

Consultation paper

# Our proposed PSR Strategy

June 2021

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We welcome your views on this consultation. If you would like to provide comments, please send these to us by **5pm on 10 September 2021**.

You can email your comments to [psrstrategy@psr.org.uk](mailto:psrstrategy@psr.org.uk) or write to us at:

PSR Strategy  
Payment Systems Regulator  
12 Endeavour Square  
London E20 1JN

We will consider your comments when preparing our response to this consultation.

We will make all non-confidential responses to this consultation available for public inspection.

We will not regard a standard confidentiality statement in an email message as a request for non-disclosure. If you want to claim commercial confidentiality over specific items in your response, you must identify those specific items which you claim to be commercially confidential. We may nonetheless be required to disclose all responses which include information marked as confidential in order to meet legal obligations, in particular if we are asked to disclose a confidential response under the Freedom of Information Act 2000. We will endeavour to consult you if we receive such a request. Any decision we make not to disclose a response can be reviewed by the Information Commissioner and the Information Rights Tribunal.

You can download this consultation paper from our website:

<https://psr.org.uk/publications/general/our-proposed-strategy>

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# Foreword



**Chris Hemsley**  
Managing Director

Paying and being paid conveniently is central to our lives. Sitting behind those payments are a number of payment systems. It's the PSR's job to make sure these systems – and the markets they support – work better for people and for businesses.

There is a lot to celebrate about payments in the UK. Innovation, new products and new firms have brought about a transformation in how payments work.

And for lots of us, this works really well. Many of us have good local access to cash. And yet we can also leave the house with just a mobile phone, benefitting from contactless payments for clothes, food and transport. Increasingly, most of the time, a lot of us benefit from good broadband and mobile connectivity.

The same may be true for many businesses. Indeed, it is possible to set up and accept contactless payments in just a few hours from start to finish.

But most of us will also receive regular phishing messages, from people trying to defraud us. And there are times when we need cash, in situations where digital payments don't yet work.

Importantly, even this picture of payments working well for many, risks ignoring the impact on those for whom payments do not, or may not in the future, work well. For example, we know from our work that many people rely on cash in their day-to-day lives, do not benefit from good digital connectivity, and need payments to help them manage their tight budgets.

Our strategy reflects this mix of areas where payments markets and systems are supporting good and improving outcomes, but also highlights that there are areas where more work is needed. Work to meet immediate challenges, such as the change in payments behaviour brought on by COVID-19, and work to take forward changes that will improve outcomes over the longer term, as the UK moves towards increasing reliance on digital payments.

Many of those immediate challenges are reflected in our current annual plan:

- We need to make it harder for criminals to defraud people using the payment systems we regulate.
- We need to look after the victims who lose money when they have done nothing wrong.
- We need to continue our work to regulate the UK's main cash machine network so that there is good geographic availability of cash from free-to-use ATMs.
- We also need to continue our important work supporting competition in today's markets – by overseeing changes to the architecture of core payment systems to support innovation, by helping firms gain access to those systems, and by policing fair competition using our enforcement powers where necessary. Our recent case tackling a possible cartel in the pre-paid cards market illustrates the importance of this.

While we must recognise the impact of recent challenges on the sector, our PSR Strategy focuses particularly on the longer term, and sets out our views on a number of important points.

First, on how competition might support good outcomes in payments markets, such as low prices, high service quality and continued innovation. In particular, we set out our view that it is useful to consider two forms of competition: competition between firms supported by a particular payment system; and competition between firms on different payment systems. To date, the focus has been particularly on the former – supporting more competition within a given payment system, notably within Faster Payments.

Now, in this strategy, we point to the increasing need to focus on competition between firms that operate on different systems. And, by implication, competition between different systems. This reflects the changing nature of those systems – with technology increasingly allowing similar payments to be made using a number of different systems.

Second, this strategy sets out our view that there is an emerging risk to competition in retail payments markets. Competition has played a vital role in delivering good outcomes, improving service quality and innovation. But there are significant structural changes happening. We need digital payments to be competitive for everyone – and this means for all the main ways in which businesses and individuals make and receive payments.

