A spotlight on UK payments regulation

What to look out for in 2025

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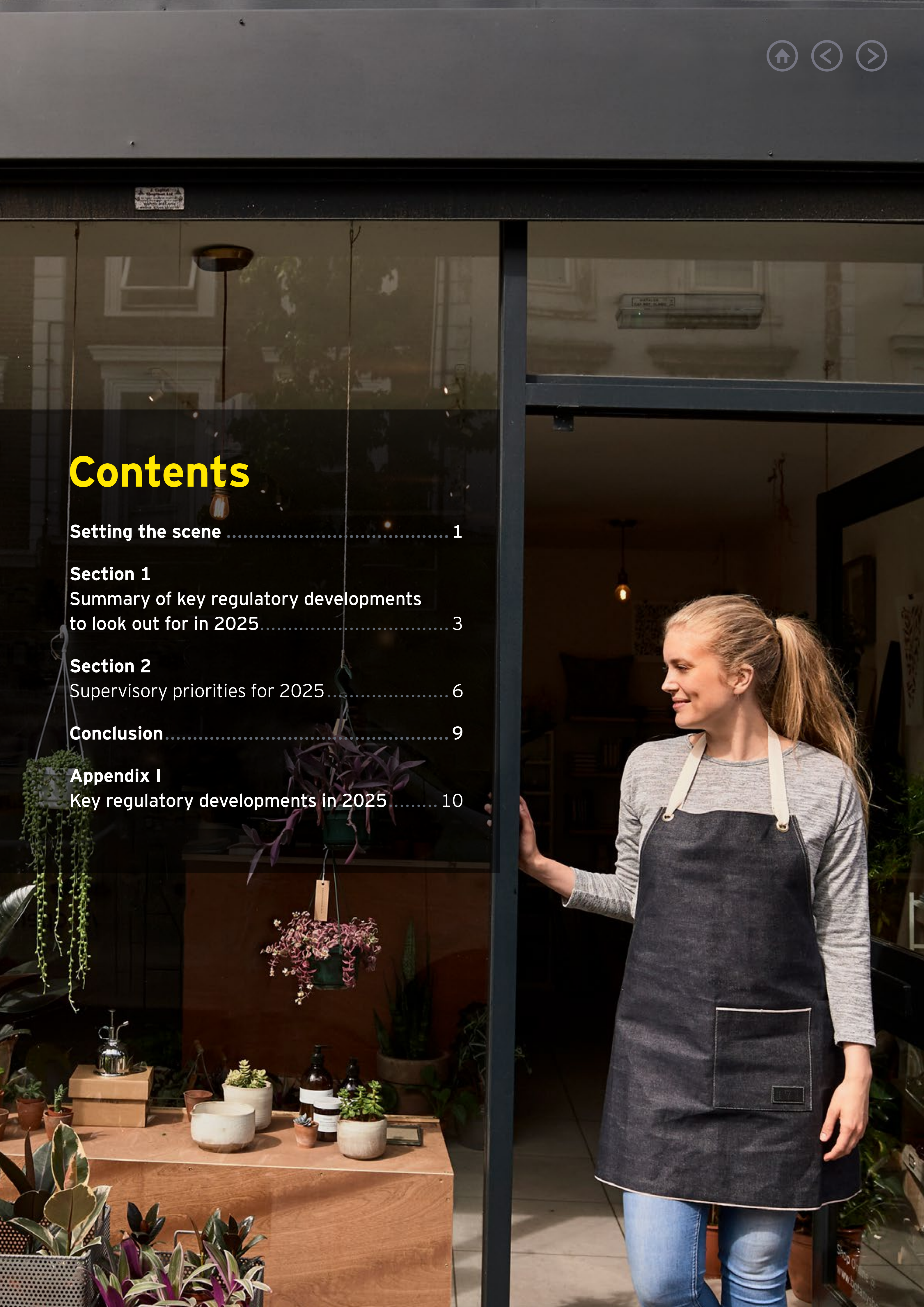

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Setting the scene

The regulation of the UK payments ecosystem continues to evolve and after the seismic shifts of the past 12 months, 2025 is proving to be an equally dynamic year.

Payments are both the invisible plumbing of the UK economy and a showcase for the latest technology as customers engage with new methods of payments. The payments sector underpins a resilient and dynamic economy; when something goes wrong, the shock waves can reverberate widely. The past year has demonstrated the critical role this industry plays in ensuring economic resilience and consumer trust.

The National Payments Vision (NPV), which was published in November 2024, creates a 'north star' for the government, regulators and the industry to develop a 'trusted, world-leading payments ecosystem delivered on next generation technology, where consumers and businesses have a choice of payment methods to meet their needs'.[1] The NPV is a particularly timely lens through which to view shared progress and future ambitions and its focus on creating a more resilient, inclusive and innovative payments ecosystem resonates strongly across every regulatory milestone.

But looking beyond the NPV, the volume and nature of the regulatory developments that will impact the sector is, arguably, unprecedented. In particular, the rapid pace of innovation and technological change creates new challenges for regulators as they seek to evaluate and respond to competition and consumer harm-related risks, while supporting competitiveness, responsible innovation and economic growth. Levels of financial crime are also growing as bad actors seek to find loopholes and leverage innovation for their own ends. Decisions will also need to be made on the UK retail payments infrastructure to ensure it is, among other things, fit for the future. The government and regulators remain focused on open banking, with new legislation aiming to grant HM Treasury (HMT) the power to make secondary legislation related to the framework for open banking and open finance.

Changes to the UK supervisory agenda and numerous expected new regulations coming down the pipeline will see further change to the way the sector engages with regulatory oversight. Both regulators and payment service providers (PSPs) are responding to concerns such as geopolitical uncertainty, the increase in customers who may be vulnerable and the prevalence and increasing sophistication of economic crime. Indeed, the Financial Conduct Authority's (FCA) new five-year (2025 to 2030) Strategy puts helping consumers

1. https://assets.publishing.service.gov.uk/media/6736385fb613efc3f182317a/National_Payments_Vision..pdf

and fighting financial crime front and centre of its focus, together with supporting economic growth.

