

Working Group Paper

Date of Meeting: 30 April 2015
Paper Number: PSFWG (15) 04
Subject: Progress on the terms of reference

1 Introduction

- 1.1 In our [Policy Statement](#) published on 24 March, we confirmed that we will proceed with our proposal to establish a new process of industry strategy-setting through the Payments Strategy Forum ('The Forum'). Responses to our consultation showed a high level of in principle support for this proposal, with the general caveat that 'the devil would be in the detail'.
- 1.2 As such, we are very grateful for the working group's continued support in looking at this detail and assisting us to develop a robust draft terms of reference for the Forum. So far the working group has discussed '**what**' the Forum will do in terms of its objectives, and has started to look at '**how**' the Forum could operate in practice. The third working group will continue to consider these questions and will also consider the '**who**' and '**when**'.
- 1.3 Objectives of the third working group meeting:
- To further develop the draft terms of reference through further discussion on how the Forum could operate in practice, including:
- 1) Clarifying the Forum's objectives and scope
 - 2) Mechanisms for wider stakeholder engagement
 - 3) The process for setting strategy and its implementation
 - 4) Evaluating whether joint-work or collaboration is necessary and requires the Forum's coordination
 - 5) How the sector's existing strategic work will interact with the Forum
 - 6) Forum membership and nominations process
- 1.4 Since the previous working group meeting we have continued to develop the terms of reference and this paper covers how we have incorporated your suggestions and feedback. Annex 1 includes our proposed timeline for fully establishing the Forum. Annex 2 provides the current draft terms of reference.

1 Clarifying the Forum's scope and objectives

What you said

In previous meetings, the working group raised the need for clarity on both the objectives and the scope of the Forum. The working group has been keen, for example, to understand in what capacity the Forum acts, i.e. whether it is advisory or 'has teeth'; how wide the scope of the Forum's discussions will be; and what is meant when the terms of reference refers to 'industry'.

- 1.1 We have now published our Policy Statement which provides further clarity on some of the areas the working group has raised. We have also further developed the draft Forum terms of reference (see annex 2).
- 1.2 Our policy statement notes that: *"the purpose of the Forum is to discuss and agree strategic priorities for the development of payment systems. We have not proposed that the Forum's decisions should be binding and we are not delegating any of our duties to the Forum"*.
- 1.3 We also note that *"If the strategy development and setting process is ineffective, or if industry delivery of agreed priorities that further our objectives is too slow, then we may take action. If necessary and proportionate, this could include making general or specific directions on industry participants"*.
- 1.4 Since the first meeting, the terms of reference have been developed to make a stronger link between the **objectives** of the Forum and the PSR's objectives. As such, the main objectives of the Forum will be to *provide coordination where it is necessary for stakeholders in the payments industry to work together in order to advance payments systems innovation and/or facilitate innovation more broadly in the interests of service-users*.
- 1.5 Previous discussions with the working group have clarified that we intend the Forum **scope** to be limited to the coordination of joint working or collaboration between payments industry stakeholders where **this is necessary** to advance good outcomes for people and organisation that use payments systems. This will require a number of steps to be undertaken by the Forum, including:
 - Identification of user needs or issues to inform an agreed position of what good outcomes look like for those who use payments
 - Identification of areas where collaboration **is necessary** to further these outcomes (this is covered in more detail in section 4)
 - Prioritisation of areas where coordination is needed most urgently
 - Development of strategic recommendations for the payments industry to coordinate this collaborative activity
- 1.6 Where we refer to payments 'industry' we use this term to refer to all *relevant* stakeholders and we expect this will include different sets of stakeholders depending on the strategic recommendations that are developed. For example, we expect 'industry' will include different combinations of service users, operators, payment service providers, and payments infrastructure/ technology providers depending on the issues which are under discussion.

2 Mechanisms for wider stakeholder engagement

What you said

At its second meeting, the working group discussed high-level proposals by the PSR to develop a Forum 'Assembly' as a mechanism to ensure the focussed Forum group could benefit from the input of a broader range of stakeholders. The group suggested that more details about the 'Assembly' should be developed, either as part of the Forum terms of reference, or in a separate document. Some members questioned whether holding an 'Assembly' event would be the most efficient way of gathering input from stakeholders, or whether events would be accessible, for example if they were in London. It was noted that one of the most important aspects of stakeholder engagement would be that stakeholders got to 'hear back' on how their input was being taken into account.

