

Payment Systems Regulator Panel Annual Report 2023-24

Chair's Foreword

This has been another busy and productive year for the PSR Panel. In a packed agenda we have covered everything from the PSR's strategy and work programme to risks, scams, interchange fees, access to cash and more.

Our engagement on the work programme brought the breadth and depth of the PSR's work into sharp relief – relief that is of course heightened by the backdrop of testing economic conditions and fast-paced technological change. Prioritising *and* leaving flexibility for the unknowns was as challenging for us to consider as it is for the PSR itself.

The Panel Members, who have a wide range of experience and expertise as well as a diverse set of interests in their day-to-day business lives, lent themselves to these and other tasks during the year both in our regular meetings as well as in ad hoc calls and meetings. We have considered matters ranging from how, when and why the PSR should communicate and who with, to the nitty gritty of APP scam reimbursement rules and the introduction of Variable Recurring Payments. All these topics will remain on the Panel's agenda into 2024-2025 and doubtless beyond.

The Panel's discussions are rich and often encompass a range of contradictory viewpoints. We trust that these open, if measured and well-tempered debates are reflective of the broader range of the PSR's stakeholders and are thus useful to the PSR in its work. We certainly welcome the PSRs engagement in our discussions and the work it undertakes in bringing forward initiatives and topics for discussion.

Ruth Wandhofer, who had been appointed Chair of the PSR Panel in early 2020, served as Chair during the larger part of this period until her term came to its end in December 2023. It is as interim Deputy Chair that I present this forward and in doing so, I extend my gratitude and thanks to Ruth, the Panel Members and the Secretariat and PSR Management and Chair for their work and support during this period. It has been an honour and a pleasure to serve as interim Deputy Chair and I look forward to welcoming and supporting the new Chair when they are appointed.

Thank you.

Natasha de Teran

Interim Deputy Chair, Payment Systems Regulator Panel

Introduction

The PSR Panel is established by statute as an independent body to the PSR. Its role is to contribute towards the effective development of the PSR's strategy, policy and other activities, across all the areas where the regulator operates. The Panel's core objective is to add value to the PSR's work by providing input and advice that draws in-depth on the perspectives, experience and concerns of users and providers across the payments landscape. It also provides a confidential forum for the regulator to test out ideas and propositions that are still in the development stage.

The Panel has a diverse membership drawn from across a wide range of payment user and payment provider interests. Members represent different constituencies of service users, including consumer representatives, large and small corporate customers and the Government (as a user of payment services); and on the provider side, members include senior experts from payment account providers, suppliers to payments, and Open Banking/digital payments.

The Panel has four main meetings a year, which are complemented by a number of ad hoc workshops on specific topics. The main meetings tend to focus on issues with a strategic cross-sectoral impact, and each meeting is followed by a report from the Chair providing advice and feedback directly to the PSR Board. The Panel's workshops tend to be more informal - providing an opportunity for Panel members to work closely with PSR staff in exploring evidence and ideas in more detail than a formal Panel meeting would allow.

The Panel has continued an open line of communication with the PSR Board, Chief Executive, Executive Committee and staff – not just through exchanges of papers and formal written reports but also through regular contact. To facilitate these links, the Panel has continued to welcome senior PSR staff to Panel meetings to observe exchanges directly and engage in detailed discussions where appropriate. The PSR Head of Policy is the Panel's Sponsor Director and works with the Panel to consider where it can add most value to the PSR's work.

Strategic issues

One important focus during the year was the Panel's participation in the early stages of the **PSR's annual work programme**. The Panel emphasised the importance of planning for the unknown and suggested building flexibility into the work programme to allow for the potential for the PSR to have to turn its attention to unplanned activities that might arise.

The Panel welcomed the PSR's increased social media presence and dialogue from across the industry and encouraged the PSR to explore other informal ways to engage and collect concise feedback through social media and mechanisms such as online polls. Members considered whether the PSR ought to set aside a specific communications budget to develop an innovative plan to reach consumers effectively, with a focus on engaging with the general public outside of the payment space who may not know a lot about payments. The Panel offered to support the PSR in measuring its success by resharing information and providing the PSR with feedback from across their industry networks.

In May 2023, the Panel received an overview on the PSR's new **Strategy and Intelligence Division** that owns and develops the PSR's strategy, working closely with the PSR's workstreams on CBDCs, mergers and acquisitions, regulatory reform and the future regulatory landscape. The Panel discussed how it could support the division's important work by providing continuous intelligence and insight as work progressed at pace and serve as a valuable resource as the PSR reviewed its strategy and proposed changes.

The Panel highlighted its views of the **key risks** to the PSR of failing to achieve its statutory objectives and/or deliver against its strategy. This included concerns around charging models for SMEs, the impact of further delays in delivering the New Payments Architecture (NPA), the need to educate customers susceptible to APP scam fraud, the unintended risks of creating too much friction in the system to prevent fraud and the competition risks and concerns around potential market dominance caused by the innovative developments of big-tech firms to transform the payments space.

