

The Payment Systems
Regulator Limited
Annual plan and
budget 2020/2021



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Contents

COVID-19	4
Foreword	6
Our vision, aims and activities for 2020/21	8
Key projects at a glance	10
The New Payments Architecture	14
Access to cash	16
Card-acquiring market review	20
APP scams and Confirmation of Payee	22
Competition and regulatory enforcement casework	26
Identifying our future priorities	28
Treasury-led reviews	30
Revised Powers and Procedures Guidance	31
Access to payment systems	32
Regular work	34
Working with our stakeholders	36
Working with other authorities	36
The PSR Panel	37
The UK's withdrawal from the European Union	37
Our organisation	38
Our people	38
Our budget for 2020/21	40
Factors influencing our regulatory approach	42
Our role and powers	44

COVID-19

The COVID-19 coronavirus is having a substantial effect on people's lives. This includes impacts on the workings of payments markets and financial services more generally. Organisations, including us, are facing a huge challenge as we support our employees, while also ensuring that consumers' interests are protected.

Over the past few weeks, we have been working closely with the Financial Conduct Authority, the Bank of England, the Treasury and other authorities to ensure a coordinated response to these unique circumstances.

Our immediate priority is to ensure that consumers are protected and firms can serve their customers as well as possible. We've focused on ensuring that cash remains accessible to consumers who need it, and that firms can concentrate on keeping other payment systems running. We're also working with the FCA to make sure that consumers and their payment service providers remain vigilant about COVID-19 payment scams.

With this in mind, we have taken steps that should help, such as extending deadlines that we consider may distract firms from the immediate priorities. For example, we took immediate action to provide additional flexibility around the implementation of Confirmation of Payee, where firms take appropriate steps to protect their customers. We have also extended the deadline for responding to our Call for Input on the New Payments Architecture (NPA), to give our stakeholders additional time to give their views. This will ensure that we don't miss valuable feedback because stakeholders' time is, understandably, diverted elsewhere.

The effect of this pandemic is expected to continue for some time. The impacts on people, businesses and those operating in payments markets are uncertain. But we expect that many will face difficult times, and require support from all of those involved in ensuring that society can continue to make and receive payments. This is important. We are talking here about benefits, pensions and salaries, and payments for food, medicine and other essentials.



We have already seen industry respond and work together to solve issues as they arise. People from across our sector are working really hard so that our cash and digital payment networks remain available. We at the PSR will play our part.

We drafted this annual plan before the uncertainty caused by COVID-19. It sets out our prior expectations about our priorities and planned work. Much of the work we describe in it will continue, albeit perhaps in different ways and – no doubt – to a revised timetable. But we will be reviewing our work to ensure that we are focusing on the right things, in light of the new challenges presented by the impacts of COVID-19.

More generally, we will continue to engage with our stakeholders and act promptly to emerging issues, to ensure that we continue to promote the interests of the people and businesses who rely on the UK's payment systems.

Foreword

This will be my first full year as Managing Director of the PSR, and it is a privilege to lead an organisation that has established a track record of positive change in a critical sector. Payments are a vital part of all our lives – from people whose financial lives take place almost entirely via their smartphone, to those who rely almost exclusively on cash. This importance is illustrated by the numbers involved – the PSR regulates payment systems handling some 40 billion transactions worth over £90 trillion each year.

This year we will all face the challenge of adjusting to the impact of the COVID-19 pandemic. This may mean that we have to adapt some of the activities we've set out in this plan as the year progresses; we'll make sure we communicate any changes clearly as they happen.

Payments are at the centre of several big transitions, as technology, people's habits and the economy change. The role of the PSR is vital in making these transitions work for people, businesses and society. Our focus on payments means we have a critical role, to take decisions now with an eye on both their immediate impact and what they will mean in the future. It's our job to use our expertise, and the insight gained from working with our stakeholders, to understand what payments might look like in five or ten years' time – so we can make sure what we do now ultimately leads to the right outcomes.

One of the biggest changes in payments is Pay.UK's development of the New Payments Architecture (NPA). This is a fundamental overhaul of the way UK interbank payments operate. It should bring great opportunities, creating a resilient way of making digital payments that supports more competition and innovation. This will bring benefits to us all in terms of better ways to pay that support our lives, while managing risks such as cyber security and fraud. But to see these benefits, we have to get the changes right.

We're looking closely at every stage of the process as Pay.UK develops the NPA, to ensure it meets the expectations we've set out. Our role here is to ensure that the design, infrastructure and governance fit together. We'll maintain our focus on how Pay.UK can improve future outcomes throughout the entire development and build. And when the NPA is a fully operational payment system in a few years' time, we'll continue our work to promote access and support the delivery of new services that benefit people and businesses.



We're also at the forefront of the debate on cash, and how to transition to an economy where digital payments may dominate but many people may still want and need to use cash. To achieve this, we need to take steps now so that the ATM network continues to support those that need cash both now and in the future. As well as our work with LINK (the main ATM network operator) on maintaining the footprint of its ATM network and the impact COVID-19 may have, we're working with the Financial Conduct Authority (FCA) and other authorities to look at what solutions might work for people now and in future.

However, as these transitions take place, some things won't change. We'll continue our work on opening up access to payment systems, promoting effective competition in the markets for payment systems and their services, and promoting users' interests – particularly in enhancing fraud prevention and protection. We will do this in a range of different ways: collaborating with others to drive improvements, but also using our formal powers of direction and enforcement where appropriate.

The fast-moving and complex nature of the payments sector also affects how we go about our work. In the coming year, we'll continue to make sure we have the right mix of payments expertise alongside regulatory, economic and legal skills. We'll also develop a clear statement of our longer-term strategy, with input from our stakeholders; originally intended for summer, this engagement work will happen later in the year so that everyone can better assess the impact of COVID-19 before contributing their views.

Indeed, effective engagement with our stakeholders is essential to meeting our objectives. It's what helps us understand all the perspectives we need to look at to make sure payment systems are working well for everyone. We'll work hard to make sure this continues, and that we build further towards being a confident, outward-facing regulator in all we do. One element of this will be continued close working with the Bank of England, the FCA, the Competition and Markets Authority and government. This will be more important than ever as the COVID-19 coronavirus has a significant impact and leads to changes in our economy; we will continue to play our part to support a robust financial system.

We'll continue making a positive difference to the way we make payments today – and we'll make sure the changing payment systems landscape, even in these unprecedented times, delivers a future that works well for people, businesses and society. I look forward to working with all of you in the coming year as we work towards these goals.

