

The confidence gap

Why payments firms feel ready
for regulatory change their
systems aren't built for

Executive perspectives on regulation, safeguarding, AI and the payments back office.

Based on a survey of 75 senior leaders across UK card processors, e-money institutions, issuers, acquirers and neobanks.

A new test for compliance

Ask a payments executive whether their firm is ready for the next wave of regulation and most will say yes. They will point to the policies, governance and ownership already mapped out. While that confidence is reasonable, it reflects a historical compliance model based largely on understanding rules rather than evidencing them.

Today, the compliance test has moved on. A defined control framework is just the starting point. What regulators increasingly look for is the evidence beneath it: reliable data, reconciled positions and records that hold up to scrutiny.

Data, reconciliations and records do not sit neatly within the compliance function. They depend on the back-office systems and workflows that turn a written policy into something a firm can stand behind. This is where payments compliance is now won or lost — not in the policy, but in the plumbing.

This whitepaper draws on a survey of 75 senior leaders across the UK payments sector (CEOs, CTOs, CFOs, COOs) at card processors, e-money institutions, issuers, acquirers and neobanks. It sets their views alongside Kani's separate safeguarding readiness research, drawn from a distinct cohort of compliance and finance professionals, and the national picture on AI adoption.

Across cost, systems, safeguarding and AI, the same pattern emerges: payments firms understand the direction of regulation, but many are still building the infrastructure needed to evidence it consistently. That is the confidence gap this report examines.

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Regulation is an operating-model problem

The cost of compliance is beginning to expose the limits of many operating models.

45% of the executives we surveyed said compliance costs are rising faster than revenue. While this does not suggest a sector in unanimous crisis, it does show that regulation is becoming a question of operating leverage for a significant share of the market.

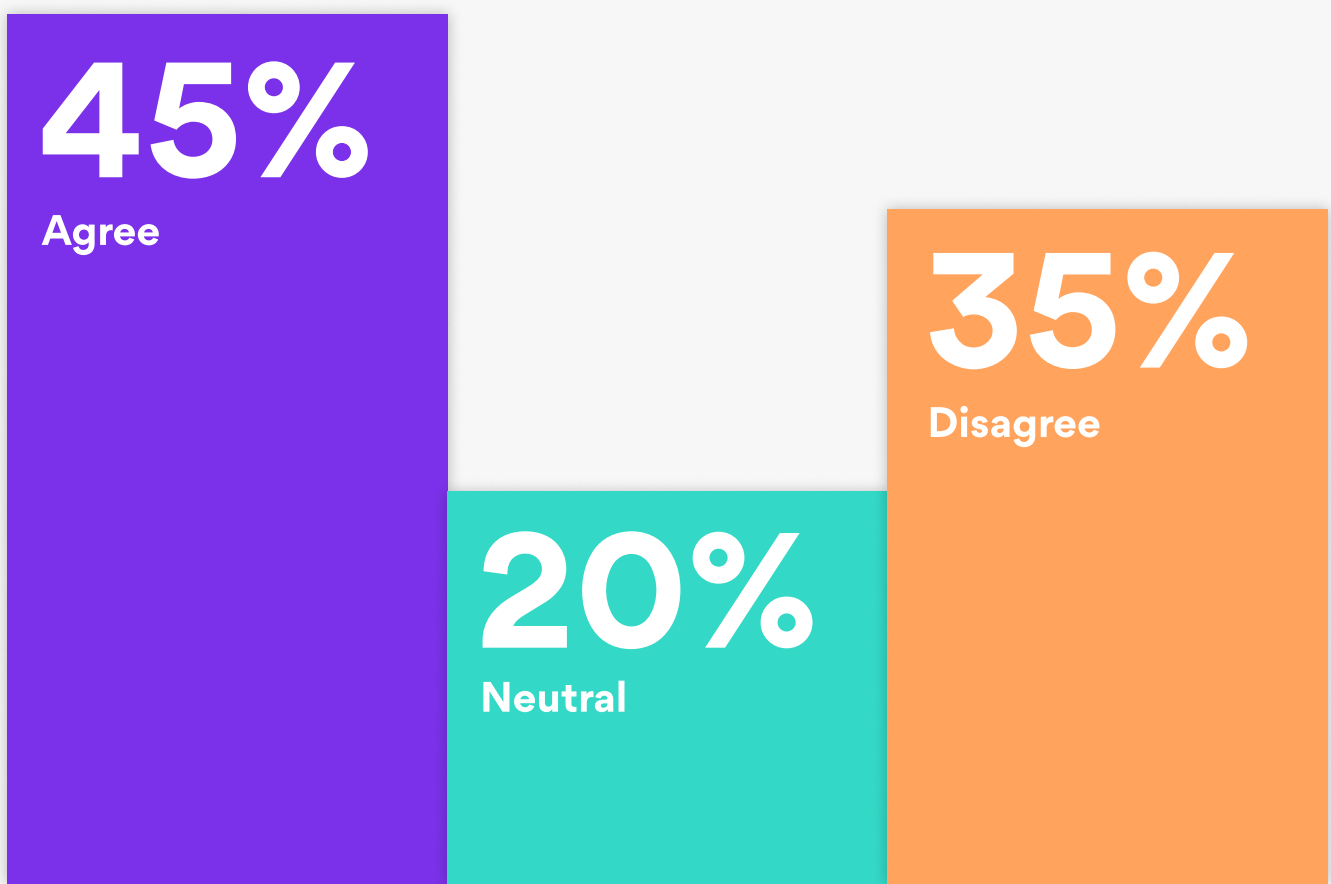
As expectations increase, firms have to consider how much cost, headcount and