Early in 2025, the FCA and the Payments Systems Regulator (PSR) also responded to a request from the government to make commitments to support economic growth over the next twelve months. The 'key pledges' are now included in the HMT Action Plan: New approach to ensure regulators and regulation support growth.[2]

As part of a response to the need to strengthen and simplify regulatory coordination, in March 2025, the UK government announced that the PSR would be abolished, and its operations, powers and responsibilities largely folded into the FCA. The target date for the legislation to dissolve the PSR board and complete the merger is the end of 2026, but as the PSR explained in their response to the government's announcement: "… we do not need to wait to realise the benefits of an even more streamlined regulatory approach.[3] Doing so builds on recent work bringing the PSR and FCA closer together".

What is clear though is that in the short to medium term the current work of the PSR will continue, and PSPs should not lose focus on regulatory requirements in what looks likely to be a pivotal year for the industry.

It was against this backdrop that Ernst & Young LLP (EY UK) was delighted to welcome the PSR, the FCA, the Bank of England, HMT, UK Finance and Innovate Finance to our Payments Forum which focused on a wide range of regulatory topics impacting the payments landscape. A key priority that all agreed on is the need to implement the NPV in a manner that fosters innovation and competition within the regulatory framework. Adoption and regulation of open finance was also on the agenda, together with developments such as digital wallets and stablecoins, and the importance of getting the basics right to maintain trust, with operational resilience being a critical factor. In Section 2 we reflect further on the regulators' supervisory priorities for 2025.

However, the payments industry also has an important role to play in helping to drive forward regulatory change, including engaging with regulators and policymakers, and providing evidence to help inform the discussions. So, to help navigate the regulatory year ahead, we will look at some of the key regulatory developments impacting the payments sectors – both in relation to policy and supervision – that PSPs, in particular, should look out for and be ready to respond to.

2. https://www.gov.uk/government/publications/a-new-approach-to-ensure-regulators-and-regulation-support-growth/new-approach-to-ensure-regulators-and-regulation-support-growth-html#annex-a-key-regulator-pledges
3. https://www.psr.org.uk/news-and-updates/latest-news/news/psr-responds-to-governments-announcement-about-the-future-of-payments-regulation/

Section 1

Summary of key regulatory developments to look out for in 2025

This overview highlights some of the key UK regulatory developments expected in 2025, which are likely to impact PSPs. Further detail is available in Appendix I. While these are UK specific, global regulatory alignment will also play a significant role in shaping outcomes for UK firms.

Regulatory framework

HMT and the FCA are reviewing the Payment Services Regulations 2017 (PSRs) and Electronic Money Regulations 2011 (EMRs) as part of the Financial Services and Markets Act (FSMA) 2023, Smarter Regulatory Framework (SRF) programme, reforms. This review, which is led by HMT, aims to assess whether the UK's post-PSD2 framework remains appropriate amid, among other things, technological changes and the EU's development of PSD3. As part of the reforms, HMT will also move firm-facing rules from legislation into the FCA Handbook for flexibility and agility.

Key areas under review include:

- A new safeguarding regime aligned with the Client Assets Sourcebook (CASS)
- A potential new prudential regime
- Enhanced oversight of agents
- Possible inclusion of PSPs under the Financial Services Compensation Scheme (FSCS) and the Senior Manager and Certification Regime (SM&CR)

An HMT Call for Evidence in January 2023 previously explored, among other things, how the UK payment legislation should evolve, recognising the importance of SEPA participation to enable cross-border payments.[4] HMT and the FCA will provide further information about their intended approach for future consultations in due course.

Safeguarding reforms

In late 2024, the FCA consulted on a new safeguarding regime ('end state rules') and strengthened interim safeguarding rules to ensure customers' money is safe when handled by payment firms. The final interim rules will be published at the end of H1 2025 and are expected to come into force during H1 2026. Before implementing the end state rules, the FCA also plans to consult on rules for distribution of safeguarded funds in insolvency and mitigating third-party failure risks.

4. https://www.gov.uk/government/calls-for-evidence/payment-services-regulations-review-and-call-for-evidence

Expanding the regulatory perimeter

Developments to look out for include:

- **Buy-Now, Pay-Later (BNPL)** – following HMT's 2024 consultation, legislation is expected to be laid in spring 2025. The FCA will consult on their regulatory regime for BNPL shortly after the legislation is finalised. The new regime is expected to come into force from mid-2026.
- **Digital wallets** – the FCA is further investigating whether certain wallet providers should be regulated due to issues around resilience, competition and consumer protection and will engage with HMT as part of the review of the PSRs.
- **Stablecoins** – regulations to bring cryptoassets, including stablecoin issuance and custody, into the FCA's remit are expected to be laid by HMT by the end of 2025.

Regulatory coordination

The government initially called for greater FCA-PSR coordination and clarity on responsibilities, followed by an announcement in March 2025 that the PSR would be integrated into the FCA. The target date for the legislation to dissolve the PSR board and complete the merger is the end of 2026.

The Bank of England, Prudential Regulation Authority (PRA), FCA and PSR have committed to revise their existing Memorandum of Understanding by Q2 2025. The FCA will also become the UK regulator for open banking and will lead on fraud-related policy coordination.

Innovation and technology

- **Open banking and smart data** – the Data (Use and Access) Bill is expected to become law in summer 2025, enabling a regulatory framework for Smart Data schemes. The FCA and HMT expect to publish a roadmap for the roll-out of open finance, with regulatory foundations for the first scheme in place by the end of 2027.
- **Digital wallets** – following stakeholder feedback, the FCA is working with HMT to explore options to address issues identified as part of the wider PSRs review.
- **Artificial intelligence (AI)** – the government is expected to consult on legislation to regulate companies developing the most powerful AI models. The ICO will develop a new statutory code of practice on AI and automated decision-making.
- **Stablecoins and the digital pound** – the FCA is currently consulting on the regulatory regime for stablecoins, and HMT intends to legislate for the new cryptoasset regulatory regime by the end of 2025, subject to parliamentary time allowing. The Bank of England and HMT continue to explore the design of a potential digital pound.