2.1 Since the last meeting we have developed our proposals for how the Forum will engage with a broader stakeholder group, with a focus on making such engagement flexible and responsive to the needs and challenges facing particular stakeholders. Our approach will consist of the following activities:

- The PSR will facilitate an **initial period of structured stakeholder engagement** prior to the Forum's first meeting to:
 - identify and engage with relevant stakeholders
 - raise awareness of the Forum and its work, its relevance to stakeholders, and ask how best to get their involvement or engagement going forwards
 - gather input on the issues facing different users of payment systems and services and other payments industry stakeholders (this will build on the evidence we have already gathered through our consultations and stakeholder engagement)
- This is the first step in establishing and engaging with a **'payments community'** as a mechanism for continued engagement and consultation to inform the Forum's discussions.
- The initial period of engagement is likely to conclude with a **payments industry event**, tentatively scheduled for September, to play back the findings and next steps. We will also ensure this information is available more widely.
- The Payments Strategy Forum will meet shortly after these activities and will consider the information gathered as it starts to consider its strategic priorities. It will also consider how it continues to engage with the Payments Community and others.
- It will be the role of the secretariat provided by the PSR to collate and summarise the information from the Payments Community and provide it to the Forum.

3 The process for setting strategy and its implementation

What you said

The working group has been keen to emphasise the need for the development of the Forum's strategies to be based on evidence and robust cost-benefit analysis. In previous meetings there have been requests for more clarity on exactly how the strategy setting process will work.

- 3.1 The Forum will work to build the case for collective adoption of and investment in particular payment systems' improvements by basing its recommendations on compelling, evidence based assessments.
- 3.2 Basing discussions on evidence of the needs of payments users (collected, for example, through engagement with the payments community), will enable the Forum to shape a common understanding of what system developments need to be prioritised. Where certain developments need to be prioritised, for example, because of regulatory or legislative demands on the industry, the Forum will need to think carefully about how priority areas can be sequenced around these demands.
- 3.3 After its first year, the Forum will publish a strategy for payment systems in the UK. This will set out how payments systems can be developed collaboratively to better meet the needs of payments users. It will include a set of strategic recommendations which will target particular areas where the Forum has identified the need for industry collaboration as the most appropriate means to further good outcomes for payments users.
- 3.4 The Forum will then have a role in tracking the progress of the industry against its recommendations through the publication of an annual progress report. This will hold industry to account and will help to drive development in line with its recommendations. Where a compelling case for change is presented as part of the Forum's recommendations, but the relevant industry participants fail to delivery against these, the PSR may decide to take action.

4 Evaluating whether joint-work or collaboration is necessary and requires the Forum's coordination

- 4.1 In establishing the Payments Strategy Forum, the PSR is acknowledging that collaboration between payments industry stakeholders is sometimes necessary and can have significant benefits. We are establishing the Forum to overcome any potential difficulties in coordinating such collaboration, in order to promote the innovation (or downstream competition) which such collaboration can enable in the interests of service-users.
- 4.2 That said, not all issues suggested by Forum members (or other stakeholders) for consideration by the Forum will require collaborative solutions. In developing its strategic recommendations, the Forum will need to consider, whether and why particular outcomes can only be achieved effectively and efficiently through collaboration and not through competition.
- 4.3 We propose that the Forum should make use of an evaluation framework as part of its strategy development process. This will ensure that the Forum considers various options for how particular outcomes can be achieved, including the consumer benefits of collaboration or competition in achieving outcomes.
- 4.4 We are currently developing our thinking about this evaluation framework, to ensure that the Forum's discussions follow good practice and produce robust outcomes.

5 How the sector's existing strategic work will interact with the Forum

What you said

The working group has been keen to understand how the Forum will interact with the payments industry and suggested that the PSR engage with Payments Council on its 'World Class Payments' programme of work.