manual effort is required to stay in control. A compliance process may be effective in isolation but difficult to scale if it depends on manual work, fragmented data or key-person knowledge.

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Compliance costs are rising faster than revenue

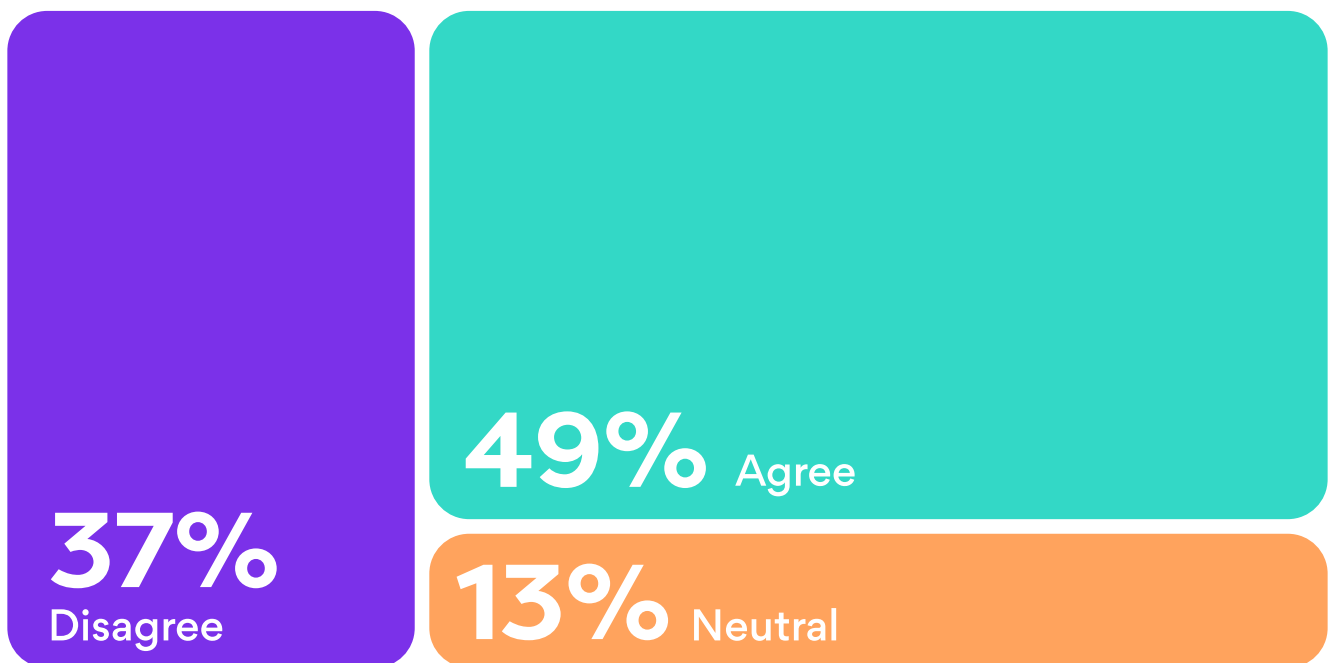
Executive responses to the statement:
“Compliance costs are rising faster than revenue.”