In retail, we have historically relied on cash, cheques and card payments to do our shopping. This delivered choice between different payment types. But the future of retail payments is increasingly about digital debit payments – recent figures show that the number of ATM visits fell by almost 1 billion in 2020, a fall of 37% on 2019, and still remain significantly below the levels of February 2020, whereas card payments (including contactless and online transactions) had recovered to pre-COVID-19 levels in April 2021. And while new firms have entered and offered choice in terms of how to initiate these payments – such as via Apple Pay, Google Pay and so on – the bulk of these payments still rely on Visa or Mastercard.

This is not, in itself, a problem if we think that competition between these firms is effective. Or if we think that new payment companies are able to enter the market and compete with them.

But there is a risk that neither of these competitive forces are sufficiently strong to protect people and businesses. Indeed, at the moment, we do not see a likely way in which new entry – such as from a new crypto-based payment system – would address these risks in a timely manner. In which case, we face a long-term risk to competition in retail payments.

This is why a key part of our strategy is unlocking the potential of the existing interbank systems, so that they present a viable option to accept greater volumes of retail payments. Ensuring that – at this structural level – UK payments have sufficient diversity and rivalry.

This is not a straightforward task and will take some time to deliver. It requires technical changes to upgrade our interbank infrastructure so that it works for retail transactions. It also requires consumers to maintain confidence in using solutions built on interbank systems – which, in short, means ensuring that the right level of consumer protection is in place for people making payments in this way.

But for this to emerge we need to take a look at the commercial model for delivering retail payments. At present, card-based transactions earn income for banks and other payment firms. The same transaction using faster payments creates a cost to those same institutions. This means that the current commercial incentives do not align with the objective of making greater use of interbank to support competition over the longer term.

However, there are also opportunities here. Open Banking presents a new way to initiate payments over the interbank systems and could provide one way for new firms to bring innovative products to market in a way that manages these risks to competition.

This leads to the third change signalled by our strategy: the importance of governance and regulation. The creation of the PSR coincided with and supported a significant change in the governance and regulation of our payment systems. This has brought about a lot of change and improved outcomes – new, large-scale payment firms have successfully delivered valuable new services to people and businesses, supported by this governance, fair access and backed by the PSR as economic regulator. Wise (formerly TransferWise) is a clear example of this – and there are many more.

We think that there is more work to do, so that the governance and oversight of rules in our payment systems supports our objectives and delivers the outcomes that we and society want to see. We want to see Pay.UK deliver against a broader role, actively improving the rules governing interbank payments. This also means that new organisations – such as those overseeing the initiation of payments in the Open Banking framework – need appropriate governance frameworks and regulatory oversight, including by the PSR.

Whilst we work towards long term solutions, we will of course keep in mind the ongoing need to protect consumers – and our range of powers to do so if necessary. And if it appears that structural change will not deliver the outcomes for users that we want, our objectives will require us to intervene robustly.

This PSR Strategy signals, therefore, a number of important changes in emphasis. However, this comes from a continued focus on our core role – to protect the interests of people and businesses, and to promote competition and innovation in payments.

Pursuing this strategy will have implications for the PSR, its workplan and the skills and resources it needs.

It will also leave the PSR in a different place to where it is today. We need to continue adjusting our approach to ensure our work is directed where it will have the greatest impact. In the last few years, the payments ecosystem has changed. Sometimes this has been as a result of our work, other times it has come from changes in legislation or because new technology has enabled new business models and services. As these things evolve further, our role will need to adapt accordingly.

As this happens, the PSR's workplan will focus more on reforms to promote competition in and between payment systems and the markets they support.

As the economic regulator of payment systems, this is our core purpose.

This is an ambitious strategy – one that implies a continued focus on working through issues and risks facing UK payments. The PSR is uniquely placed to give these issues the continued attention that they deserve.

But it is also an exciting strategy. One that involves unlocking and supporting the potential of UK payments to solve problems facing society, support the UK economy and improve how we live our daily lives.

**Chris Hemsley**  
Managing Director



**Louise Buckley**  
Chief Operating Officer

Welcome to the PSR Strategy document.

In developing this strategy we've engaged with a wide range of stakeholders, and many of you would have been part of our discussions last summer, and since then. The contributions made during those discussions helped guide our strategic focus, which you will see reflected in this document.

You will see we have set out four outcomes we want to see in payments over the next five years (see Chapter 4), and four associated priority work areas that we think will help bring about those outcomes (see Chapter 5).