- 5.1 We are engaging with the Payments Council. We agree that the Forum will need to build on any strategic work the industry is currently considering or would be expected to consider in the collaborative space, under the auspices of the Payments Council.
- 5.2 As identified in our Policy Statement, this includes:
- the World Class Payments project ("WCP") – which incorporates the payments industry's strategic approach to meeting future needs of service-users;
 - relevant analysis that has been undertaken by the FCA on CASS and Account Number Portability; and
 - any long term implications of ring-fencing of major banks for the payment systems.
- 5.3 Given that the Payments Council has work under way to develop options for delivering WCP, our priority is to understand how best the Forum can build on this work and how we can ensure work being undertaken is aligned with our objectives. A potential approach includes:
- the Payments Council shares the research and analysis it has used to develop its proposals for WCP;
 - Requesting that the WCP project undertakes further work or consultation to align it with our objectives.

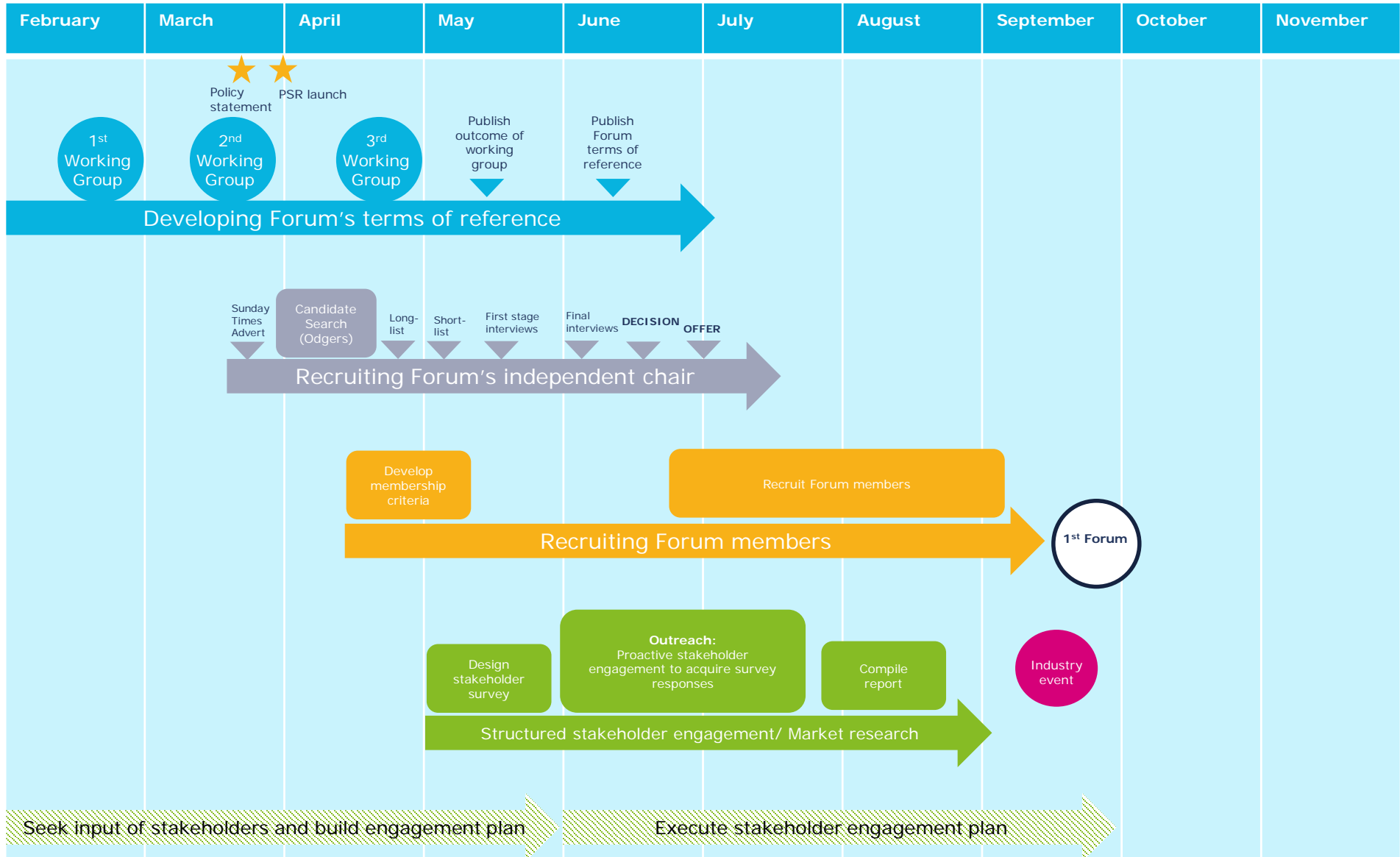
6 Forum membership and proposed nominations process