Competition and market reviews

- **Cross-border interchange fees** – the PSR proposed staged caps on UK–EEA interchange fees. Final decisions are pending.
- **Card scheme and processing fees** – following the PSR's 2025 report, final remedies are expected to be implemented in 2026.

Financial crime and APP fraud

- **Review of the Authorised Push Payment (APP) fraud reimbursement requirements** – the PSR will launch an independent review of the APP fraud reimbursement requirement after 7 October 2025, with findings expected in Q2 2026.
- **APP reimbursement system and reporting standards** – the PSR will now consult on moving to Reporting Standard B and the use of reimbursement claims management systems later in 2025.
- **APP fraud data reporting** – the PSR plans to publish a call for views on future fraud data reporting in spring 2025.

- **Strong Customer Authentication (SCA)** – during 2025, the FCA will engage with industry, consumer organisations and other stakeholders on their approach to replacing SCA and consult later in 2025 if they decide to make changes when the government transfers responsibility to them under the SRF programme.
- **Contactless payment fraud** – the FCA is considering reforms to the contactless payments exemption and will publish a consultation paper later in 2025 if they decide to make changes after considering responses to the March 2025 Engagement Paper.
- **PEP guidance** – the final, revised FCA guidance on politically exposed persons (PEPs) is expected in H1 2025.
- **Operational resilience** – the FCA, PRA and Bank of England will finalise new rules on **incident, outsourcing and third-party reporting** in H2 2025, with implementation expected no earlier than 2026. Firms will face expanded requirements on incident notifications and outsourcing arrangements.
- **Contract terminations** – HMT has confirmed legislation to strengthen rules around **PSP-initiated contract terminations**, aiming to ensure fair access to payment services. Subject to Parliamentary approval, the new requirement would apply to new contracts agreed from and including 28 April 2026, when the legislation is expected to come into force.

Section 2

Supervisory priorities for 2025

The FCA set out its supervisory priorities for the sector in a February 2025 Portfolio letter: FCA priorities for payments portfolio firms.[5] The FCA indicated that it had seen improvements by firms to deliver outcomes set out in their March 2023 portfolio letter, for example, in some firms' board and governance arrangements, risk management frameworks and customer outcomes. However, the letter put firms on notice that there is still more for them to do and the FCA remains 'concerned that there are still risks of harm to consumers and financial system integrity'. In particular, the FCA set out three key outcomes for firms, which they 'believe are essential to good customer outcomes' namely:

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

At the EY Payments Forum in March 2025, which focused on the regulatory outlook, the UK payments regulators discussed priority areas of focus for 2025 and beyond. Here are some of the key supervisory topics that were covered:

- **The Consumer Duty** – the Consumer Duty remains a focus area for the FCA. While some PSPs have fully embraced the Consumer Duty, others have not and there is work still to be done. The FCA's portfolio letter for payments firms also warns that the FCA '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'. The FCA has also flagged that a sector-specific priority 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'. PSPs should ensure that they have read and taken any actions necessary to address concerns flagged in the FCA's previous supervisory reviews, including the Payments Consumer Duty multi-firm review.[6]
- **Safeguarding** – another focus area for the FCA with work ongoing on the new safeguarding regime. At the Payments Forum we heard that the FCA had consulted on changes to the safeguarding regime in two phases, receiving a high number of responses and adjusting proposals based on the feedback. A final policy statement is expected in summer 2025, with limited changes anticipated, but a focus on clarifying how the FCA will ensure customers' money is protected when handled by payment firms.

5. https://www.fca.org.uk/publication/correspondence/payments-portfolio-letter-2025.pdf
6. https://www.fca.org.uk/publications/multi-firm-reviews/payments-consumer-duty

The portfolio letter highlighted specific weaknesses in safekeeping that have been seen by the FCA in the sector, including appropriately identifying which funds require safeguarding, ensuring books and records are up to date and accessible, and issues connected to the use of safeguarding insurance. PSPs can expect these areas to be subject to particular scrutiny from the FCA in ongoing supervisory activity.

- **Financial crime** – at the Payments Forum we heard that it is crucial to recognise that addressing fraud is fundamentally linked to building trust in payment systems and, in terms of fraud prevention, effective regulation can facilitate healthy competition. We also heard how fraud continues to present a significant challenge to the industry, the regulators and law enforcement.

  APP fraud will remain a top priority, with growing emphasis on shared liability frameworks and proactive prevention. AI and data analytics will play a central role here, but so too will industry-wide collaboration. These efforts are deeply aligned with the NPV's mission to make payments safer for all stakeholders. The PSR is now monitoring the implementation of the APP fraud reimbursement requirements and early data is promising, indicating that the measures are having a positive impact. However, it is likely that differences in rates between PSPs, particularly PSPs who have higher incidence of being the receiving PSP (i.e., banking the fraudsters), are likely to come under scrutiny from regulators and parliamentarians. From a systemic perspective, it is important to address first-party fraud alongside the adoption of innovation.

  The FCA is also likely to be interested in how PSPs are implementing the new Guidance on a risk-based approach to payments, and the actions from the 'Dear CEO letter' Action Required: FCA expectations on authorised push payments (APP) fraud reimbursement.[7,8] In particular, the FCA will be expecting PSPs to make the connection and take the Consumer Duty into account when working with consumers in relation to fraud.

  From a wider financial crime perspective, after the 2024 thematic review on the treatment of PEPs, PSPs can expect this to remain a focus, particularly when the revised PEP guidance is published.[9] Controls for sanctions compliance and money mule detection are also likely to remain among the areas of focus.[10]

- **Operational resilience** – the Payments Forum panellists discussed how resilience is essential for supporting digital innovation and creating trust in the system. They emphasised that systemic resilience is fundamental, as the payments infrastructure forms the critical rails over which money moves through the economy. We also heard that much remains to be done, particularly given the constantly evolving threat landscape. As technology advances, so too do the threats facing PSPs, requiring both regulators and firms to remain alert to the innovations emerging in this dynamic environment.