We want to make sure that whoever you are you have a fair choice about how to make and receive payments; that payment systems are fit for the future; and that we can all use them with confidence and knowing we are protected.

The PSR Strategy we are setting out today reflects where we think we – as a specialist regulator for payments – should focus our efforts, and how we think we should approach our work.

We want to protect what is working, change what isn't, and embrace new developments that will help bring in new businesses, new products and possibly even new payment systems for all our benefit.

This strategy is about making that happen.

We're confident that the approach we propose will help keep payment systems accessible, reliable, secure and value for money in the most efficient way.

A common theme running through this whole document, and the discussions we have had both internally and with you, is the need to focus our resources where we can have most impact. The PSR cannot tackle every issue or challenge in the sector. So just as important as what we are proposing to do is what we will not be able to focus on – and why.



We believe we have identified the right outcomes and priorities for the PSR over the next five years. We want to know if you agree and, if not, why not.

Much of the time we will be driving these outcomes forward ourselves, but there will be times when we get involved in areas that aren't necessarily seen as our locus but where we can see that help and leadership is needed. So as well as using our powers, we may also convene groups and encourage collaboration, then step back once a new direction has been agreed and others are better placed to take the lead.

Now we want to hear your views. From today until 10 September there will be a lot of engagement activity for you to connect with us and let us know whether you agree.

In Chapter 2 you will see a list of specific questions we are asking for your views on.

We look forward to hearing from you and discussing this PSR Strategy with you. I strongly encourage you to get involved in our engagement activity, which you can find out more about [on our website](#).

**Louise Buckley**

Chief Operating Officer

# 1 Executive summary

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Payments are a fixture of daily life and a key element in the UK economy; how we use them affects – and for some people, dictates – how we live our lives. Many people send money to friends with their phone, tap a card to pay for groceries or set up regular payments for their bills. But others don't have access to such a range of convenient options, and businesses often have little or no choice in how they receive payments.

For payments to work well for society we need the payment systems to work well and for competition to be effective in payments markets.

We want to make sure that no matter who you are you have a fair choice about how you can make and receive payments, and you are adequately protected when doing so. We want to promote competition both between payment systems and between payment services. And we want to make sure that payment systems are fit and sustainable for the future so that we can all use them with confidence. Our strategy will help us make this happen.

This is our proposed PSR Strategy for the next five years and we are now seeking the views of our stakeholders before we confirm the strategy. We are aiming to publish the final version before the end of 2021.

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- 1.1** We have been operational for six years, working hard to meet our statutory objectives of promoting competition, innovation and the interests of service users. We have delivered significant improvements against those aims and now that the PSR is a more established organisation, this is the right time to set out what we want to achieve and how we will prioritise our work in the next five years.
- 1.2** To do this, we have to take into account not only what's happening right now but also look ahead. We need to plan our work in light of rapid innovation and developments in technology, changes in the marketplace and in user expectations and behaviours.
- 1.3** Payments are the one financial service that every business and every consumer uses and relies on every day. Our society and economy depend on them.
- 1.4** Payments have also been transformed in recent years. It's now possible for many people to make almost every payment they need in an average day using just a card or a smartphone and for businesses to make large payments between them virtually instantly and at relatively low cost.
- 1.5** But payments don't yet work well enough for everybody. And there are opportunities for further improvements. Payments and payment systems must work well for all. The PSR plays an important role in achieving this.

