types, such as card on file, customers maintain a high level of control over these payments. They're able to cancel the payments at any time from their bank app, and are able to set parameters within which payments can be taken.
- Alongside the consumer benefits, unlocking this functionality would support the growth of the open banking sector.
- TrueLayer has already built the technology to allow businesses to take advantage of this new form of recurring payments but we're dependent on regulators to ensure banks support the technology - either through mandating in regulation, or providing the space for the development of a commercial model. Lack of clarity and delays from regulators has prevented progress on either front.
- The PSR recognised the competition benefits this would bring and consulted on expanding the use of variable recurring payments to fill this gap in December 2023. The plan was for 'changes to be in place by Q3 2024 to enable the initial scaling of VRPs'.
- We are still waiting for a response from the PSR to the consultation, let alone a launch of the accompanying pilot.

The UK is yet to undertake a holistic review of the Payments Services Regulations (PSRs) to ensure our regulations are fit for purpose for modern payments technology.

- The EU is already reviewing the Payments Services Directive (PSD3) - the UK has so far taken an ad hoc approach to reviewing the UK version of this legislation (the Payments Services Regulations 2017).
- No steps have been taken to review parts of the regulations that could be changed to drive competition and create new opportunities for innovation such as

how to better enforce and standardise the existing rules for open banking to create better consumer outcomes.

The UK has not yet updated the underlying infrastructure for Faster Payments to better support innovation and competition:

- We have seen consistent delays to the National Payments Architecture project, which has now been shelved as part of the National Payments Vision.
- We hope that the publication of HMT's National Payments Vision, which has tasked the Bank of England and PSR to take forward the renewal of the UK's Faster Payments System will address the failure of delivery to date, and unlock progress on critical infrastructure renewal.

Specific details on outcomes focussed metrics which would be helpful to measure the regulators' performance, as well as reflections on how the existing operational metrics could be made more granular in a manner that would improve transparency.

- The FCA should produce metrics to demonstrate how it supports innovative firms beyond the regulatory sandbox (i.e. the number of incubated firms that have reached a specific size or stage of growth).
- Growth in this context could mean financial maturity (profitability, revenue, scale), size (number of employees, number of transactions) or economic contribution (job creation, GDP contribution).

- A dedicated scale up unit within the FCA could be tasked with tracking not just the number of new entrants, but also how these firms go on to grow and scale.

Reflections on the progress in delivering Open Banking, as well as what has held this up and whether this is from Government or the Regulators. Additionally, reflections on other examples where innovation has been held back by regulation or government policy.

- From 2017, the UK stole the march in developing Pay by Bank vs the rest of Europe. This was due to its timely and thorough implementation of the Payment Services Directive, combined with a unique competition remedy, which required banks to form an open banking standards body - leading to a highly standardised and well performing Pay by Bank ecosystem.
- This led to huge market entry and Pay by Bank usage that continues to grow strongly month on month (23m payments per month). It was a key example that enabling regulation can deliver growth and competition to the UK market.
- Now, although Pay by Bank was an initiative brought about by regulation, regulators seemed to have stepped back from their role in supporting and enabling the continued development of this initiative.
- The large number of regulators with overlapping mandates has undoubtedly slowed down the delivery of new functionality and use cases.
- When the open banking standards body was initiated, it was a single, empowered, implementation entity with a mandate and things progressed and worked well.
- Since the Joint Regulatory Oversight Committee (JROC) took responsibility for progressing Pay by Bank, everything has been subject to consultation and endless layers of governance and committees.
- Regulators tend to be more risk averse and not want to pick winners among industry participants. Consultations will always lead to differing views and the regulators struggle to cut through when no consensus exists - consensus in the case of Pay by Bank is unlikely to be found because it originated as a competition remedy, so naturally incentives were different between firms getting access to accounts (open banking firms), and the incumbent account providers.
- This is evident in the major delays to the PSR taking a decision on progressing Variable Recurring Payments (VRPs). We are still awaiting a response from the

regulator on this.

- We had been calling for the Government to set an overarching direction to progress Pay by Bank, which it has now done through its National Payments Vision. This includes an aim of making Account-to-Account payments a ubiquitous payment method, powered by open banking (what we term Pay by Bank).
- It also tasks the FCA to become the sole regulator for Pay by Bank - this should encourage more rapid progress.
- We would now strongly encourage the Financial Services Regulation Committee to hold the regulators to account for progressing the work of the NPV, ensuring regulators do not row back on the ambitions set out in the NPV.

Whether the Government and the Regulators strike the right balance between consulting industry and taking advantage of new opportunities. Are there examples of opportunities where the UK has struck the right balance, and why; are there examples where the UK has not struck the right balance, and why?

- We have seen delays to the outcomes of consultations become the norm in the context of open banking policy - as stated above, the PSR has continuously pushed back and delayed publishing a decision on Variable Recurring Payments.
- We have already built the technology to support recurring payments, but through continuous regulatory consultation and delay, we are wasting an opportunity for the UK to be the first to deploy the use of technology beyond a limited set of use cases.
- Regulators too often will use continuous consultation as a means to avoid making a decision, leading to stasis and an inability for the market to take advantage of new opportunities.
- Previous use of Stakeholder Liaison Groups by the FCA was a good balance of involving industry experts in the policymaking process early on. This provided a continuous forum for industry dialogue with regulators.