  Indeed, the operational resilience agenda will continue to dominate, particularly as the NPV progresses. The shift to real-time payments increases the stakes for incident management, and regulators will expect even more robust testing and controls. The NPV's infrastructure modernisation efforts further emphasise resilience as a non-negotiable priority for the ecosystem. PSPs can expect supervisors to remain laser-focused on operational resilience, both of their business services and also the wider ecosystem, and the outcomes they expect to see. Following the concerns identified by the Treasury Committee relating to IT outages at major banks and building societies, PSPs should also expect parliamentarians to remain focused on the risk to consumers and how consumers are treated if an incident occurs.[11]

  In addition to ensuring PSPs remain within their impact tolerances from 31 March 2025, regulators will be looking at how PSPs respond to changing external threats and new and changing risks created by, among other things, the rapid growth of technology. This includes an increased regulatory focus on cyber resilience. In the wider payments ecosystem, the first entities may be designated as Critical Third Parties (CTPs) under the new CTP regime, which came into effect on 1 January 2025.[12]

7. https://www.fca.org.uk/publication/finalised-guidance/fg24-6.pdf
8. https://www.fca.org.uk/publication/correspondence/dear-ceo-letter-expectations-app-fraud-reimbursement-payment-emoney-institutions.pdf
9. https://www.fca.org.uk/news/press-releases/FCA-calls-on-firms-to-improve-treatment-of-PEPs
10. https://www.fca.org.uk/publications/multi-firm-reviews/firms-use-national-fraud-database-money-mule-account-detection-tools
11. https://committees.parliament.uk/committee/158/treasury-committee/news/205611/more-than-one-months-worth-of-it-failures-at-major-banks-and-building-societies-in-the-last-two-years/
12 https://www.fca.org.uk/news/statements/new-rules-strengthen-resilience-uks-financial-sector

- **Innovation** – both the PSR and the FCA have a clear focus on Open Banking, including delivering the next phase of recurring variable payments and facilitating competition, innovation and growth. Open banking is evolving into open finance, expanding the scope of data sharing and services. While the innovation potential is vast, so are the challenges around security, customer consent and governance. The NPV's inclusivity and innovation goals remind us that delivering value to consumers must remain at the heart of these changes.

  At the Payments Forum we discussed some of the many opportunities for innovation and for PSPs to help shape the future of payments. However, to move forward, it is important for PSPs to ensure that they get the basics right, including complying with regulations and preparing for the future. The FCA's payments portfolio letter emphasises the importance of fostering effective competition without compromising the integrity of the financial system and ensuring that customers' money remains safe.

  During 2025, the exploration of a digital pound by the Bank of England and HMT is set to advance while stablecoins and other cryptoassets are firmly on the radar of regulators globally. The NPV's focus on supporting innovation provides a clear framework for integrating digital currencies responsibly into the ecosystem.

Conclusion

It is clear that the payments landscape is changing at an unprecedented pace. Having considered the challenges and opportunities that lie ahead for PSPs, we conclude by reflecting on the shared responsibility for shaping the future of UK payments. While regulators play a critical role in setting expectations and boundaries, it is the industry that must innovate and operate within these guardrails, putting their duty to customers front and centre and being mindful that consumer trust is the lifeblood of payments.

As payments regulation develops, the industry has a vital role to play by engaging with policymakers and regulators and providing views, evidence and, importantly, proposing solutions as well as identifying issues. Indeed, with the NPV as the north star, the industry has the opportunity to not only adapt to change but to lead it, setting a global benchmark for what a modern, inclusive and sustainable payments ecosystem can achieve.

Appendix I: Key regulatory developments in 2025

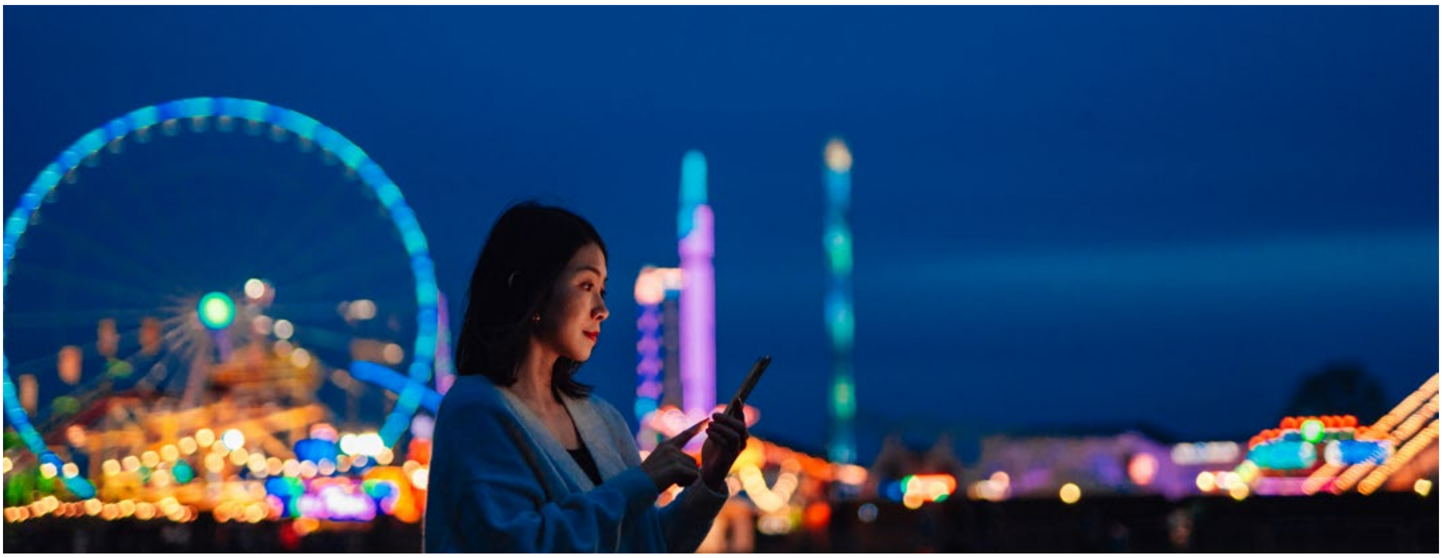
This appendix provides further detail of the key UK regulatory developments set out in Section 2, which are expected during 2025 and likely to impact PSPs. While this focuses on UK regulation, global regulatory alignment – or misalignment – will also have a direct impact on UK firms so staying ahead of the international developments will also be critical.