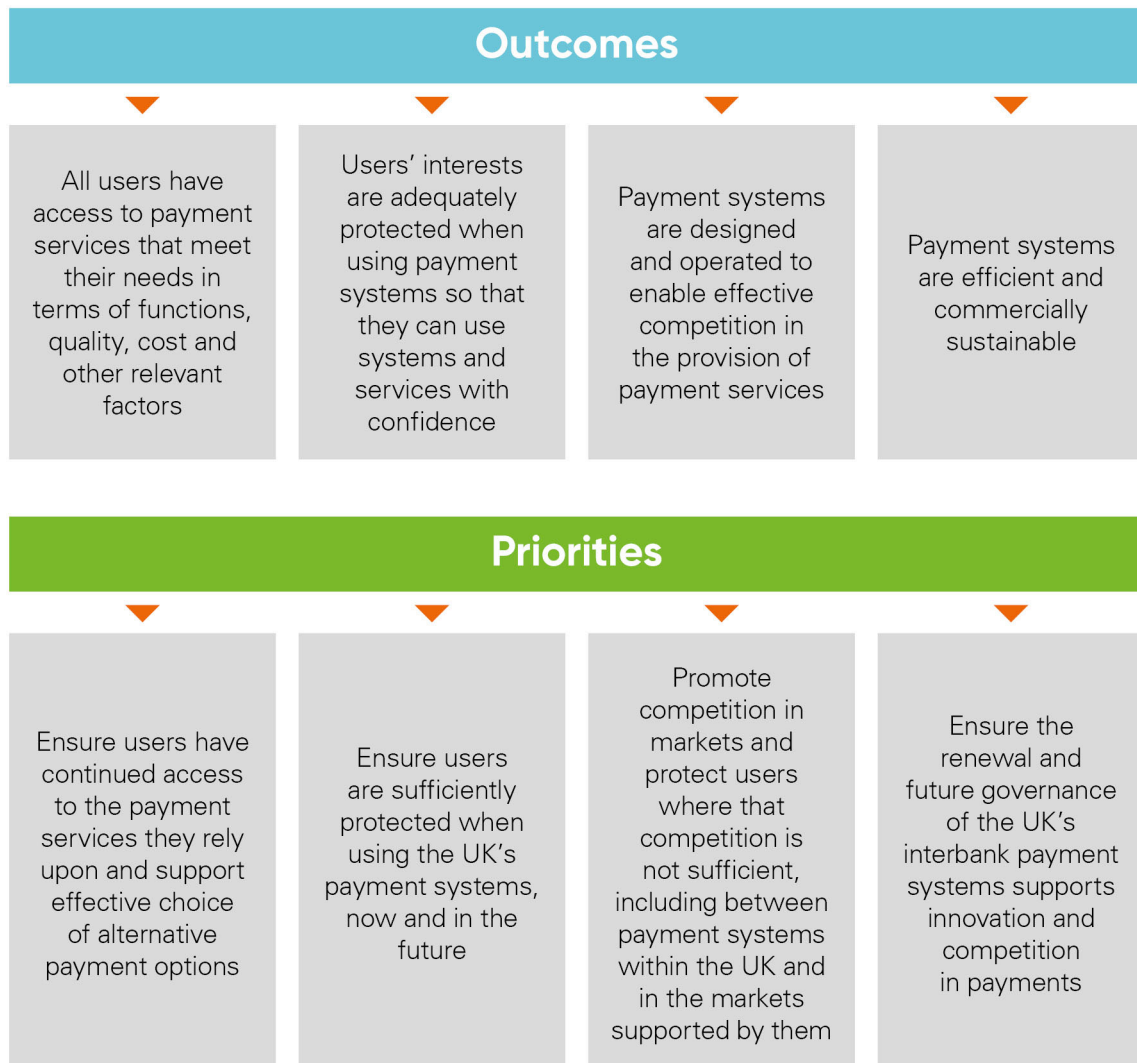
- 1.6** We want competition to be a key driver of improvements in payments. While competition is not a goal in itself, it is a process which typically leads to good outcomes like greater innovation, efficient prices and high service quality. In particular, we want to see interbank payments provide effective alternatives for card payments for a wide range of uses. The PSR's role to protect access to payment systems and to secure fair competition remains an important focus for the organisation.
- 1.7** Some inherent features of payment systems may act to limit rivalry between competing firms. That means competition may not be sufficient to protect people and businesses in all circumstances in terms of their payment needs.
- 1.8** For these reasons, the PSR will remain focused on how best to support competition, act to increase it over time, and deal with the consequences where it does not or cannot deliver the outcomes that society needs. To do this successfully, the PSR needs to balance action in the near-term against the need to improve markets and competition over the longer term.
- 1.9** As existing payment systems evolve and new ones are developed, it's vital they develop in ways that deliver benefits to people and businesses. It also remains important that as new systems and services replace current ways of paying, that we do not leave people behind.