Policy Issues

As the PSR's role continued to develop in the fast-moving payments landscape, the Panel discussed a number of issues throughout the year, including some which might be partly beyond the PSR's remit but which could have significant impact on the industry it regulates.

APP scams

In July 2023, the Panel received an update on the new reimbursement requirement that was scheduled to come into place in 2024. From a technical perspective, we discussed the importance of participant organisations being able to easily tag transactions to detect fraud in the system and be able to repatriate funds efficiently. Members agreed that the messaging to consumers would be vital to make clear that automatic reimbursement would not be implemented, and to understand their rights and responsibilities. Schemes would also benefit from detailed guidance on the nuanced types of APP fraud to identify what consumer negligence may amount to. The Panel also stressed the importance of working collaboratively with other organisations such as the Financial Ombudsman Service to align on operational readiness and the consideration of complaints, especially in instances of unusual circumstances that did not fall within the scope of the current requirement.

In January 2024, the Panel discussed the next phase of work to support industry in successfully implementing the reimbursement policy by October 2024. On implementation and monitoring, Members discussed how the PSR could collaborate with and mandate Pay.Uk to develop its compliance monitoring regime to monitor PSPs' compliance with the Faster Payments Scheme (FPS) reimbursement rules, and stressed the importance of moving at pace to avoid lack of confidence from users that might arise from any further delays. On the PSR's work to evaluate its policy interventions to tackle APP scams, Members outlined measuring the reduction of fraud over time and delving into which types of fraud had reduced the most as metrics that the PSR could add to its evaluation. Members also discussed the possibility of this work causing a shift in the type and origination of scams that the PSR would need to remain alive to. Adding enforcement metrics and monitoring how many fraudsters are prosecuted were also suggested as additional evaluation metrics.

ESG

The Panel welcomed the opportunity to provide input into the PSR's potential role in supporting ESG in payments in July 2023. Members had differing views on the level of priority that the PSR should give ESG factors. Some Members considered ESG ought to be a secondary priority and not within the PSR's immediate remit; however, other Members considered ESG to be a growing trend amongst all organisations that the PSR would also need to have regard to. Current outcomes on access to cash, reducing the use of plastic cards and smart phones as payment tools had competing environmental and social considerations that the PSR might want to reconsider through the ESG lens and identify best practice. Some members thought that the PSR could take a role in educating consumers to understand which payments were best for the environment, whereas other Members thought this level of granularity would be too complex and the PSR should instead focus on the carbon footprint of payment mechanisms. The Panel advised the PSR to continue to monitor how the market was delivering on ESG factors as data evolved to determine whether regulatory intervention was needed in the future.

Unlocking Variable Recurring Payments (VRPs)

In October 2023, the account-to-account team shared an update on the PSR-chaired Variable Recurring Payments Working Group and provided an overview of the key consumer protection recommendations and potential roles for the PSR in a VRP commercial model. Overall, the Panel agreed that based on the consumer protection objectives outlined by the VRP Working Group, VRPs had the potential to provide more digital and convenient solutions than the current retail payment options. The Panel welcomed the pilot and the eventual adoption of VRPs in use-cases beyond those in the pilot - utility bills, financial transfers, and payments to public bodies. Members also discussed that VRPs would need to be cheaper than the current alternatives, be supported by the necessary protection and redress measures and could be extended to use-cases in the e-commerce space if VRPs were to become a viable alternative to cards for retailers.

Access to cash

The PSR and FCA provided an update in January 2024 on the changes to the access to the cash regulatory framework following FSMA 2023 and the interaction between the PSR's remit and the FCA's new role as lead regulator for access to cash. Panel Members discussed the ongoing inaccessibility of cash as well as declining cash acceptance, linking this to the potential for some users to become more reliant on cash as the cost-of-living crisis progressed. The Panel urged the PSR to continue work on ensuring that ATMs were servicing communities and considering its competition objective when thinking about how the industry could distribute paying for ATM provision more fairly.

Digital Payments Initiative (DPI): consumer research findings

In January 2024, the PSR provided an update on the key takeaways from the preliminary results and initial analysis of the consumer research undertaken on barriers to using digital payments faced by cash-reliant consumers. The Panel identified lack of trust as the key challenge faced by the industry when broadening access to digital payment options and urged the PSR to explore the origins of consumer distrust. Members considered another barrier to be the lack of knowledge about some of the digital payment methods available and encouraged the PSR to educate consumers about the pros and cons of payment methods. Members also discussed whether the industry could support the progression of the use of the digital payments by steering consumers towards a particular form of payment and inspiring trust, tailoring this to different demographics who might be less confident using digital payments.

Cross-border interchange fees

In October 2023, the Panel welcomed a discussion of the interim findings of the PSR's review of cross-border interchange fees, ahead of publication. The Panel thought that increased cross-border interchange fees had changed consumer and retailer behaviour, and fees had become so high that some companies were no longer offering services to UK consumers. Members also discussed the rationale for the increase in interchange fees. Some Members considered that this was an opportunistic response to the post-Brexit deregulation of interchange fees; however, other Members took the view that issuers would argue that were aligning the card fees rules in the UK with those for other-cross border payments outside of the EU.