Chris Hemsley

Managing Director



Our vision, aims and activities for 2020/21

Our vision

Payment systems that are accessible, reliable and secure, and represent value for money.

Our annual plan and budget sets out our key aims and activities for the year 2020/21 alongside our expected costs. We publish this document so anybody with an interest in payments and payment systems has a clear overview of what we are doing, why and how.

In the summer, we'll publish our annual report on how we've performed against our plans for 2019/20.

Payment systems aren't just an abstract set of technical rules and connections. They are essential to how we all live our lives. They enable people – all of us – to make and receive the payments we need, whether it's getting our salary or benefits, buying a sandwich or putting down a mortgage deposit. When we look at regulated payment systems and consider if regulatory action is necessary, we ask if the systems are promoting the interests of the people and businesses who depend on them. This principle has always been at the heart of what we do as a regulator, and it's vital that we always have a good understanding of what people and businesses want and need.

These needs change over time, as technology and society advance – so a big part of our work is about talking to people to see how they're using payments and the issues they face, and to help us understand how this will change in the future.



Our focus on collaboration will be more apparent than ever this year. We will continue to work with other organisations on access to cash and the continuing efforts to fight payment scams – and to expand our knowledge of the payments sector as a whole and new issues that are emerging. And we'll be making sure that Pay.UK's development of the New Payments Architecture meets our requirements – so that payments in the future will benefit from competition and innovation in users' interests.

As we continue to steer these new initiatives, we'll also be working to maintain the benefits we've already achieved since we launched five years ago. Our work on access to payment systems has transformed the payments landscape, with many new players now able to connect to the interbank systems and offer competition and new services. These are positive changes. But there's more work to do to promote effective competition in the markets for payment systems and their services, and we'll continue to work to identify ways to improve the benefits that flow from that competition. This will, at times, mean that we will take formal steps to secure compliance and enforce legal requirements. We take non-compliance seriously. We look across the payments sector and, where appropriate, take targeted timely enforcement action to advance our statutory duties and achieve positive outcomes, including by changing behaviour.

We look across the payments sector and, where appropriate, take targeted timely enforcement action to advance our statutory duties and achieve positive outcomes.



Key projects at a glance

Project	The outcomes we're working towards	What we'll do in 2020/21
The New Payments Architecture (NPA) (page 14)	The NPA delivers a resilient way of making digital payments that supports more competition and innovation, supporting payment services that benefit the people and organisations using them.	<p>Monitor the procurement of central infrastructure services to make sure it supports competition and innovation in the NPA.</p> <p>Deliver greater clarity about how competition risks will be managed when NPA goes live, including guidance on our regulatory approach.</p>
Access to cash (page 16)	People can continue to access and use cash from the ATM networks where they want or need to in an increasingly digital world.	<p>Take appropriate steps to ensure reasonable access to the ATM networks in the near term. This will include overseeing LINK as it manages the estate of free-to-use ATMs, and working with other stakeholders to support improvements in cash access.</p> <p>Play an active role in developing a long-term framework for access to cash, working closely with the FCA, the Bank of England, the Treasury and industry stakeholders to coordinate our work on ATM networks.</p>
Card-acquiring market review (page 20)	The market for card-acquiring services works well, supported by effective competition.	<p>Set out our initial findings on the current operation of the card acquiring market in our interim report.</p> <p>If we identify a potential need for remedies, work with stakeholders to determine what might be appropriate.</p> <p>Consider responses to our interim report, and set out our final views and any proposals on remedies in our final report.</p>

Project	The outcomes we're working towards	What we'll do in 2020/21
<p>Authorised push payment (APP) scams and Confirmation of Payee (page 22)</p>	<p>Scams are reduced, and victims are protected.</p>	<p>Monitor and assess the extent to which the Contingent Reimbursement Model (CRM) Code and Confirmation of Payee (CoP) are preventing APP fraud and protecting victims.</p> <p>Actively encourage any Code amendments, firm behaviours and other actions needed to ensure the Code has its intended impact.</p> <p>Identify and take steps to encourage more payment service providers to join and support the CRM Code.</p> <p>Work closely with the FCA and other relevant authorities in tackling financial scams, ensuring we coordinate our efforts, share relevant information and take appropriate action where the PSR is best placed to act.</p>
<p>Competition and regulatory enforcement casework (page 26)</p>	<p>Payment systems and markets are more competitive and/or deliver better outcomes for users. This includes tackling anti-competitive conduct, so that there is a credible deterrence against such behaviour.</p>	<p>Continue to use our formal powers to investigate breaches of the Competition Act 1998, FSBRA and the Interchange Fee Regulation, opening new investigations where appropriate.</p> <p>Continue to progress our current casework.</p>

Project	The outcomes we're working towards	What we'll do in 2020/21
Sector intelligence and analysis (page 28)	We have a deep understanding of our sector which informs our decision-making and strategic planning, so we can take the right action at the right time to advance our objectives.	Improve how we collate and analyse information about market developments to help us to identify risks and use our resources most effectively.
Strategy setting (page 28)	Our stakeholders are clear on what our focus is longer-term, and we can effectively plan our work to support the long-term outcomes we want to achieve.	<p>Consult on our strategy for our future longer-term focus, inviting feedback from interested parties.</p> <p>Hold stakeholder events around the country to discuss views on our proposed strategy.</p> <p>Publish a final strategy, taking the feedback we receive into account.</p>
Revised Powers and Procedures Guidance (page 31)	Stakeholders understand how we work, how we decide whether to take any regulatory or enforcement action, the processes we follow, and what to expect from us.	Publish our final updated Powers and Procedures Guidance.

Supporting our objectives

We have statutory objectives to promote competition, innovation and the interests of service users – the people and organisations that use payment systems in the UK (see page 44).

In practice, all our projects link back to our service user objectives, and often also support our innovation and competition objectives. Projects with a particular emphasis on competition this year include our ongoing competition case and our card-acquiring market review. There are projects with a focus on innovation, such as our strategy work and our contribution to the Treasury's payments landscape review. And some projects, such as our work on the NPA, support competition and innovation equally.





The New Payments Architecture

The New Payments Architecture (NPA) is a blueprint for a new payment system that's being developed to process retail interbank payments in the UK. Pay.UK is developing and delivering the NPA. We're working to ensure that the NPA is resilient and takes account of and promotes the interests of users, including through effective competition and innovation.