## Key elements of our PSR Strategy

- 1.10** This document sets out our perspective on payment systems and the markets that they support: what is going well, the opportunities for improvements and the risks and issues we see. Some of these features are inherent to payments markets and payment systems. Others are not and instead reflect history and the current structure of governance and commercial frameworks.
- 1.11** Our PSR Strategy is informed by this assessment and goes on to identify **four strategic outcomes** that we want to achieve in the next five years.
- 1.12** Like any organisation, the PSR has finite resources and we want to focus our work so that it has the most impact – both in the near-term and over the longer term. Reflecting this need to prioritise, we set out how we think we can deliver against the four outcomes, based on our assessment of the opportunities, risks and issues in UK payments. This leads us to propose **four strategic priorities**. These priorities will be used to inform our future workplan; aligning our projects to these priorities.

**1.13** The outcomes and priorities are summarised in Figure 1.

**Figure 1: Our proposed outcomes and priorities**



- 1.14** We identify a range of actions that we believe will help us to achieve these priorities. These are summarised in Table 1.

**Table 1: Summary of strategic priorities and actions**

Priority	Actions to meet this priority
Ensure users have continued access to the payment services they rely upon and support effective choice of alternative payment options	<ul style="list-style-type: none"> <li>• make sure the arrangements are in place to support the development of new services that meet users' needs</li> <li>• ensure that our approach to the regulation of any newly designated payment systems is robust and proportionate</li> <li>• make sure we understand and take account of the perspective of vulnerable consumer groups towards new ways of paying and the choices available to them</li> <li>• ensure that regulatory approaches are aligned between regulators, and the division of responsibilities is clear</li> <li>• continue to protect access to cash for those that rely on it</li> <li>• support and protect competition, given its potential to fulfil user needs</li> <li>• continue to promote a range of options for payment service providers to access payment systems</li> </ul>
Ensure users are sufficiently protected when using the UK's payment systems, now and in the future	<ul style="list-style-type: none"> <li>• develop governance of the interbank rules, with a view to giving Pay.UK a stronger role to lead the development of protections (and other conduct rules), coordinating its participants where necessary</li> </ul>
Promote competition in markets and protect users where that competition is not sufficient, including a) between payment systems within the UK and b) in the markets supported by them	<ul style="list-style-type: none"> <li>• shift our focus to promoting competition between payment systems</li> <li>• support and develop the interbank systems to provide greater competition</li> <li>• consider the need for us to regulate in order to protect consumers and businesses if other measures are not producing the competition outcome we seek</li> </ul>

Priority	Actions to meet this priority
Ensure the renewal and future governance of the UK's interbank payment systems supports innovation and competition in payments	<ul style="list-style-type: none"> <li>• ensure that funding is adequate to enable Pay.UK to fulfil its objectives, and that funds are allocated in a way which supports and promotes innovation and competition in overlay services.</li> <li>• ensure requests for new APIs or the introduction of new functionality into the core infrastructure are assessed appropriately and resources assigned to their development</li> <li>• support developments to Pay.UK's governance of the interbank rules so it has greater ability to enforce compliance with its rules and changes in those rules that improve outcomes.</li> <li>• support and promote coordination between payment system participants where we think it is needed but not happening.</li> </ul>

**1.15** Just as important as what we are choosing to focus on is what we are choosing **not** to focus on, at least not as a priority at this stage. Sometimes we know that there are problems related to payments but we think that we may not be best placed to act. At other times we may have to prioritise areas where users' interests are being harmed now over other areas where there is a risk they may be harmed in the future. We will always be interested in any aspect of payments that affects our statutory objectives, whether in relation to competition, innovation or the interests of service users, but we will also always have to choose how our work can have the most impact.

**1.16** The use of data in payments, the efficiency of cross-border payments and the environmental sustainability of payment systems have all been raised with us as areas of concern. We recognise that these are important topics, and that they relate to our statutory objectives. We will keep these areas under review. We may, in future, change our relative priorities if we find that developments relating to these topics make achieving our strategic outcomes more risky relative to other work, or where we see evidence of a detrimental impact to competition.

**1.17** Related to this, the payments sector is a fast-moving and changing sector. Our PSR Strategy sets out our current view on how to prioritise our work. However, there are likely to be occasions when we need to be involved in areas that we have not foreseen in this document. We always need to make sure we are focusing our resources where we can make the most impact. In doing this, we will work closely with other organisations, including where they are best placed to take action.