What you said

At the last meeting there was a productive discussion about the balance of representation on the Forum, between the demand side, i.e. users of payment systems, and the supply side, i.e. PSPs or infrastructure providers. A number of the group felt that the Forum should be demand led and aspirational when setting its objectives. Some of the group noted that although payments expertise should be represented through a combination of the individuals drawn from PSPs and operators, these members shouldn't act as a blocker to agreeing strategic priorities but should provide guidance if any of the proposed priorities were too unrealistic. There was a view that the detailed level of payments expertise should be provided via the Forums working groups that are set-up to consider any strategic priorities in greater detail.

There was agreement from the group that the proposed frequency of meetings was a challenge, especially given most were agreed that membership should be at a senior level. It was felt the most appropriate balance would be a maximum of six Forum meetings.

- 6.1 We continue to see the benefit of having a focused Forum of around 20 individuals, which works in conjunction with a wider stakeholder group – the 'Payments Community'. We intend to work with the Chair, once appointed, to select individuals based on their personal expertise, seniority and commitment. These individuals will be drawn from both industry stakeholders and payment user groups. We have revised the frequency of Forum meetings to between 4 and 6 per year.
- 6.2 We propose that the Forum's chair and the PSR will work together to appoint Forum members. We are currently developing a set of criteria for the selection of Forum members and will publish a call for members on our website in June or July 2015. Our imperative will be to have a transparent selection process based on criteria that we will publish. We will make clear that we will exercise discretion in selecting members to ensure we have flexibility to determine the right balance of stakeholders, given that service-user representation is paramount.
- 6.3 The criteria for selecting Forum members will include as a minimum:
- a track record of strong performance in similar strategy setting roles;
 - commitment to delivering good outcomes for the benefit of end-users;
 - where relevant, expertise in the payments industry.
- 6.4 Forum members will not represent the interests of their particular organisations. Neither will they represent constituencies of stakeholders. However, to ensure the Forum is representative of the sector as a whole and its customers, selection will make sure members come from each of the key stakeholder groups, with an emphasis on service-user representation.



DRAFT TERMS OF REFERENCE

Preamble

1. One of the Payment Systems Regulator's (PSR) objectives is to promote innovation. For effective innovation, the nature of the payment systems requires coordination in certain areas while still allowing for normal competition to occur in the industry. We need the expertise of payments industry participants to determine what is the most effective and efficient strategy for advancing innovation in the sector.

Objectives

2. The PSR has established the Payments Strategy Forum (the Forum) to provide coordination where it is necessary for stakeholders in the payments industry to work together in order to advance innovation in the interests of service-users.
3. The Forum will establish which areas require collaborative action, and develop and agree a strategy for joint work that can advance payment systems innovation and/or develop the payment systems to facilitate innovation more broadly in the sector.

Scope

4. The Forum will consider both payment systems and payment services in so far as the development of payment systems can be an enabler of new or improved payment services.
5. To determine areas where joint-work is necessary and requires its strategic coordination, the Forum will make use of an evaluation framework¹.
6. Ownership for developing and implementing project plans to deliver the Forum's strategic recommendations will remain outside the Forum but the Forum will monitor the industry's progress in delivering against its recommendations.

Forum activities

7. To achieve its objectives, the Forum will:
 - a. Seek and demonstrate that it has properly considered the wider views of relevant stakeholders at all key stages of its discussions, in particular through engaging with the Payments Community.
 - b. Seek to reach consensus on what desirable outcomes look like, based on available evidence, for people and organisations that use payments systems and the services they support.
 - c. Seek to identify and prioritise areas where joint work is needed to deliver these outcomes, and define and agree strategic recommendations to coordinate activity in line with these priorities.

¹ As in the paper above, the PSR is currently developing thinking about this framework.

- d. Publish an annual report which tracks progress of relevant stakeholders against the Forum's strategic recommendations and assesses where its strategies have been adopted.

The Forum Chair

8. The Forum will have a Chair who is independent of payments industry interests
9. The Chair is responsible for leadership of the Forum and ensuring its effectiveness in all aspects of its role.
10. The Chair is responsible for preparing and publishing each year an assessment of the Forum's delivery against its objectives and any areas for improvement. In the first year, this will form part of the joint review which the PSR will undertake with the Chair.