What we'll do in 2020/21

- Continue our assurance work on the NPA programme – including the procurement of central infrastructure services – to ensure it meets the expectations we've set out, so that it supports competition and innovation and takes account of and promotes the interests of those who will use the new system.
- Continue working closely with the Bank of England to make sure our respective approaches and desired outcomes for the NPA programme are aligned and achievable.
- Continue our engagement with stakeholders following our call for input on competition and innovation in the NPA. This will help us develop our proposals for our regulatory approach to the NPA. This will include:
 - A further programme of stakeholder engagement around the issues raised in our call for input. This will help us fully understand stakeholder views, and discuss possible regulatory changes that may be needed.
 - A consultation on our regulatory approach to the NPA, informed by the outcome of this engagement.
- Across all our work on the NPA, we'll continue to consider whether we need to use our powers, both in the short and long term, to ensure it delivers the intended long-term benefits.

Why this matters

The NPA, which will provide clearing and settlement-related services for interbank retail payments, is one of the most fundamental changes happening in UK payments. We're making sure that the NPA is developed in a way that will provide benefits and protections for everybody making retail interbank payments in the UK.

The background to our work this year

In 2015, we set up the cross-industry Payments Strategy Forum (the Forum) to create a strategy for collaborative innovation in UK payments. In 2016, the Forum proposed creating a new payment system – the NPA – to replace the UK's retail interbank payment systems (Bacs, Faster Payments, and potentially Cheque and Credit). It is envisaged that the new system will run the previously separated systems on a single infrastructure platform. This platform will be designed in a way that allows new and existing payment service providers to develop services that can benefit consumers and business using the system. This will help make the UK's retail interbank payments ready for the future as payments technology and people's habits continue to evolve.

The Forum's proposal for the NPA led to the creation of a new payment system operator in 2017, which is now called Pay.UK. Its task is to oversee the creation and operation of the new combined payment system. The first major step was to consolidate the operators of Bacs, Faster Payments and Cheque and Credit; as of 2018, all three systems are now operated by Pay.UK.

It is intended that the NPA will replace the current systems for clearing and settling Bacs, Faster Payments and, potentially, cheque payments, and will be based on purpose-built central infrastructure. Pay.UK is running a competitive procurement process to appoint a supplier to build and operate this central infrastructure.

In January 2020 we issued a call for input, asking for stakeholders' views on issues that could affect competition and innovation in the NPA. This follows our work setting out our expectations and thinking about the development of the NPA, which we summarised in open letters to Pay.UK in 2018 and 2019. These covered risk, competition, innovation, rules and standards, governance and decision-making, and stakeholder engagement.

We're making sure that the NPA is developed in a way that will provide benefits and protections for everybody making retail interbank payments in the UK.

Access to cash

We're working with the payments industry and other authorities to help make sure people have access to the payment methods that they want and need. This includes ensuring reasonable coverage of ATM networks in an increasingly digital world.

What we'll do in 2020/21

We'll take steps to protect a reasonable geographic coverage of free-to-use ATMs, and support other ways of accessing cash. Our work on access to cash broadly falls into two categories: short-term issues, and medium to long-term issues.



Work to address short-term issues

We will:

- Continue to monitor our Specific Direction 8 (SD8), which requires LINK to develop and adopt appropriate, effective and well-defined policies to maintain a broad geographic spread of free-to-use (FTU) ATMs. We'll conduct a second review of SD8 later this year.
- Support developments in other non-ATM cash access services – such as cashback – and engage with stakeholders, to help to meet consumers' demands.
- Support and drive industry to further develop effective and comprehensive community engagement. This should help it identify and better understand specific cash access issues in local areas, and find effective solutions. Our activity will include engaging closely and monitoring LINK and UK Finance's existing community engagement schemes and how these evolve.

- Track consumer outcomes in relation to access to cash to monitor the extent that existing policies are meeting consumers' cash access needs. We will gather and analyse data about people's experiences, needs and preferences when using cash, and how these correlate to where and how cash access is provided.

Work to address medium to long-term issues

- Work with banks and other stakeholders to consider possible sustainable models for consumer access to retail cash services over the longer term. This work will help inform the authorities' thinking on legislation.
- In this context, we'll continue to consider what role the LINK Interchange Fee might play in supporting sustainable long-term models for access to cash services.
- Continue working closely with the FCA, the Bank of England and the Treasury – individually and through the Joint Authorities Cash Strategy (JACS) Group – to make sure our work is coordinated and provides the best solutions for consumers' cash needs.

Why this matters

For more and more people in the UK, digital payments are becoming the norm, whether they're paying a bill online, using a contactless card in a shop, or transferring money to a friend using a mobile app. The rapid evolution of digital payments and markets is transforming our lives as consumers – and the way our economy works.

But people have not stopped using cash, and there are plenty of people and businesses who rely on it. Not everyone wants – or is able – to choose digital payments. And even for those who prefer digital methods, they don't yet meet everyone's needs

We want everyone to be able to make payments in ways that work well for them. As our economy becomes increasingly digitally based, it's vital that we sensibly manage the impact of these changes. This means supporting access to cash for those people that are using it, such as by taking action to ensure accessibility of ATMs.

But cash access goes further than that. There are innovations in other ways of accessing cash, and we're looking at other options alongside working with industry, authorities and other stakeholders to develop a sustainable approach that will let people use cash for as long as there's a demand.

This means helping to ensure that people's reasonable needs for cash are met, but also being able to adapt as consumers' needs and attitudes change over time.

The background to our work this year

LINK's commitment on free-to-use ATMs

In early 2018, LINK made a public commitment to maintain the existing geographic spread of FTU ATMs. In October 2018, we gave LINK a specific direction (SD8) requiring it to do all it can to meet its commitment. We committed to reviewing this direction after 12 and 24 months, and published the first of these reviews in March 2020. We considered that LINK's policy to protect the widespread distribution of ATMs, directly commissioning ATMs from its members where appropriate, is a sensible short-term measure for replacing Protected ATMs in areas where they are needed but difficult to service.

We'll review SD8 again later this year, when we'll also be able to assess the impact of the community schemes described below.

Local community engagement

We're encouraging the industry to engage with local communities on cash issues. This is an important part of developing our collective understanding of local needs for access to cash, how they change over time, and how these needs can be met.