The UK regulatory framework for payments regulation and regulatory perimeter

The regulatory framework

- **Review of Payment Services Regulations 2017 (PSRs) and the Electronic Money Regulations 2011 (EMRs)** – HMT confirmed in March 2024 that the PSRs and EMRs, which implemented the EU's second Payment Services Directive (PSD2) and second Electronic Money Directive (2EMD) in UK legislation, are part of the third tranche of assimilated law to be reviewed under the SRF programme.[13] The timeline for this review will be set by HMT, but the previous government had already launched a Call for Evidence – alongside a statutory review of the PSRs – to explore how the PSRs and related areas of payment regulation should evolve, recognising the importance of SEPA participation for cross-border payments.[14]

  The FCA is working with HMT to review and consult on the regime currently set out in the PSRs and EMRs. With the EU's third Payment Services Directive (PSD3) and the Payment Services Regulation set to shape the development of the rapidly evolving EU payments sector and PSPs' business models, alongside rapid technological advancements such as the growth of digital wallets, the review will assess whether the UK's legislative framework remains fit for purpose.

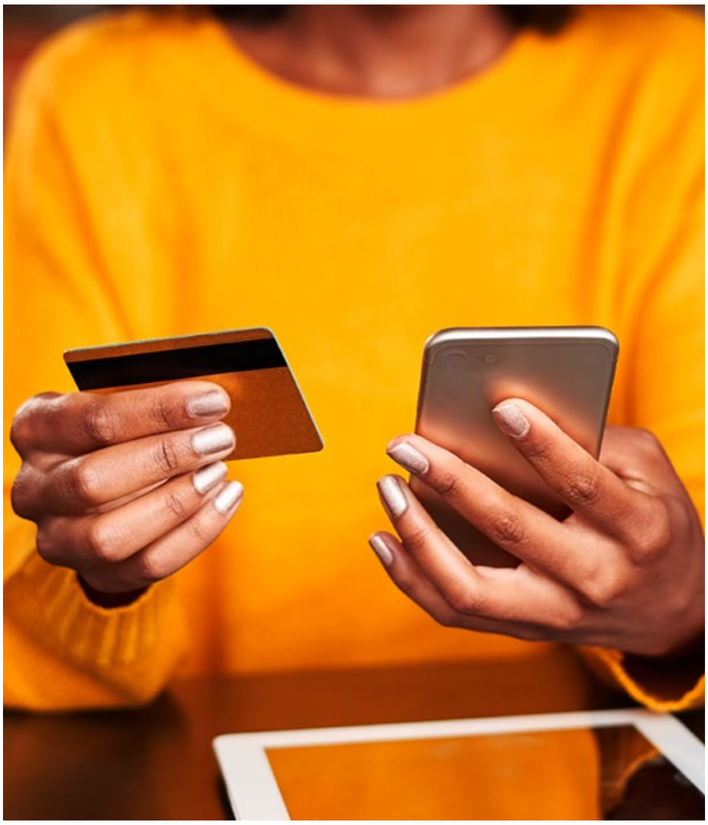


13. https://assets.publishing.service.gov.uk/media/65fab2cbaa9b76001dfbdb63/Building_a_Smarter_Financial_Services_Regulatory_Framework_Next_phase__1_.pdf
14. https://assets.publishing.service.gov.uk/media/63c039598fa8f5169de6b89c/Payment_Services_Regulations_Review_and_Call_for_Evidence.pdf

As part of the review, the firm-facing requirements in the PSRs and EMRs will be moved into the FCA Handbook, giving the FCA the flexibility to tailor the requirements where needed and the ability to react at speed if necessary. The FCA website states that the FCA wants to improve the payments regime to enhance consumer protection and promote competition and innovation. The FCA flags that they are working with HMT on a new safeguarding regime and will follow this with further work to consider:

- A new prudential regime.
- Changes to agents' oversight.
- Possible extension to the Financial Services Compensation Scheme (FSCS) and the Senior Managers & Certification Regime (SM&CR).

HMT and the FCA will provide further information about their intended approach for consultation in due course and PSPs should look out for further details during 2025 and opportunities to engage, particularly to help identify opportunities and risks to preserve market access to European payment systems.



- **Changes to safeguarding requirements for payments and e-money institutions** – in September 2024, the FCA consulted on proposals to replace the existing safeguarding regime in the PSRs and EMRs with a client assets (CASS) style regime that is designed to work with PSPs' business models. Additionally in light of supervisory concerns regarding compliance with the current safeguarding regime, the FCA also consulted on a set of strengthened interim safeguarding rules to ensure customers' money is safe when handled by payment firms. The FCA is due to publish a Policy Statement and final interim rules at the end of H1 2025 with the rules likely to come into force during H1 2026.

  Before implementing the end-state rules, the FCA intends to consult separately on proposed rules to:

  - Specify how to distribute funds to consumers when a payment firm fails and enters an insolvency procedure other than the voluntary Payments and Electronic Money Special Administration Regime.
  - Mitigate the impact of the failure of a third party used for safeguarding purposes.

  The timing of the end-state rules is dependent on relevant legislative changes being made by HMT.