The same pressure is visible in the systems data. Nearly half of respondents (49%) agree that regulatory expectations are changing faster than their systems can adapt.

Regulatory expectations are moving faster than systems can adapt

Executive responses to the statement:
“Regulatory expectations are changing faster than our systems can adapt.”



Systems struggle because regulatory change rarely arrives as a clean technical requirement. It cuts across data sources, reporting logic, controls, ownership and review processes that have often evolved over time. The result is an operating model that can understand new expectations faster than it can absorb them.

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The back office is now a boardroom issue

We asked respondents an open question:

What is your single greatest operational priority for 2026?

Many responses focused on growth, new markets, product expansion, acquisitions or IPO readiness. That is unsurprising, and healthy. But running beneath the growth agenda was a more operational set of answers. Several pointed directly at the systems, controls and processes that allow firms to grow without weakening their regulatory posture.

“

Expanding product lines, but without any dip in regulatory posture — that balance is the most critical part of next year for me.”

“

Achieving full automation in reconciliation workflows is the primary objective.”

“

Creating a live resolution pack so safeguarded funds can be returned quickly.”

“

A safeguarding system that doesn't depend on hero employees to hold the structure together.”

“

Strengthening our payment reconciliation processes stands as the top priority for next year.”

“

Establishing better internal controls for compliance oversight.”

The first response captures the commercial tension clearly: firms still want to grow, but not at the expense of regulatory posture.

Expansion creates more data, more transactions, more reporting obligations and more operational dependencies. Without stronger back-office processes, growth can make control harder to maintain.

The reference to “hero employees” will be familiar to many operational teams. Often, critical processes still depend on people who know the spreadsheet logic, manual fixes and sequence of checks required to

make the process work. While this knowledge is valuable, it is not the same as resilience. A process that depends on individual memory is difficult to evidence, repeat or scale safely.

The FCA has just made that weakness much harder to ignore. From May 2026, its updated safeguarding regime under PS25/12 reframes a familiar obligation (protecting customer funds if a firm fails) as a daily discipline of reconciliation, record-keeping and resolution readiness.

As such, safeguarding is one of the clearest live tests of whether the back office can carry what regulation now expects of it — and the executives in our survey clearly recognise this too. The next question is whether the operating reality matches the intent.

Safeguarding readiness is well underway

Kani's safeguarding readiness research suggests that intent is not the problem.

The survey, drawn from a separate cohort of payments professionals, shows a sector that is aware, active and broadly confident.

Around a third of firms describe themselves as already fully compliant with the FCA's updated regime. Another 49% have identified the changes they need and are implementing them. Only a small minority are still assessing what is required or have yet to begin.

Safeguarding preparation is underway

Current stage of preparation for the FCA's updated safeguarding regulations:

32%

Already fully compliant

49%

Identified changes and implementing

13%

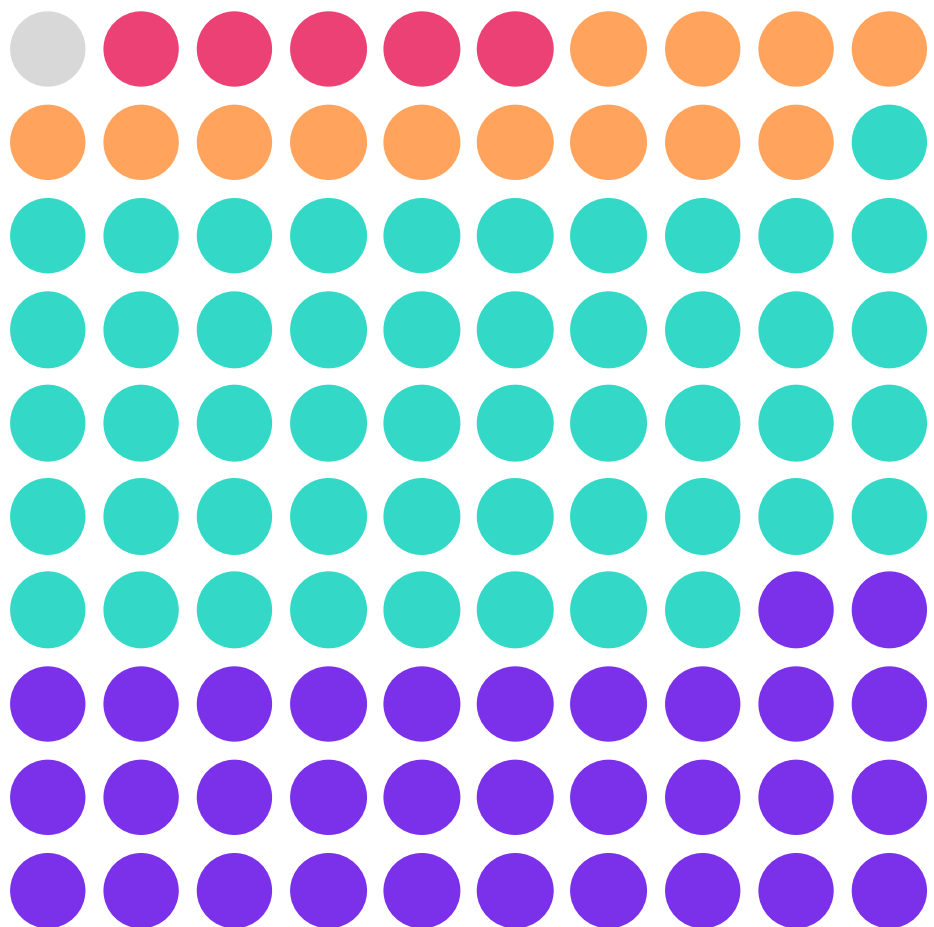
Assessing changes needed

5%

Not yet started preparing

0%

Unsure how the rules apply



Sentiment follows the same pattern. Some 39% see the reforms as a manageable update to existing controls, while 43% say they understand what is required but need more time and clarity. Concern exists, but it is not the dominant response. The more common position is confidence with caveats: firms broadly understand the direction of travel, but many are still working through what it means in operational terms.

43%

say they understand what is required but need more time and clarity.

Firms understand the direction of travel, but clarity remains a constraint

Sentiment regarding the FCA's upcoming safeguarding requirements:



Daily control is still the hard part

On paper, the sector appears ready enough. Firms understand the direction of travel, many are already implementing changes and relatively few describe themselves as materially behind. But the operational test is much stricter.

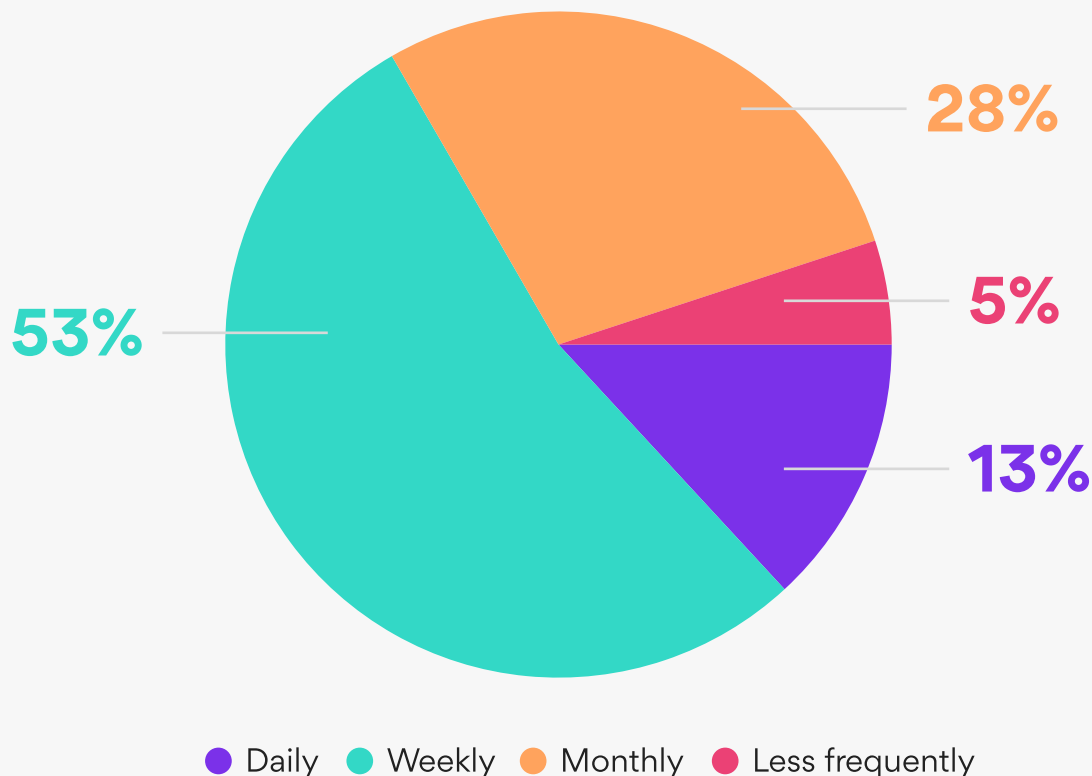
Under the updated safeguarding regime, firms must perform safeguarding reconciliations every reconciliation day. This is the control mechanism that checks whether safeguarded funds are properly identified, recorded and protected on an ongoing basis.