Structure of the Forum

11. The Forum will have two elements:
 - **The Forum** - A focused group of members will facilitate discussions, agree priorities and formulate strategic recommendations. It will have no more than 20 members who will demonstrate a track record of performance in similar strategy setting roles; commitment to delivering good outcomes for the benefit of end-users; and, where relevant, expertise in the payments industry. Forum members will not represent specific constituencies of stakeholders or organisations but they should be aware of the general viewpoint of their sector where such a consensus can be identified.
 - **The Payments 'Community'**² - open to all interested stakeholders as appropriate, the Payments Community will be an integral part of the strategy setting process. It will allow the Forum to continuously engage and consult with a broader range of interested stakeholders as the Forum develops its strategic recommendations.

Membership and appointments

12. The PSR will appoint the Chair for an initial term of two years.
13. The Chair and the PSR will work together to manage the selection process for Forum members. Members may be appointed for different terms to enable continuity of Forum members over time.
14. Members who are no longer capable of contributing effectively to the Forum's discussions or who resign may be replaced for the remainder of their term at the discretion of the Chair, in consultation with the PSR.
15. The Chair will also consider and decide on applications for membership received on an ad hoc basis and may admit an additional member where a relevant category of participant or stakeholder is not properly represented by the existing membership.

Secretariat

16. The Chair will be supported by a secretariat provided by the PSR.

² The original composition of the Community will be determined by the PSR. The Forum will be responsible for developing the community and seeking to engage new stakeholders through this mechanism

17. The secretariat will be responsible for supporting the Forum, its meetings and related events.

Functioning of the Forum

18. Appointed members should be present at meetings of the Forum.

19. The Chair will endeavor to achieve such consensus on priorities and recommendations by members attending the meeting. Dissenting opinions will be reflected in the minutes of the meeting.

20. Where consensus cannot be reached on key issues, the Chair may instruct a system of voting.

21. The Forum has no powers to direct its members, or the wider sector to undertake any action.

The role of the PSR and other authorities

22. The PSR will attend all Forum meetings and actively support the Chair where guidance is required in relation to its objectives. The PSR will provide secretariat support to assist the operation of the Forum. The Chair will be appointed by and accountable to the PSR.

23. The Bank of England, the Prudential Regulation Authority and the Financial Conduct Authority may observe meetings and provide guidance to the Chair in relation to their objectives, in consultation with the PSR

24. Other Authorities may attend Forum meetings where appropriate to provide relevant input into discussions.

Meetings

25. It is expected that the Forum will have between four and six meetings a year and there will be a number of additional stakeholder engagements or events.

26. Minutes and a summary of meeting outputs suitable for publication on the Forum website are approved by Forum members after each meeting.

Agenda

27. The agenda which will be circulated in advance of Forum meetings. Forum members may suggest forward agenda items to the Chair via the secretariat.

Working groups

28. The Forum may commission working groups for a limited period of time to engage in more detail on a particular issue, or to develop in further detail a strategic recommendation.

29. The Forum should agree terms of reference for each working group. This should include clear scope, objectives and a timetable in advance of the working group starting to meet.

30. Forum members should agree working group membership, which may include members outside of the Forum, and chairs. At least one of the working group members should be a Forum member. The PSR, and other regulators, may choose to attend.

31. The working group(s) will report back to the Forum.

Research and cost benefit analysis

32. In order to support Forum discussions, develop positions or support recommendations, the Chair may commission research or analysis.

33. The funding arrangements for this research or analysis will be agreed by the Forum and will dependent on the scope of the task at hand.

34. The Forum will make use of the resources of its members while seeking to ensure that research or analysis commissioned meets high standards of objectivity and independence.

Transparency

35. Summaries of meetings, reports and working papers developed by the Forum or its working groups will be published on the Forum website.

36. Stakeholders with an interest in the Forum's work and who do not participate in the Forum itself will be encouraged to engage through the Payments Community, or to contact the Chair via the secretariat.

Evaluation

37. The PSR will review the effectiveness of the Forum from time to time taking industry and regulatory developments into account and considering the views of other regulators / the Bank of England.

38. The review will assess the extent to which the Forum is able to achieve its objectives as set out above and whether changes are needed to its remit, composition or approach.