LINK introduced a local ATM request scheme in August 2019, which allows communities to apply to it for an ATM where there are issues with cash access. LINK expanded this scheme in October. In February 2020, UK Finance launched a scheme for communities to apply for grants for non-ATM access solutions. We're monitoring and engaging closely with industry on how these schemes develop.

Working together

The issue of access to cash falls into the remits of various regulators and authorities. We are a member of the Treasury-chaired JACS Group, along with the FCA and the Bank of England. We're working together to ensure a coordinated and joined up approach to tackling access to cash and wider cash system issues.



Card-acquiring market review

We're carrying out a market review into card-acquiring services. These services are essential to how businesses take card payments from customers. We want to make sure the market for these services is working well, and that competition is effective.

What we'll do in 2020/21

- Publish our interim report, setting out our initial findings and, if appropriate, any considerations about what action may be needed.
- Conduct a programme of stakeholder engagement to discuss the findings of our interim report and, if appropriate, any potential remedies. As well as a formal consultation, we'll hold roundtable events and bilateral meetings, and engage with other authorities including the FCA and the Bank of England.
- Publish our final report, taking account of the feedback we've received and making any necessary changes. The final report will confirm what action we intend to take, if any.
- Begin developing any remedies that may be needed to ensure that the card-acquiring market is working well.
- On top of our planned engagement following the publication of the interim report, we'll continue to maintain proactive engagement with our key stakeholders in this area.



Why this matters

Card payments are critical to the smooth running of the UK economy. They are now the most popular way for people to pay for goods and services, and their use is growing.

For merchants to accept card payments, they need to use card-acquiring services. The costs of these services ultimately affects the prices customers pay.

The background to our work this year

We started this review because stakeholders raised concerns with us indicating that the supply of card-acquiring services may not be working well for merchants and, ultimately, consumers. We wanted to examine:

- how competition for these services operates
- whether the concerns raised might affect innovation and the interests of people using payment cards

We're also looking at the fees merchants pay for card-acquiring services, and the quality of service they receive.

In January 2019, we published the final terms of reference for the market review. During the year, we gathered and assessed information from a wide range of parties. We also published several working papers, consulting with stakeholders on our proposed approach to some of our analysis and the questionnaire we used to survey small and medium-sized merchants. We continue to engage with other authorities as we progress our work, including the FCA and the Bank of England. We also continue to liaise with the European Commission, as it progresses its review of the Interchange Fee Regulation.

We're currently finalising our interim report. The next step will be to identify any issues and then consider what, if any, remedies might improve outcomes.

APP scams and Confirmation of Payee

We're working to reduce authorised push payment (APP) scams and protect the victims. Key initiatives include the Contingent Reimbursement Model Code and Confirmation of Payee.



What we'll do in 2020/21

- We'll monitor the effectiveness of the Contingent Reimbursement Model Code, and drive forward work aimed at ensuring the Code protects people and helps them recover their funds where possible. We will do this by:
 - actively working with firms to identify a long-term solution for funding no-blame reimbursement
 - closely engaging with the banks that have signed up to the Code to understand their progress and experiences, and with the Financial Ombudsman Service on the outcomes consumers are experiencing under the Code
 - analysing reports and requesting other information from the banks to monitor whether they're applying the Code consistently and effectively
 - working closely with the Lending Standards Board (LSB) to make sure the governance of the Code is effective and holds the banks to account where appropriate
 - actively encouraging any amendments to the Code and guidance, changes to firm behaviour and other actions needed, in the light of the LSB's review work, to ensure the impact the Code was designed to achieve
- Continue to communicate with the wider banking industry and other PSPs, and their representative groups, to identify and take steps to encourage them to join and support the Code.
- Continue to discuss the effectiveness of the Code with consumer and industry groups.
- Monitor and assess compliance with our Specific Direction 10, which required the UK's six largest banks to fully implement and deliver Confirmation of Payee by the end of June 2020. We'll take action where appropriate.
- Support the FCA's work to identify and close mule accounts, by providing expert insight and knowledge on payments and payment systems where required.
- More generally, we will continue to work closely with the FCA and other relevant authorities in tackling financial scams, ensuring we coordinate our efforts and share relevant information to help prevent future scams.

Why this matters

APP scams are a growing problem, where fraudsters trick people into transferring money to them by posing as a legitimate payee. The scammers are clever, organised criminals, and people have lost life-changing sums of money. We've been working with the payments industry since 2016 to protect people better from these scams.

The background to our work this year

Contingent Reimbursement Model Code

In May 2019, the APP Scams Steering Group we set up launched the new industry code for dealing with these scams. It's based on a contingent reimbursement model (CRM), meaning participating banks will:

- reimburse victims who have done all they reasonably could to protect themselves
- take reasonable steps to protect consumers from APP scams

The LSB is now responsible for the onboarding process, the oversight and the update of the CRM Code.

Confirmation of Payee

One of the standards in the CRM Code that banks will comply with in the future is the new Confirmation of Payee (CoP) service. With CoP, banks will check the name on a payee's account as well as the sort code and account number. Customers setting up a new payee will be able to see if the name they've entered matches the one on the payee's account – helping to prevent payments going to the wrong account, whether accidentally or due to frauds like APP scams.

In 2019 we gave Specific Direction 10 to the six biggest banking groups, requiring them to deliver CoP by 31 March 2020. We extended this in March 2020 to reflect the new priorities of responding to COVID-19, so that the deadline was not an unnecessary distraction at a vital time. This Direction covers around 90% of domestic UK bank transfers, and is expected to make a significant difference in reducing the number of misdirected payments.





Competition and regulatory enforcement casework

We'll continue to monitor the payments sector and will intervene if we think we need to take action to promote competition and, ultimately, deliver better outcomes for people using payment systems. This includes enforcing legislation to tackle anti-competitive conduct.

We have powers to take enforcement action in relation to:

- compliance failures in respect of our directions and requirements (general or specific) given/imposed under the Financial Services (Banking Reform) Act 2013 (FSBRA)
- compliance failures in respect of obligations, prohibitions and restrictions imposed by the Interchange Fee Regulation (IFR), and directions (general or specific) we give under the Payment Card Interchange Fee Regulations 2015
- compliance failures in respect of directive requirements and directions under the Payment Services Regulations 2017 (PSRs 2017) (implementing the second Payment Services Directive (PSD2))
- compliance failures in respect of requirements or directions imposed by or under the Payment Account Regulations 2015 (PARs)
- infringements of the Competition Act 1998 (CA98) and articles 101 and 102 of the Treaty on the Functioning of the European Union (TFEU)

What we'll do in 2020/21

If appropriate, we may open further competition or regulatory enforcement investigations if we identify suspected compliance failures with the IFR, the PSRs, the PARs and FSBRA during the course of our monitoring and compliance work.