Current practice remains some way from that standard. Only 13% of firms currently reconcile safeguarding daily. The majority reconcile weekly, while more than a quarter reconcile monthly and a small minority reconcile less often.

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Daily safeguarding reconciliation remains uncommon

Current frequency of safeguarding reconciliations:



The 13% figure shows the confidence gap in its clearest form. Businesses understand the rules and say they are ready for change, but the operating model still has work to do. The distance between “we understand this” and “we do this every day” is the distance most of the sector still has to travel.

Businesses understand the rules and say they are ready for change, but the operating model still has work to do.

The difference between sentiment and system capability is a familiar pattern in regulatory change. Readiness often appears first as awareness, planning and project activity. Operational readiness only shows up when the process has to run repeatedly under the conditions the regime requires.

While the daily reconciliation requirement is specific to safeguarding, the lesson has wider relevance across compliance operations: readiness measured through policy, governance or project status is very different from readiness tested through daily execution.

AI enters the modernisation conversation

If systems are struggling to keep pace with regulation, the modernisation conversation quickly turns to artificial intelligence.

The appeal is understandable. Regulatory operations rely on high volumes of transaction data, reconciliations, exceptions, control checks and reporting outputs. These are repetitive, data-heavy workflows where firms are already looking for greater leverage.

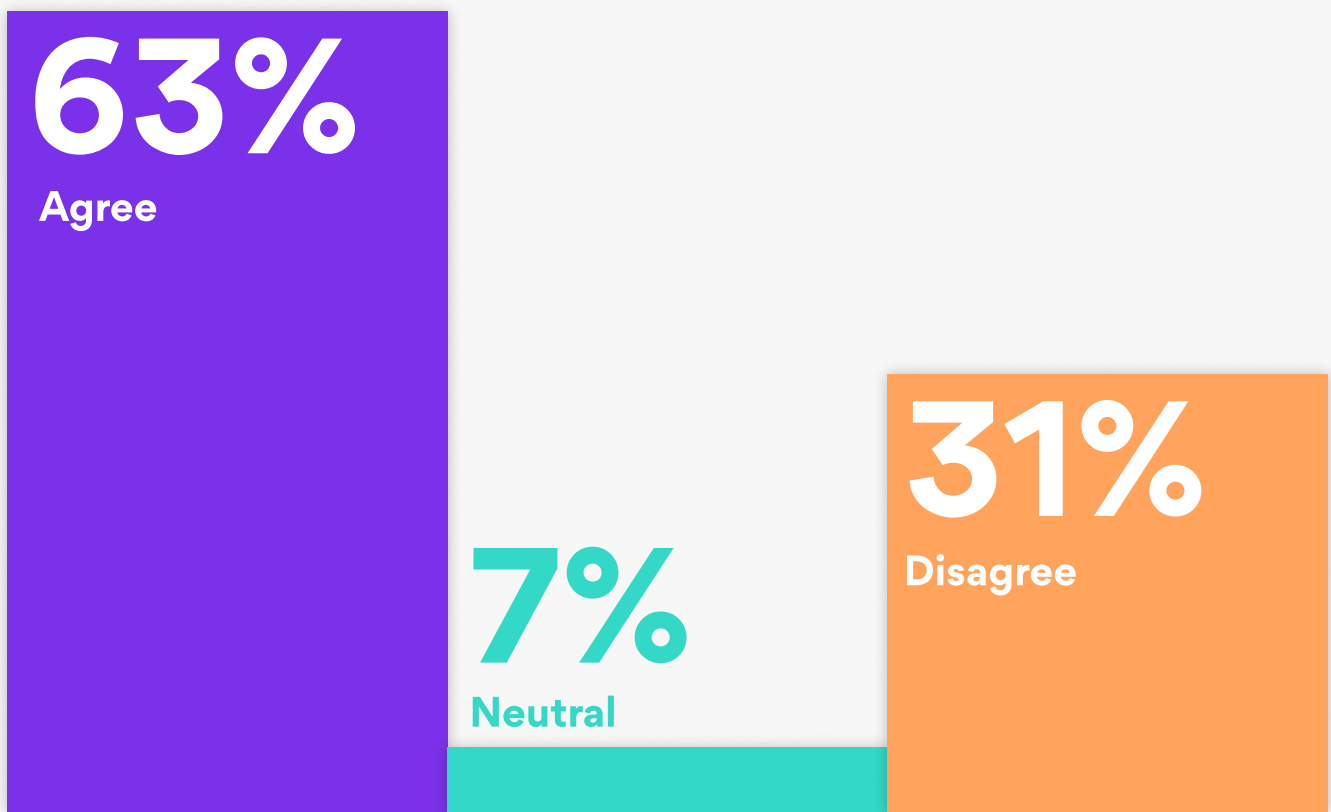
Adoption data shows how far that conversation has moved. The Bank of England and FCA's 2024 survey of UK