Appendix 1 - Members of the PSR Panel between 1 April 2023 – 31 March 2024

Natasha De Teran <i>Interim Deputy Chair from January 2024</i>	Author and consumer representative
Robin Abrams	Chair of Banking & Finance Policy, Federation of Small Businesses
Jeff Moody	Commercial Director, British Independent Retail Association
Mark O’Keefe	Founding Director, Optima Consultancy
Jo Oxley	Director, Government Banking Service
Anne Pieckielon	Founding Director, The Inclusion Foundation
David Canavan	Senior Director, UK and Ireland Commercial Development, Visa Europe
Christopher Ainsley	Head of Fraud Risk Management, Santander
Clare Pearson	Director – Open Banking and Payments, EPAM
Stephen Wright	Head of Regulation and Standards, NatWest Group
Otto Benz	Payments Director, Nationwide Building Society
Neira Jones	Independent Payments Consultant
Ciaran O’Malley	VP Financial Services and ecommerce/Country Manager, Trustly
Ruth Wandhöfer (Chair) <i>(until 30 November 2023)</i>	Independent Banking Expert
Andrew Hewitt <i>(until 30 November 2023)</i>	Director of Payment and Data Solutions, FIS

Appendix 2 - Payment Systems Regulator Panel Terms of Reference

1. The Payment Systems Regulator Panel ('the Panel') is established by the Payment Systems Regulator ('PSR') under the Financial Services (Banking Reform) Act 2013. The Panel represents the interests of participants in regulated payment systems and those who use, or are likely to use, services provided by regulated payment systems.

Scope

2. The Panel makes representations to the PSR on the extent to which its general policies and practices are consistent with its general duties, and how its payment systems objectives may best be achieved, as required under the Financial Services (Banking Reform) Act 2013. See Appendix 1 for the general duties.
3. In considering the PSR's work, the Panel will focus on the PSR's objectives of promoting effective competition, promoting development and innovation and ensuring that payment systems are operated and developed in the interest of all those who use payment systems. The Panel will also have regard to the regulatory principles as attached in Annex 2.
4. The Panel's views are independent of the PSR. It does not carry out responsibilities on behalf of the PSR, but provides input and advice on development of PSR activities.

The Panel's Duties

5. The Panel will:
 1. Meet regularly (usually between four and six times a year) and be available at other times to be consulted by the PSR on specific high-level issues.
 2. Identify key issues which the Panel thinks the PSR should be considering when the PSR presents proposals to the Panel for consideration.
 3. Be proactive in bringing to the attention of the PSR, new or additional issues to be considered or research to be carried out by the PSR to assist the PSR in fulfilling its objectives.
 4. Maintain the confidentiality of information provided to the Panel when indicated by the PSR.
6. In fulfilling these duties, the Panel may:
 1. Request access to all information from the PSR which it reasonably requires to carry out its work. This will generally not include confidential information about specific regulated firms, individuals or markets.
 2. Have access to and engage regularly with the PSR Chairman, Board, Managing Director and senior executives of the PSR.

Membership

7. The PSR Board appoints Panel members, with HM Treasury's approval required for the appointment or dismissal of the Chair. Members will normally be appointed for a two or three year term, and will usually serve a maximum of two three-year terms.
8. The PSR will appoint to the Panel such persons representing participants in regulated payment systems and those who use, or are likely to use, services provided by regulated payment systems.
9. Members are appointed in an individual capacity on the basis of their experience and current role, and not as representatives of specific constituencies or organisations. They are expected to understand the general viewpoint of their sector and be able to contribute constructively in Panel discussions towards the development of the PSR's strategic thinking from that perspective. There is no express requirement on Panel members to consult with colleagues or related organisations on the issues discussed by the Panel, although they are free to do so (subject to confidentiality) if they wish to. Nor is the business of the Panel a substitute for formal public consultation processes by the Payment Systems Regulator with the sector or interests concerned. It may from time to time be appropriate for Panel members to discuss the general issues on Panel agendas on an informal basis, as a means of enhancing members' input to the Panel. But Members will also be required to respect the requirements of confidentiality: to enable the Panel to function effectively and provide early input to PSR policy development and other decisions, Panel members will often not be able to share the details of discussions which take place with those outside the Panel and PSR. Any such confidentiality requirements will be clearly flagged by the Secretariat.

PSR and Financial Conduct Authority Duties

10. Under the Financial Services (Banking Reform) Act 2013, the PSR must consider representations made to it by the Panel, and must from time to time publish in such a manner as it thinks fit, responses to the representations.
11. The PSR will provide the Panel with early access to appropriate information in order for the Panel to fulfil its duties and will ensure secretariat support is provided to the Panel to enable it to operate effectively.
12. The PSR Board will consider any proposals from the Panel for additional funding for specific projects (including research) which the Panel considers necessary in order for it to fulfil its duties under these terms of reference.

Accountability

13. The Panel will publish an annual report on its work, which will be presented to the PSR Board.