Widening the regulatory perimeter

- **Regulation of BNPL** – in October 2024, HMT published a consultation setting out its intended policy approach to regulating BNPL and sought comments on a draft statutory instrument.[15] The government published a response and laid the statutory instrument in May 2025.[16] The FCA will consult, shortly after legislation is finalised, on their regulatory regime for BNPL. The government intends to bring BNPL products into FCA regulation 12 months after the legislation is made (around mid-2026).
- **Digital wallets** – the FCA is further investigating whether pass-through digital wallet providers should fall within the FCA and/or PSR's regulatory perimeters (also see page 12) and subject to appropriate regulatory standards (e.g., related to resilience and consumer rights and protection). The FCA will consider the issue, and potential options, and engage with HMT as part of the review of the Payment Services Regulations and Electronic Money Regulations. The PSR will also further engage with digital wallet providers as part of monitoring developments.

15.https://www.fca.org.uk/news/statements/fca-welcomes-buy-now-pay-later-consultation
16.https://assets.publishing.service.gov.uk/media/67371a7e65b6c2f3313e5d46/CX_Letter_-_Payments_Regulation_-_FCA___PSR_14112024.pdf

- **Stablecoins** – HMT is developing regulations to bring cryptoassets, including stablecoins, into the regulatory perimeter. These regulations are expected to be laid in H2 2025 and will give the FCA responsibility for regulating the new regulated activity of stablecoins issuance and custody of cryptoassets, including stablecoins (also see the 'Technology, innovation and digital assets' section).

Regulatory coordination – in November 2024, the Chancellor wrote jointly to the FCA and the PSR providing recommendations on payments regulation.[17] In responding to this remit letter, the regulators were asked 'to clearly outline actions taken to improve coordination and minimise overlaps, for example by clarifying regulatory responsibilities on specific issues'. The letter stated that 'regulators should regularly consider these arrangements through their annual reviews of the Memorandum of Understanding (MoU)'. The government also confirmed in the NPV (before the decision to merge the PSR was announced) that:

- The FCA will be the UK's regulator for open banking, while ensuring effective engagement with other relevant authorities, including cooperating with the PSR on matters related to designated payment systems.
- The FCA will lead work to enhance the management of overlaps between itself and the PSR including 'particularly in relation to fraud policy' to further build the effectiveness of payments fraud regulation.
- Bank of England, PRA, FCA and PSR have committed to revise their existing MoU on cooperation in relation to the regulation of payment systems by Q2 2025.
- The Bank of England and the PSR will examine and refresh the requirements for the UK's retail infrastructure and publish an approach to payments infrastructure and its delivery by Q2 2025.

Technology, innovation and digital assets

Open banking – the Data (Use and Access) Bill is expected in receive Royal Assent in summer 2025. The Bill will grant HMT the powers necessary to establish a long-term regulatory framework for open banking and future Smart Data schemes in financial services. As part of this new framework, the FCA will be granted the power to regulate financial services Smart Data schemes and financial services interface bodies. HMT is expected to lay a statutory instrument in Q1 2026 to create a Smart Data scheme for open banking. Within a year, the FCA and HMT expect to publish a roadmap for the roll-out of open finance, with the regulatory foundations for the first scheme to be in place by the end of 2027.

In January 2025, the PSR and the FCA set out their next steps for open banking.[18] During 2025, the regulators will support Open Banking Limited in establishing an independent central operator to coordinate how variable recurring payments (VRPs) are made and will be 'working with industry and trade associations to progress development of the commercial arrangements underpinning both variable recurring payments and use of open banking for e-commerce'. The regulators are hoping to make significant progress on the delivery of VRPs.

Digital wallets – in February 2025, the FCA and the PSR published a joint feedback statement, FS25/1, to their July 2024 Call for information on Big Tech and Digital Wallets.[19] The regulators found that, among other things, the use of digital wallets is growing rapidly in the UK and digital wallets represent a significant opportunity for innovation and growth. However, stakeholder responses raised potential competition, consumer protection and operational resilience issues across four key areas:

- Competition between digital wallets.
- Competition between payment systems within digital wallets.
- Operational resilience and consumer rights and protection.
- The regulatory perimeter (also see 'The UK regulatory framework for payments regulation and regulatory perimeter' section).

17. https://assets.publishing.service.gov.uk/media/67371a7e65b6c2f3313e5d46/CX_Letter_-_Payments_Regulation_-_FCA___PSR_14112024.pdf
18. https://www.psr.org.uk/news-and-updates/latest-news/news/psr-and-fca-set-out-next-steps-for-open-banking/
19. https://www.fca.org.uk/publication/feedback/fs25-1.pdf

On the competition concerns, to avoid regulatory duplication, the regulators have shared their findings with the CMA, which is currently investigating two digital wallet providers in respect of their mobile ecosystems. On the other areas of concern, the FCA will work with HMT to consider the issues and potential options as part of the review of the Payment Services Regulations and Electronic Money Regulations (see page 10), in accordance with timelines that HMT sets.

AI – in a November 2024 response to a Science, Innovation and Technology Committee report on the governance of AI, the government confirmed that they 'agree with the Committee that AI-specific legislation is required' and would 'shortly publish a consultation setting out our legislative proposals to establish binding regulations on the companies developing the most powerful AI models'.[20] The government further explains that the 'proposed legislation would support growth and innovation by reducing current regulatory uncertainty for AI developers, strengthening public trust and boosting business confidence'. The Information Commissioner's Office (ICO) also committed to producing a new statutory Code of Practice on AI and automated decision-making to make it easier for AI developers and users to understand and apply data protection law and innovate responsibly.

Stablecoins – the UK is establishing a clear and proportionate regulatory regime for cryptoassets, including stablecoins, with HMT, the FCA and the Bank of England coordinating closely. HMT intends to legislate for the new cryptoasset regulatory regime by the end of 2025, subject to parliamentary time allowing. The legislation, which was published in draft for technical comment, will, among other things, bring stablecoin issuance and custody into the FCA's regulatory perimeter.[21] The final legislation will be followed by the implementation of FCA rules covering, in particular, asset backing, redemption rights, custody arrangements and prudential safeguards. The FCA expects to publish its final rules in 2026, then open an authorisation gateway before the new regime goes live. In parallel, the Bank of England will address the financial stability risks of systemic payment systems using stablecoins, with a consultation expected in 2025 that builds on its November 2023 Discussion Paper.