financial services found that 75% of firms are already using AI, with a further 10% planning to do so within three years — up from 58% two years earlier. AI has moved firmly into the financial services technology agenda.

Executive sentiment in our survey points in the same direction. Asked whether their organisation has the in-house expertise to adopt AI responsibly, 63% agreed, suggesting a sector with meaningful confidence in its AI capability.

Most executives believe they have the expertise to adopt AI responsibly

Executive responses to the statement:
“We have the in-house expertise needed to adopt AI responsibly.”



AI readiness is not operational readiness

Confidence in AI does not automatically translate into readiness for AI. The Bank of England and FCA's 2024 survey makes that distinction clear. While three-quarters of firms reported using AI, 46% said they had only a partial understanding of the AI systems they had already deployed. Just 34% claimed complete understanding.

46%

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In regulated environments, partial understanding is a serious constraint. Firms need to explain how systems work, what

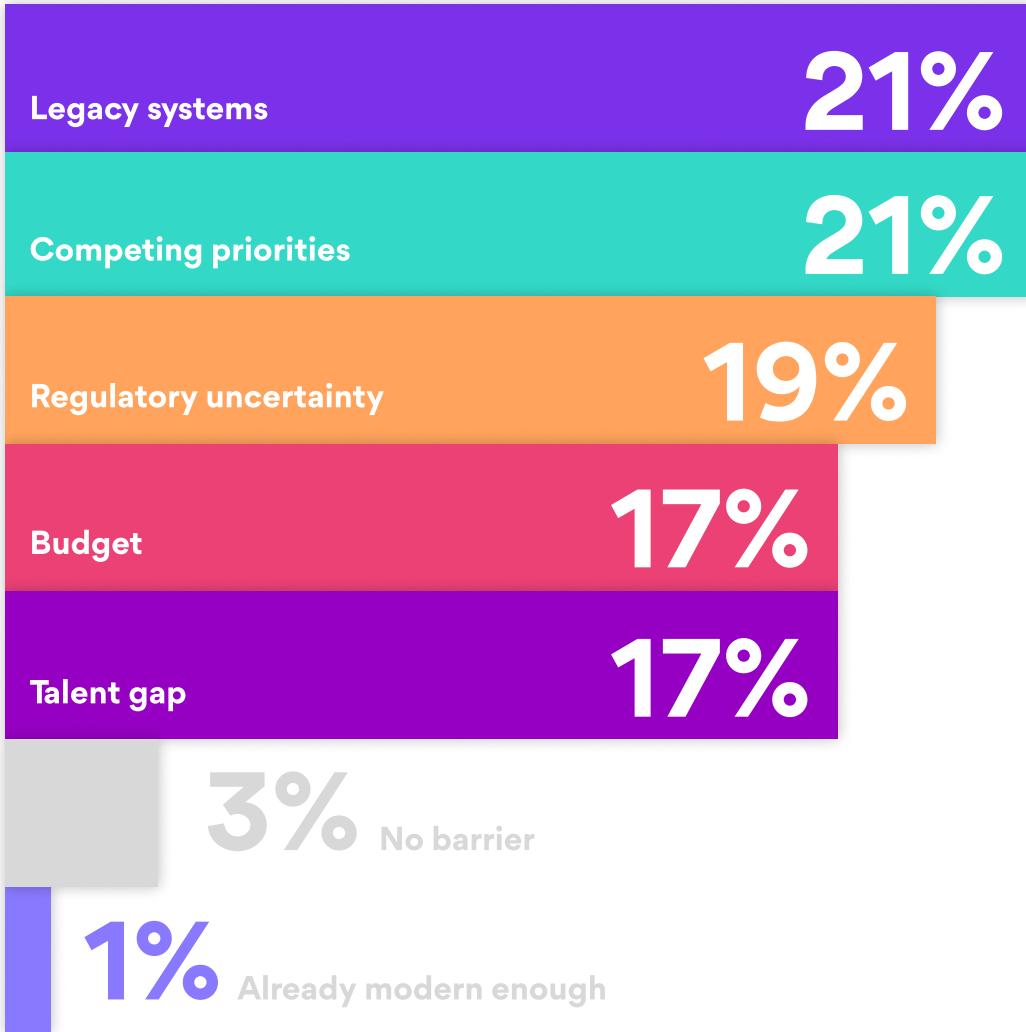
data they use and why outputs can be trusted. That makes the 63% expertise figure from our own survey worth reading carefully. It may reflect real capability, but it may also reflect leadership confidence, pockets of specialist knowledge or early-stage experimentation rather than fully embedded AI readiness.