When we decide whether to open investigations, we'll take account of our Administrative Priority Framework (APF), and consider the potential impact of our interventions, our wider organisational priorities, and our strategy.

Competition enforcement

We'll continue our first CA98 investigation.

We'll also continue to be an active member of the UK Competition Network (UKCN), working in close cooperation with other concurrent regulators to address competition concerns.

Regulatory enforcement

We expect the majority of our existing regulatory investigations to conclude in 2020/21. These all relate to the Interchange Fee Regulation.

Why this matters

It's crucial that we, like other regulators, have a credible and agile enforcement function to enable us to deliver against our statutory objectives where other measures are insufficient to achieve this.

Not every potential compliance failure or infringement of competition law, either identified by us or brought to our attention, will result in enforcement action. We decide when and how to take action taking account of our APF, and guided by the impact that our action might have, considering our wider organisational priorities and strategy.

It is important that industry stakeholders understand that we are prepared to take timely, targeted and effective enforcement action. One of the purposes of taking enforcement action, and imposing appropriate sanctions, is to communicate to regulated parties that we will identify and address non-compliance. This should encourage them to comply with their obligations, and remedy non-compliance. Simply having the ability and capacity to exercise our enforcement powers can be an effective regulatory tool to achieve firms' compliance with the law.

Our enforcement work supports our service-user and competition objectives by holding regulated parties to account for non-compliance with their obligations, ensuring that the payments sector is working well and that effective competition translates into better prices, choice and innovation.

The background to our work this year

In 2017/18 we opened one investigation under the CA98 and seven investigations under the IFR.

Over the course of 2019/20 we've built up our enforcement capability in addition to running the investigations.

Identifying our future priorities

We're enhancing the way we assess developments in payments, to make sure we have the right insights at the right time to help us advance our objectives.

What we'll do in 2020/21

Strategy Setting

- Publish a consultation inviting input from interested parties on the strategy for our future longer-term focus.
- Engage widely with stakeholders, including through events around the country, to discuss our proposed strategy and gather their views on it. This will help us define a final strategy for our activity over the next three to five years, which we aim to publish by the end of the financial year.
- Continue our research considering what our priorities and objectives should be in the medium to long term, and how we can achieve them. This will take our own analysis and the payments landscape review (see page 30) into account.

Sector intelligence and analysis

- Improve our internal processes and how we engage externally, so that we are better placed to gather and analyse information about the sector we regulate, including developments and emerging themes – and what they mean for the PSR. This includes developing tools and approaches that help us identify potential outcomes and impacts on payments and the people using them.

This work will inform our decisions for future activity.

Why this matters

To maintain our effectiveness, we need to keep abreast of the issues and developments affecting the payments sector, while also providing stakeholders with a longer-term perspective on what the PSR is seeking to achieve. The combination of an annual plan and a longer-term strategy will help stakeholders to understand the work we're already committed to doing, and what's likely to need our attention in the years to come.

The background to our work this year

When we were set up in 2014, we were given a clear immediate agenda and mandate. Our strategic priorities were to make access to payment systems easier, improve the ownership and governance of payment systems, and facilitate collaborative innovation in payments where the industry wasn't doing that of its own accord. Our work on these areas will continue as we monitor and enforce our directions and the positive developments we've driven in these areas.

Our role is now evolving as we manage the transitions to new technology and behaviours in payments and society, and we need to allocate our resources carefully so we can continue to promote the interests of people using payment systems. As the payments sector, technology, the external environment and consumer demands evolve, new issues are arising which could affect payment systems and their users for decades. We're now working on identifying and prioritising the issues we should be concerned with, so that we can build a strategy with clear outcomes in mind.



Treasury-led reviews

Along with the Prudential Regulation Authority (PRA), the FCA and the Bank of England, we're supporting Treasury-led work looking at the payments landscape and the future regulatory framework for financial services.

What we'll do in 2020/21

Alongside the FCA and Bank of England, we will continue to actively feed into the Payments Landscape review and Future Regulatory Framework review, providing resources, feedback and expertise.

We will set out our major upcoming regulatory initiatives affecting the financial services sector in the joint Regulatory Initiatives Grid. This is a new initiative that the government plans to launch in the summer, showing timelines for each regulator's activity. This will help the industry understand the potential impacts and plan ahead.

Why this matters

The Treasury-led Payments Landscape Review is bringing together policy makers and regulators to make sure that regulation and infrastructure keep pace with new payment models. The Future Regulatory Framework review will take stock of the overall approach to regulation of the financial services sector, including how the regulatory framework may need to adapt in the future.

The background to our work this year

In his Mansion House speech in June 2019, the then Chancellor of the Exchequer announced two reviews that are relevant to the PSR. One is looking at the payments landscape; the other covers the future regulatory framework for financial services. The Treasury is leading both reviews, working closely with the other relevant authorities (the PSR, the PRA, the FCA and the Bank of England).

Revised Powers and Procedures Guidance

We will publish our revised Powers and Procedures Guidance (PPG).

What we'll do in 2020/21

We aim to publish the final revised PPG during the summer.

Why this matters

Making our expectations and procedures clear to stakeholders is an important part of regulation. Making sure the PPG is up to date supports all of our work and helps regulated parties understand our powers, how we choose what actions, if any, to take and how we exercise our functions. This cuts across all our objectives.

The background to our work this year

In July 2019, we consulted on a revised version of our PPG, which explains our approach to using our FSBRA powers. We published the original PPG in March 2015, before we became operational. We've now updated it to reflect our experience of applying our powers over the last five years, and to take account of new powers and functions we've gained in that time.

We've made these changes to make it easier for stakeholders to understand our approach to using our powers and how we work in practice. The updated PPG has more information about our procedures, and is clearer on several areas.

The consultation closed on 31 October. Since then we've been working through the responses and finalising the text to make sure it's clear and addresses, where appropriate, consultee responses. In addition, we've been reviewing other PSR guidance to identify any areas where consequential amendments, reflecting the revised PPG, may need to be made.

Making our expectations and procedures clear to stakeholders is an important part of regulation.