The FCA's Crypto Roadmap set out a timeline, subject to the timing of the legislative process, for its expected consultations and other policy-related developments.[22] In particular, the FCA is currently consulting, in CP25/14 and CP25/15, on its proposed rules and guidance for stablecoin issuers and cryptoasset custodians. The work is underpinned by ongoing industry engagement, including feedback on the previous Discussion Papers and proposals for staking, custody and payment arrangements. Together, these efforts aim to support innovation in digital assets while ensuring trust, transparency and resilience in the UK's evolving payments landscape.

Managing the failure of systemic digital settlement asset firms – in October 2023, HMT published a response to an earlier consultation on managing the failure of systemic digital settlement asset (including stablecoin) firms.[23] The consultation had sought input on proposals to amend the Financial Market Infrastructure Special Administration Regime (FMI SAR) for systemic payment systems that use digital settlement assets and service providers of systemic importance to those systems. HMT is continuing to consider amendments to the FMI SAR from a perspective of financial stability and will share details on its approach in due course.

The digital pound – the Bank of England and HMT are in the 'design phase' of a digital pound and will continue to engage industry through the Central Bank Digital Currency Engagement Forum. No decision has yet been taken on whether to pursue a digital pound.

Competition

Market review of UK–EEA consumer cross-border interchange fees – in December 2024, the PSR published a final report on its market review of UK–EEA consumer cross-border interchange fees, and a consultation (CP24/14) on stage 1 remedies, which closed in February 2025.[24,25] The PSR proposed implementing a two-stage cap on interchange fees. Stage one would set the cap at the previous levels for outbound transactions (0.2% for debit cards and 0.3% for credit cards, to be implemented six months after the direction is issued. This would allow

20. https://publications.parliament.uk/pa/cm5901/cmselect/cmsctech/591/report.html
21. https://assets.publishing.service.gov.uk/media/680f6387faff81833fcae94b/0302425_draft_RAO_SI.pdf
22. https://www.fca.org.uk/publication/documents/crypto-roadmap.pdf
23. https://assets.publishing.service.gov.uk/media/653a6d5fd10f3500139a69f7/CR_Managing_the_failure_of_systemic_dsa__including_stablecoin__firms.pdf
24. https://www.psr.org.uk/publications/market-reviews/mr2227-market-review-of-uk-eea-consumer-cross-border-interchange-fees-final-report/
25. https://www.psr.org.uk/media/lqxpvkqx/cp24-14-xbif-remedies-consultation-paper-draft-direction-dec-2024.pdf

time for the PSR to develop and implement a methodology for calculating a stage two cap. Timings for a final decision are not yet known but the PSR typically expects to take six months to assess potential remedies. The PSR also intends to consult on the methodology for assessing outbound interchange fees during early 2025 with remedies being implemented in 2025–26.

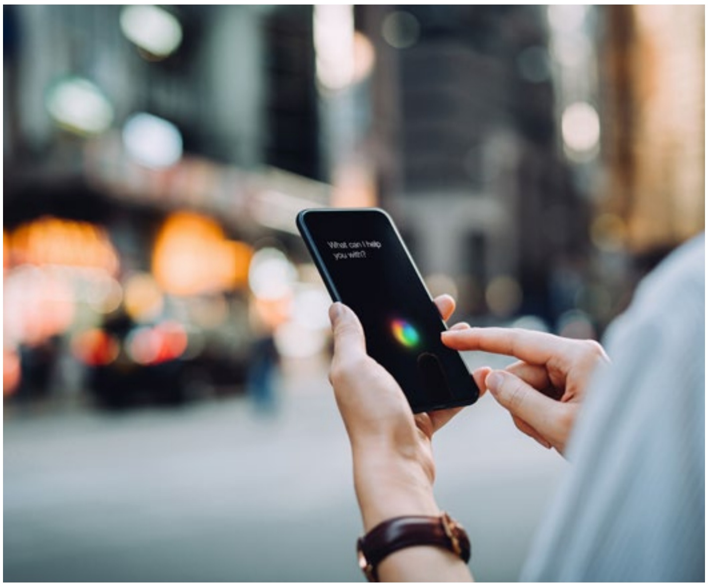
Market review into card scheme and processing fees – in March 2025, the PSR published the final report of their market review into card scheme and processing fees.[26] A consultation on the potential remedies to address the harms that were identified in the final report – CP25/1 Market review of card scheme and processing fees remedies consultation – was published in April 2025. The final remedies are expected to be implemented in 2026.

Financial crime

APP fraud

- **Independent review of the APP fraud reimbursement requirements** – the PSR has committed to an independent review of the APP fraud reimbursement requirements, to consider the impacts on preventing fraud and any unintended impacts on investment. With a key objective of the rules being to enhance trust in payments, the review will also examine the claims experience of customers. In evidence to the Treasury Committee, the PSR indicated that it could review the current £85,000 limit at that time, but this would be subject to consultation. The PSR is currently confirming the scope of the review, which will start after 7 Oct 2025, with the findings expected to be published in Q2 2026.
- **APP scams claims management system and intention to adopt Reporting Standard B** – the PSR originally planned to consult in April 2025 on whether to put in place regulatory requirements for PSPs to use Pay.UK's Reimbursement Claims Management System (RCMS) for the purpose of APP scam claim management and data reporting.[27] However, in April 2025 the PSR provided an update, explaining that having considered stakeholder feedback on system development and delivery, and the NPV, including the review of Pay.UK, they were changing the timing of the consultation so they can 'take account of the broad direction of travel of the NPV'.[28] Subject to the NPV, the PSR anticipates 'being able to consult within three to six months'. The PSR also confirmed the 'consultation will not propose placing a regulatory mandate on PSPs to use a particular system for managing claims or for meeting the Reporting Standard B requirements'. In line with their previous plans, the PSR also confirmed that consultation will ask stakeholders to provide comment on a deadline for adopting Reporting Standard B by no later than December 2026 and placing any additional regulatory obligations on Pay.UK that may be necessary to enable it to most effectively meet its compliance monitoring obligations in Specific Direction 19.
- **APP fraud data reporting** – in spring 2025, the PSR plans to publish a call for views on future APP fraud data reporting, to ensure that it 'aligns with consumer needs, regulatory requirements and our commitment to transparency'. In PS25/3: Publication of 2024 APP scams data, the PSR sets out their considerations for future reporting and flags that the 'structure and scope of future updates will depend in part on the timing and approach to the implementation of reporting standard B … ' (see APP scams claims management system and intention to adopt Reporting Standard B section).[29]