- We have now moved to a model where we have short bursts of consultation or Tech Sprints over one day where information is limited to a short window rather than a steady drumbeat of feedback.

Are there any 'cliff-edges' that discourage firms from growing, for example the 'death valley' that Innovate Finance mentioned. Are there other examples of glass-ceilings? How could these be resolved?

- Currently, the scope of Pay by Bank and the sort of products we can offer is limited and arbitrary. This is evidenced by our inability to offer recurring payments to our merchants, despite demand from them for this functionality.
- Regulators have so far failed to deliver a plan that would allow the sector to move beyond current limitations, despite a number of years and discussion of a Joint Regulatory Oversight Committee (JROC).
- Since scope is limited, so is our ability to offer new functionality to the market, acting as an unhelpful ceiling to our growth.

Reflections on the FCA's innovation hub services, whether these have been helpful, and what more could and should the FCA do to support the firms through its innovation hub?

- The Innovation Hub largely promotes tools such as sandboxes.
- Sandboxes are great for early stage startups, but don't appear targeted to support scale-ups.
- We are agnostic as to what support for scale-ups looks like but the outcomes should be:
    - Greater dialogue around required levels of risk-taking that are necessary to enable growth
    - A more open feedback loop so regulators understand what aspects of regulation might be preventing a firm from growing / scaling and take action to address blockers

    - A focus on outcomes-based regulation not box-ticking compliance (particularly where open dialogue exists to check initiatives against more principles-based regulation)
- Importantly, the UK should be judged on its successfully scaled companies, not the number of startups in a sandbox.

Reflections on how the FCA can improve its talent and capability in regard to technology and software development. For example, should the FCA consider secondments from the technology sector? How could it make itself attractive to talent from tech, and how can the FCA encourage firms to take advantage of new opportunities in technology?

- Secondments from the technology sector could be helpful in upskilling the FCA in the latest technologies and how this technology works on a practical basis.
- Making its pay more commensurate with the private sector is likely the only way to do this on a long term basis as well as considering the cultural differences between working in the tech sector and working for the regulator.
- Regulators should embrace the behaviours of tech-forward firms and learn more from the firms they regulate.

Reflections on whether the FCA's Listings reforms have made the UK a perceptibly more attractive place to locate. What else could the Government and the FCA do to support small firms in the sector securing funding to grow.

- Beyond regulation, work needs to be done to unpick why the UK's investment pool doesn't embrace growth technology as well as in the US or in the private markets, leading to recent relatively flat tech IPOs in the UK.
- On the listing reforms themselves, aligning the UK

Listings regime to broader international standards does make the UK more attractive.

- There is currently a funding gap in the market for growth stage companies.
- It is harder for UK companies to reach IPO-levels of scale because they are taken out by acquirers ahead of time.
- Any regulatory changes that can support more growth-stage investment (such as rule changes to pensions scheme investments) are positive and should be welcomed.

The Committee would also be grateful for your reflections on:

Any data you can share on total number of documents requested by the regulators per year, including Suspicious Activity Reports, KYC/KYB, other compliance functions.

- We are unable to share this data with the committee.

Other reflections on the PSR's performance, and what might be done to improve it? For example, introducing an SCGO like the FCA, or rationalising it into the FCA?

- The UK is the only country in the world to have a dedicated payments regulator with core objectives of promoting competition and innovation in the payment systems market.
- We should be using this to our advantage, creating one of the most competitive payment markets in the world. However, there appears to be a lack of progress from the PSR on initiatives that would help create a more competitive landscape, including:
  - Significant delays to the market reviews into the card schemes, with no detail on effective remedies
  - Incomplete programme of work to unlock Pay by Bank for e-commerce
  - Failure to meet stated timelines on unlocking the next phase of Pay by Bank (recurring payments)

- We feel the PSR has been distracted by taking on a very significant conduct focused initiative - APP fraud - which would have been better undertaken by the FCA. This would have allowed the PSR to focus on its core remit of increasing competition in payment systems.
- Through the NPV, the Government has sought to refocus the work of the PSR through moving some of its competencies (e.g., open banking, fraud policy) over to the FCA.
- If application of a secondary growth and competitive objective led to a change in the delivery mindset of the PSR, we would support its introduction.

Reflections on the following points from Sardine AI's testimony:

Whether the current strategy towards fraud prevention (i.e., compensation over enforcement) is sustainable and whether this risks making consumer services unprofitable in the long-term.

- We think this strategy is the wrong approach and that rules have been poorly designed and deployed. As a result the current strategy risks harming the UK by focusing on the wrong things. The main focus should be on tackling fraud at source, i.e. social media platforms where the majority of fraud originates.
- APP fraud is a liability that does not exist for our European business, and so is an additional cost of doing business in the UK.
- More broadly, we are concerned APP fraud rules could inadvertently stifle competition in payments by holding back open banking payments in the UK.
- If banks are liable for APP fraud in more circumstances, they may decrease transaction limits and block more payments as part of preventative measures.
- We are closely monitoring the data for unintended consequences on open banking payments as a result. We don't want to see an impact on legitimate, non-

fraudulent payments because of a shift in risk appetite by the banks.

- We welcome the PSR's commitment to conducting a post-implementation review of APP fraud rules after 12 months. This should be driven by data provided by industry, including any knock-on impact on legitimate open banking payments.
- Taking feedback on if existing rules are working as intended is just as important as a regulator taking views on new rules.

3 February 2025