Access to payment systems

What we'll do in 2020/21

- We'll monitor developments in access to payment systems. We'll continue to monitor compliance with the access regulations in Part 8 of the PSRs 2017, including credit institutions' obligations to provide certain payment service providers with access to payment accounts services.
- In June 2020, we'll publish our annual report on access to payment systems and the governance of certain regulated payment system operators in the UK.
- We'll consult on updated access guidance, combining our existing guidance.

The background to our work this year

Opening up access

Improving access to payment systems and ensuring that regulated payment systems take account of users' interests has been a priority for us since the launch of the PSR in 2015. Our 'day one' directions, and the work we've done with operators, banks and other authorities, have helped make access cheaper, quicker and easier. As a result, more and more PSPs have gained connections to Bacs, CHAPS and Faster Payments each year. We monitor access numbers and issues throughout the year, and require operators to report to us on their compliance with our directions on access and governance.

Why this matters

Payment service providers (PSPs) need to be able to access payment systems in order to offer payment services. Reducing unnecessary barriers to such access is a vital part of our work. This will likely produce a better choice of payment services for people and businesses.

Access guidance

We've also been reviewing our approach to the framework regarding the regulation of payment systems access. This framework is contained in Part 8 of the PSRs 2017 and section 56 and 57 of FSBRA, depending on the type of access and whether the payment system is designated under the Settlement Finality Regulations and/or regulated under FSBRA.

Part 8 of the PSRs 2017 contains provisions relating to access to non-designated payment systems, indirect access to designated payment systems, and access to payment account services by certain payment service providers.

Sections 56 and 57 of FSBRA concern disputes where PSPs apply for direct access to regulated payment systems (including access to Cheque and Credit), or apply to alter the terms of their access.

Our guidance on these issues is currently published in separate documents, covering the FSBRA and the PSRs 2017 provisions respectively. We're now proposing to publish them together, so that our guidance on access is in one place. We'll also update the guidance in a similar way to our Powers and Procedures Guidance (page 31), to make sure it remains relevant and reflects our practical experience of applying these powers.



Regular work

Alongside our major workstreams and projects, we have a number of ongoing and annual tasks.

The Interchange Fee Regulation

We'll monitor compliance with the Interchange Fee Regulation, including caps and business rules.

The Payment Accounts Regulations

We'll conduct our annual assessment of the Current Account Switch Service, to make sure it continues to fulfil the criteria to be a designated alternative switching service.

Direct Debit

We'll continue to monitor the effectiveness of Bacs scheme measures aimed at assisting organisations using Direct Debit facilities management (FM) providers to switch their providers. FM providers collect Direct Debit payments from customers on behalf of organisations that cannot or prefer not to collect Direct Debits themselves (these are typically smaller organisations).



Working with our stakeholders

Working with other authorities

We have a legal duty to coordinate the exercise of certain regulatory activities with the Bank of England (the Bank), the PRA and the FCA. This coordination improves our knowledge and approach to financial regulatory issues.

We continue to work closely with the FCA in our work to combat authorised push payment scams, and on the effects of the UK's departure from the EU (including its potential effects on our powers and responsibilities). We will continue to work with them, and other relevant stakeholders, to help ensure payment systems work well for those who use them.

We have a joint Memorandum of Understanding (MoU) with the Bank, the FCA and the PRA. This sets out the high-level framework we use to cooperate with one another in relation to payment systems in the UK, which each body has a different mandate for. It is reviewed annually.

We are also part of the Authorities Response Framework alongside the FCA, the Bank and the Treasury.

We will continue to work closely with these stakeholders and other regulators and competition authorities in 2020/21, and in particular in relation to our shared competency with the FCA in monitoring and enforcing compliance with Regulation 105 of the PSRs 2017.

We support this coordination with secondments between us and other regulators. This helps us share and develop skills and knowledge. We currently have two outward and five inward secondees, and expect others to follow during the year.

We, alongside the Bank, the PRA and the FCA, are supporting the Treasury in its review of the payments landscape and the future regulatory framework for financial services (see page 30).

Our concurrent competition powers and our role as lead regulator under the IFR lead to regular engagement with the Competition and Markets Authority (CMA) and other competition authorities. We have an MoU with the CMA setting out the working arrangements between us in relation to our concurrent competition powers. We will continue to participate in networks such as the UK Competition Network and the UK Regulators Network so that we can share experience and best practice on regulatory and competition matters. We will incorporate this into our regulatory approach.

We will continue to engage with regulators and authorities in other countries to share best practice, and look to take a consistent approach, as far as possible, to competition issues and supporting innovation through collaboration.

Where possible, we will cooperate to advance our objectives, and coordinate to reduce costs and administrative burden for our regulated communities.

The PSR Panel

Establishing and maintaining the PSR Panel is one of our statutory requirements and one important element of how we consult with stakeholders. The Panel is an independent group of experts that contributes towards the effective development of our strategy and policy. The members represent those who use payments as well as those who provide payments. They include people drawn from consumer and business groups, payment system operators, and payment service providers.

The Panel provides advice and input on our general policies and practices, as well as highlighting issues arising in the wider payments landscape.

The Panel remains a key channel for us to be able to understand how our wide range of stakeholders may respond to our policies and approach, and we will continue to consult it regularly.

As well as the regular meetings, we anticipate that we will also continue to hold ad hoc workshops with groups of Panel members on specific issues, which we have been doing in this and previous years.

In 2020/21 we will have increased staff engagement with the Panel, including Panel member discussion sessions, and staff intranet engagement such as Q&As and blogs. These sessions provide an opportunity for the Panel to engage more widely with the organisation and share insights.

The UK's withdrawal from the European Union

Up to the UK formally leaving the EU on 31 January 2020, our work on the UK's withdrawal was primarily focused on a no-deal scenario. We worked with the Treasury, the FCA, the Bank of England and other regulators to manage risks relating to the payments sector and onshore relevant legislation. We also engaged with key participants in the sector such as Visa, Mastercard, UK Finance and Pay.UK to understand the risks they faced and the contingency plans they developed to mitigate these risks.

Our work was designed to ensure that withdrawal would be unlikely to result in significant disruption to service-users in the payments sector. Going forwards, we will continue to engage with the other financial authorities and key firms to ensure that there are no new risks and that previously identified risks have been sufficiently mitigated.

In the year ahead we will consider the implications of the UK's future relationship for our IFR monitoring and enforcement work and our engagement with other EU authorities.

Our coordination with the Bank of England, the PRA and the FCA improves our knowledge and approach to financial regulatory issues.