Authentication elements of Strong Customer



26. https://www.psr.org.uk/publications/market-reviews/mr22110-market-review-of-card-scheme-and-processing-fees-final-report/
27. https://www.psr.org.uk/news-and-updates/thought-pieces/thought-pieces/next-steps-to-app-scams-reimbursement-claims-management-system/
28. https://www.psr.org.uk/news-and-updates/thought-pieces/thought-pieces/updating-our-timings-for-the-app-scams-claims-management-consultation/
29. https://www.psr.org.uk/media/xcwnltxr/ps25-3-publication-of-2024-app-scams-data-mar-2025.pdf

Authentication (SCA) – the government has committed to revoking the payments authentication elements of SCA in the Payment Services Regulations 2017, to enable the FCA to incorporate aspects of the technical standards into their rules.[30] During 2025, as announced in their February 2025 payments portfolio letter, the FCA will engage with industry, consumer organisations and other stakeholders on their approach to replacing the SCA, including on the contactless limits (see below).[31] If the FCA decides to propose amendments to the SCA RTS, it will consult later in 2025. The FCA aims 'to replace SCA more widely, as and when legislation allows us to do so'.

Contactless payment fraud – in March 2025, the FCA published an Engagement Paper on Contactless Payment Limits which sets out and seeks stakeholder views on how the FCA could approach these limits in the future, 'to give greater flexibility to PSPs, consumers and businesses to decide contactless limits which work for them, while also reducing the risks of fraud'.[32] The options discussed include giving PSPs greater flexibility to set their own contactless limits for in-person transactions provided they have low rates of fraud, and amending the contactless limits (including to significantly increase the single limit to £200 or more, or to remove the limits entirely). The FCA is 'considering prioritising reforms to the contactless payments exemption under our existing regulatory framework before considering wider SCA requirements' and will publish a consultation paper later in 2025 if it decide to make changes.

Guidance on the treatment of politically exposed persons (PEPs) – in H1 2025, the FCA is expected to publish and bring into effect its revised PEP Guidance. This follows the FCA's review, required under the FSMA 2023, of how firms were applying the guidance to see if it remained appropriate or required changes, and July 2024 guidance consultation: GC24/4: Proposed amendments to Guidance on the treatment of politically exposed persons.[33]

Operational resilience

Operational incident and third-party reporting – in H2 2025, the FCA plans to publish final rules and a Policy Statement to CP24/28: Operational Incident and Third Party Reporting.[34] The FCA proposed:

- Requiring all firms to submit reports of operational incidents that breach defined reporting thresholds and a smaller group of firms, including authorised electronic money institutions and authorised payment institutions, to submit expanded outsourcing notifications.
- Expanding the existing outsourcing notifications to both material outsourcing and material non-outsourcing arrangements, provide a template for firms to submit notifications of changes to these arrangements or new ones, and require firms to maintain and submit a register of these arrangements to the FCA, ensuring this is up to date annually.

The Bank of England also consulted on, among other things, adding a new notification of third-party arrangement and operational incident reporting part to the Recognised Payment System Code of Practice and a new supervisory statement setting out the Bank's expectations of how FMIs, including Recognised Payment System Operators and Specified Service Providers, should comply with and interpret the proposed new operational incident reporting requirements.[35] The Bank, FCA and also the PRA, which has separately consulted in CP17/24, are seeking to implement a joint approach. The proposed implementation date for the Bank's proposals is no earlier than H2 2026.

30. https://assets.publishing.service.gov.uk/media/6736385fb613efc3f182317a/National_Payments_Vision..pdf
31. https://www.fca.org.uk/publication/correspondence/payments-portfolio-letter-2025.pdf
32. https://www.fca.org.uk/publication/call-for-input/contactless-limits-engagement-paper.pdf
33. https://www.fca.org.uk/publications/guidance-consultations/gc24-4-proposed-amendments-guidance-treatment-politically-exposed-persons
34. https://www.fca.org.uk/publications/consultation-papers/cp24-28-operational-incident-third-party-reporting
35. https://www.bankofengland.co.uk/paper/2024/cp/operational-resilience-operational-incident-and-outsourcing-and-third-party-reporting-for-fmis

Contract terminations

Payment services contract termination rule changes – HMT has confirmed it is bringing forward new legislation that would, subject to Parliamentary approval:[36]

- Apply to all banks and other PSPs who decide to terminate payment service contracts, with individuals and small businesses, that do not have definite expiry dates – this includes bank accounts and basic bank account closures.
- Apply to new contracts agreed from and including 28 April 2026, when the legislation is expected to come into force.
- Be subject to certain exceptions (e.g., to enable PSPs to comply with their obligations under financial crime law).
- Require PSPs to give customers at least 90 days' notice before closing their account or terminating a payment service – an increase from the two months currently required – and provide a clear written explanation to customers so they can challenge decisions (e.g., through the FOS).

This is not an exhaustive overview of regulatory developments. For example, it does not cover the regulation of Financial Market Infrastructure (FMIs), including recognised payment systems overseen by the Bank of England, nor does it address wider developments affecting PSPs with Part 4A permissions, such as banks regulated by the PRA. Nonetheless, the scope and pace of the developments highlighted here underscore the importance of PSPs maintaining close oversight of the regulatory landscape throughout the remainder of 2025 and beyond.

36. https://www.gov.uk/government/news/millions-of-people-and-businesses-protected-against-debanking?utm_medium=email&utm_campaign=govuk-notifications-topic&utm_source=bc5420a0-c110-42a5-af47-d0fecf0e9a8d&utm_content=immediately

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ED None

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