Even where firms believe they have the expertise to adopt AI responsibly, adoption does not happen in a vacuum. AI has to be integrated into existing data flows, control environments, reporting processes, governance structures and operational teams. If those foundations are constrained, AI inherits those constraints.

The wider modernisation picture shows why that matters. When asked what is holding back modernisation, executives did not identify a single dominant obstacle. Legacy systems and competing priorities tied at the top with 21% each. Regulatory uncertainty followed at 19%, with budget and talent gaps both at 17%.

Modernisation has no single blocker

Biggest barrier stopping businesses from modernising faster:



Modernisation is not waiting on one procurement decision. Firms are managing several constraints at once: old systems, competing internal priorities, unclear regulatory direction, limited budget and skills gaps. Introducing AI into that environment does not remove those constraints. It carries them forward.

Modernisation is not waiting on one procurement decision.

The next regulatory challenge is operational

Keeping pace with compliance is now a broad-based operational challenge. Rising costs, system constraints, safeguarding reform, AI adoption and modernisation barriers all point to the same overarching issue: regulatory change is testing the operating model beneath the policy.

Safeguarding makes that shift visible. On the surface, the sector appears active and broadly prepared. But daily reconciliation changes the test from readiness as a project status to readiness as an operating cadence. It shows the distance between knowing what must change and being able to run the required process every day.

Taken together, the findings show a sector in transition. Businesses are aware, active and investing, but still closing the distance between intent and execution.

AI is where firms expect to escape the problem — and where they meet it again. It may become a powerful tool in regulatory operations, but only where the underlying data, controls and workflows are strong enough to support it. As these technologies become more embedded in compliance operations, the advantage will sit with firms that balance innovation with explainability.

Taken together, the findings show a sector in transition. Businesses are aware, active and investing, but still closing the distance between intent and execution.

The next wave of compliance will not be led by firms that simply understand the rules or adopt the newest technology first. It will be led by those that master what regulators now test most directly: not whether control exists, but whether the underlying systems can prove it. Meeting that test requires a back office built for evidence, resilience and repeatability.



References

Bank of England and Financial Conduct Authority, Artificial Intelligence in UK Financial Services – 2024 (21 November 2024). Third joint survey of AI and machine learning in UK financial services, based on 118 responding firms.

Kani Payments, Safeguarding Readiness Research (2026), based on 75 respondents from UK-based payment and e-money firms.

About the research

The executive survey reflects responses from 75 senior leaders across UK card processors, e-money institutions, payment card issuers, payment card acquirers and neobanks, including CEOs, CTOs, CFOs, COOs, Chief Compliance Officers, Chief Revenue Officers and Chief Commercial Officers. Safeguarding figures are drawn from Kani's separate safeguarding readiness research (N=75). National AI-adoption figures are drawn from the Bank of England and FCA's 2024 survey of UK financial services. Some figures may not sum to 100% due to rounding.