Our organisation

Our people

To deliver our strategic priorities we need to attract, retain and develop talented, diverse people who are committed to making a difference. We've achieved a great deal with limited resources in terms of industry change, building our capability and establishing ourselves as a great place to work.

Through carefully managed growth, we're near to achieving the operating model necessary to carry out our work plans efficiently. With just over 100 people, we will continue to focus our resources to ensure that we have the right mix of payments expertise and regulatory, economic and legal skills necessary to deliver our anticipated work programme for 2020/21.

Our People Strategy for 2020/21 will focus on aligning our organisation to advance our objectives; we're assessing our skill base so we can adapt quickly to address changing priorities. In particular, we will:

- further develop our programme management skills and increase capability around how we engage with our stakeholders
- continue our programme of leadership and management development for our people managers
- continue to build an inclusive culture by delivering our careers and grading work, and ensuring diversity and inclusion runs through all of our processes – guiding how we recruit, allocate work, and help people to progress, and helping us to further reduce our gender pay gap
- maintain a collaborative and engaging environment that challenges our people

We aim to be a diverse and inclusive workplace with respect to gender, race, sexual orientation, disability or whatever contributes to making us who we are. Our employee-led networks help to raise awareness and build an open and inclusive workplace.

As a signatory to the Women in Finance Charter, we have an appreciation and understanding of our different experiences, interests and values, and we are committed to delivering priorities which have broad significance to the society which we serve.

We have an engagement team drawn from across the organisation that is committed to broadening awareness of diversity and inclusion and creating an inclusive culture. They also provide corporate social responsibility opportunities and charitable engagement, so our people can contribute and give something back to our local community.

We aim to be a diverse and inclusive workplace with respect to gender, race, sexual orientation, disability or whatever contributes to making us who we are.



Our budget for 2020/21

Our annual budget for 2020/21 reflects our operating costs from 1 April 2020 to 31 March 2021. We estimate these costs to be around £16.8 million. The plans we have outlined for work in 2020/21 are an essential part of how we will continue our work to help and protect people and businesses using payments now and in the future.

Our budget sees the PSR reaching its anticipated scale, based on our headcount from last year. We are looking to become more efficient and effective, which will allow us to deliver more. This is important so that the PSR can manage the risks it faces and has sufficient flexibility to take on unexpected projects, while still offering value for money.

Staff costs and professional fees

As in previous years, staff costs are our largest operating expense. We continue to run a lean staffing model, using flexible resources and agile working across different projects to achieve our objectives.

This year, we anticipate staff costs increasing to £12.6 million. This is a result of an increase in headcount during 2019/20, and a change in our mix of resources – with an increased focus on seniority to reflect the complexity and breadth of our work programme. This will give us the flexibility we need to cope with unpredictable workstreams and react to new developments at the right time. We anticipate our 2020/21 headcount to be around 111 during the year. Also, to ensure we provide the best value for money and grow our corporate knowledge and memory, we ensured that in the last year, we have increased our ratio of permanent to fixed-term employees. We also use a small number of temporary staff on a short-term basis, to provide particular specialist services or short-term resourcing.

Each year, we re-baseline our professional fees (for specialist services to support our work). In 2020/2, we expect these costs to be around £1.7 million.

Other operational costs

As an independently accountable subsidiary of the FCA, we continue to use its operational support for services such as finance, human resources and information services where it's viable, effective and efficient to do so. We will continue to reimburse the FCA on an annual basis for the cost of such services. We expect our operational costs to be around £2.5 million.

Annual funding requirement

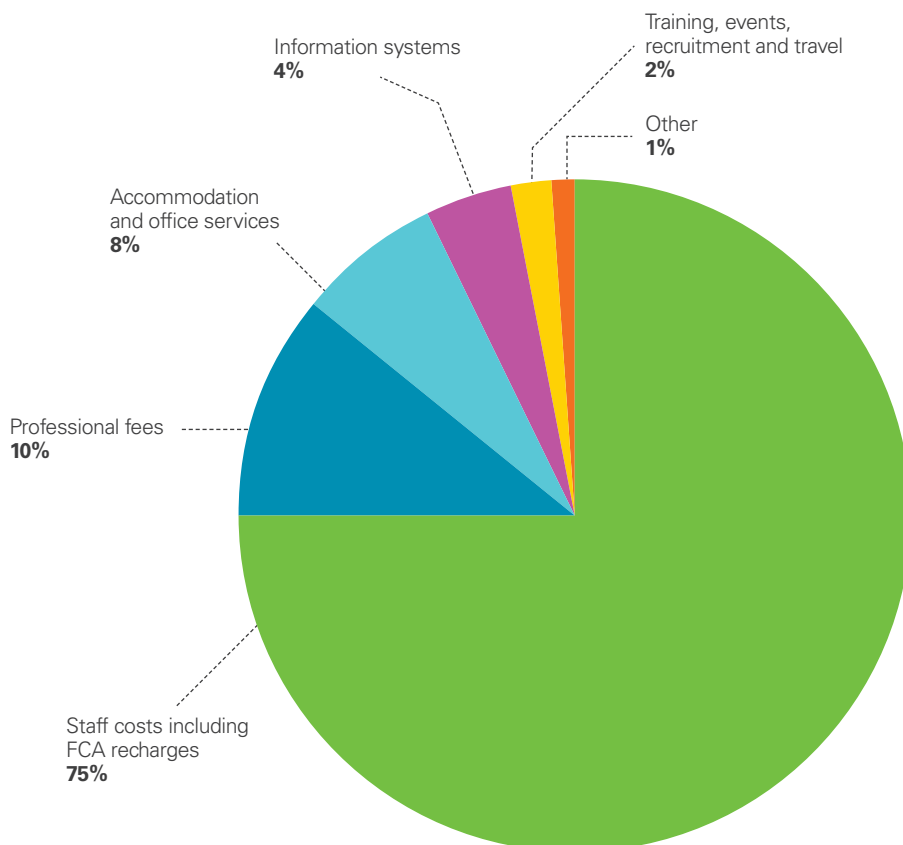
We will continue to recover our costs through the annual fees paid by participants in relevant payment systems.

These include fees paid by the payment service providers that directly participate in any of the payment systems we regulate, and the operators of alternative arrangements designated under the Payment Accounts Directive.

Value for Money

Our overarching Value for Money (VFM) strategy is to have as much impact as possible in delivering our statutory objectives, while minimising costs. Our efforts to further improve our effectiveness, efficiency and economy are ongoing, and we include VFM criteria in our decision-making processes at all levels. This, together with reviews of our internal processes, benchmarking, and ensuring flexibility in our workforce, will allow us to continue to be more efficient and effective. We will also continue to work closely with other regulators to share expertise, best practice and resources where possible.

Budget costs (£16.8 million)



Factors influencing our regulatory approach

It's important for us to identify the economic, social and market factors that influence our approach to advancing our objectives. A broader appreciation of these factors helps guide our understanding of the rapidly evolving payments landscape and better informs our work and planning processes so that we can operate efficiently and effectively. We will continue to work closely with other regulators as we develop regulation and policy, and aim to ensure that we achieve the right outcomes. Ultimately, we want those who make and receive payments to be able to do so easily and safely.

These are some of the key issues that have an impact on how we work to achieve our statutory objectives.

Demographics, accessibility, and affordability

We recognise that the payment options adopted by both individuals and businesses vary depending on factors such as age, location, abilities, market size, and income levels. We also recognise the need to consider people's protected characteristics. We want to ensure that payment services are available to people regardless of factors such as age, race, disability or gender, and represent good value for money.

As demographic trends evolve, the needs of some users may well outpace those of others. It's important to ensure that the market supports varying choices and needs so that people have ways to pay that work for them. This explains why we focus on issues such as ensuring access to cash, despite the downward trend in cash transactions.

Technology and innovation

Innovation and technology have the potential to increase competition, enhance efficiency, and transform business models in terms of how we make and receive payments. As the New Payments Architecture is shaped, we will work to ensure that the market continues to work well, and that innovations continue to produce the payment options that users need.

Data access and use

Access to and use of data is key to the rate of innovation, and the ability of the sector to deliver new and improved services. We recognise that increased use of data from payment systems brings both opportunities and concerns. As we monitor developments in payments data, we will pay close attention to how data is harvested and used.

Safety, security and resilience

It's important that people have confidence in payment systems. One way we can maintain this confidence is to work towards enhanced safety and security, and maintaining resilience in the payments landscape. We, along with the Bank of England, the PRA and the FCA, have particular assigned duties and responsibilities in pursuing these aims. We will continue to work closely with these authorities to ensure that payment systems are operated and developed in a way that promotes the interests of service users.

EU withdrawal and legislative changes

A significant change that will impact the financial services industry for years to come is the UK's withdrawal from the European Union. As the UK negotiates a future relationship with the European Union, we will continue to work with the Treasury, the FCA, the Bank of England and other authorities to manage risks relating to the payments sector and possible changes to legislation and policy. We will also continue to engage with participants in the sector to assess their readiness for proposed changes, and the challenges they face.

Emerging issues

As with all markets there are unknown or emerging risks which we may need to address. We are working to enhance our intelligence gathering processes so that we can respond proactively to such risks.



Our role and powers

Our role

As an economic regulator, we're here to make payment systems work well for those that use them. We have three statutory objectives to help us achieve this:

- Ensure that payment systems are run and developed in a way that takes account of and promotes the interests of those that use, or are likely to use, them (our 'service-user objective').
- Promote effective competition in the market for payment systems and markets for services provided by payment systems in the interests of those who use, or are likely to use, them (our 'competition objective').
- Promote the development of, and innovation in, payment systems in the interests of those who use, or are likely to use, them (our 'innovation objective').

These objectives are set out in the Financial Services (Banking Reform) Act 2013 (FSBRA). We consider them in everything we do under FSBRA.

Under FSBRA, the Treasury has designated the following payment systems as regulated payment systems: Bacs, CHAPS, Faster Payments, LINK, Cheque and Credit¹, Mastercard and Visa.

We regulate the following participants in those systems, in relation to those systems:

- system operators (such as Pay.UK, Visa, Mastercard and LINK)
- payment service providers (PSPs) (such as banks, building societies, merchant acquirers and payment institutions)
- providers of infrastructure for the systems (such as Vocalink)

We are a competition authority with powers, concurrent with the CMA. We also have functions under other legislation, which allows us to advance, where relevant, our competition objective.

We are also the lead competent authority for the Interchange Fee Regulation (IFR) in the UK. The IFR mainly imposes requirements on payment card schemes, and issuing and acquiring PSPs.

We regulate operators of designated alternative switching schemes under the Payment Accounts Regulations 2015 (PARs) – this presently includes the Current Account Switch Service (CASS).

¹ As amended. The Belfast Bankers' Clearing Company (Northern Ireland Cheque Clearing) no longer oversees cheque and paper credit clearing.

And we are a competent authority in relation to certain provisions of the Payment Services Regulations 2017 (the PSRs 2017), which implement the revised EU Payment Services Directive (PSD2). These provisions concern access to payment systems², access to certain payment account services and information on ATM withdrawal charges.

Our powers

We have a range of powers under FSBRA, in particular in relation to regulated payment systems. These include:

- providing directions, both generally and specifically in relation to participants
- changing or establishing rules regarding the operation of payment systems
- granting direct access to certain regulated payment systems
- varying agreements between the operators and payment service providers
- requiring the disposal of interests in an operator of a regulated payment system or an infrastructure provider in relation to such a system

We have powers to monitor, investigate, enforce and direct in connection with our monitoring and enforcement roles under the IFR and the PSRs 2017.

We have powers under the Competition Act 1998 in relation to participation in any payment system, including systems which are not designated as regulated payment systems under FSBRA. We can also conduct market studies and make market investigation references under Part 4 of the Enterprise Act 2002 in relation to such participation.

In many cases, clear communication with the industry about what we want to see achieved leads to industry outcomes without us needing to use our powers (for example, requirements or directions) – but we do use these powers when we think it is appropriate, and we monitor compliance. Our enforcement approach also plays an important role in the advancement of our statutory objectives, whether involving enforcement of directions (specific or general) made under FSBRA, our concurrent competition powers, or our role as monitor and enforcer of the IFR, PSD2, or the PARs.

We decide whether to pursue enforcement action and review our approach to ongoing investigations on a case-by-case basis, having regard to our statutory objectives and our Administrative Priority Framework. In determining whether enforcement action is appropriate, we will consider all matters that appear to us to be relevant in each specific case.

² Access to payment systems is governed by provisions under both the PSRs 2017 and FSBRA. As to which applies in relation to accessing a particular payment system, this will depend on whether the payment system is a regulated payment system and whether it has been designated under the Financial Markets and Insolvency (Settlement Finality) Regulations 1999.