- 1.18** Reflecting the potential for change, we need to understand if outcomes are moving in the right direction and whether there is a need to change direction if we are not seeing the results we expect to see. In Chapter 5 we set out how we will measure progress, including developing new metrics in order to support an assessment of the extent to which our strategic outcomes are being met, and to inform future choices about what changes might be needed to our workplan. We will also continue to analyse the UK payments landscape to identify possible long-term trends, risks and opportunities of potential strategic significance.

### Seeking your input

- 1.19** This consultation offers you the opportunity to see the PSR Strategy that we are proposing and which we developed on the basis of our day-to-day work as regulator and after initial consultation with stakeholders.
- 1.20** We would like to know if you agree with the themes, outcomes and measures which will help us to prioritise our resources to make payments in the UK work for everyone.

## 2 Introduction

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We are setting out a formal PSR Strategy for the first time, after delivering significant improvements against the priorities originally set out for the PSR. The Strategy defines outcomes that we want to see in the payments sector, and how we will work to achieve them. It provides clarity to our stakeholders and staff on where our focus will be and will also help us to make best use of our resources.

This document is our proposed PSR Strategy. It is informed by our experience over the past six years, and by engagement with all our stakeholders, including the input we received during a digital-led engagement programme in summer 2020 and ongoing conversations since. The next step is to gather feedback on the outcomes and priorities we propose to focus on, and on the right way to measure if we are achieving those outcomes.

We will engage with a wide range of stakeholder groups during the consultation period.

We will publish our confirmed PSR Strategy towards the end of 2021.

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- 2.1** In this chapter we introduce our proposed PSR Strategy, provide an overview of why we're doing this work, summarise some of the key events leading up to and feeding into it, and set out what we are hoping to achieve.

### About the PSR

- 2.2** The Payment Systems Regulator (PSR) is the UK's economic regulator of payment systems.
- 2.3** Payment systems perform a critical function for the UK economy – for businesses and consumers alike. Every time anyone uses a cash machine, transfers money, buys something, or gets paid, they use a payment system. Payments are the most commonly used financial service in the UK. Our modern society depends upon them and they affect our day-to-day lives.
- 2.4** Payment systems are always evolving and we are here to make sure they work well for everyone – whether they are an individual consumer, sole trader or large corporate business. We use our experience as an economic regulator to help us improve payment systems and the markets that they support. We do so together with the other regulators with powers over payment systems. We've elaborated on how we coordinate with them in paragraphs 3.50 to 3.52 and Annex 2.



- 2.5** Our vision is for payment systems that are accessible, reliable, secure and value for money. Our strategy – which will help us deliver our vision – is firmly rooted in our statutory objectives, which underpin everything we do. These are:
- to promote effective competition in the market for payment systems and the markets for services provided by payment systems
  - to promote the development of and innovation in payment systems, including the infrastructure used to operate those systems, with a view to improving the quality, efficiency and economy of payment systems
  - to ensure that payment systems are operated and developed in a way that takes account of and promotes the interests of the businesses and consumers that use these services

## About this document

- 2.6** This document is our proposed PSR Strategy.
- 2.7** We are seeking your views on a set of questions to help us gather a broad range of feedback. This will help us finalise our approach and ensure we are focused on the right outcomes, but we also welcome feedback on any other aspects of this proposed strategy.
- 2.8** As well as gathering written feedback, we will be arranging a series of engagement events so that we can engage with you in person, to listen to and understand your views.
- 2.9** Unless otherwise stated, observations in this document about current conditions in the payments sector, and expectations about its future, are based on our experience of regulating the sector, and engagement with our wide range of stakeholders; these views are not definitive. We welcome views on these observations. When it comes to individual projects, any specific policy decisions will only be taken after detailed analysis and inquiry.

## Why we're developing a long-term PSR Strategy and why now

- 2.10** The PSR became operational in March 2015 with the explicit purpose of making sure we have payment systems that work for everyone. Our focus has been on promoting effective competition and innovation and ensuring that payment systems are operated and developed in the interests of service-users.

**2.11** At the time of our launch, we put in place a programme of work to tackle these priorities:

- we carried out market reviews into who provides indirect access to payment systems, ownership and competitiveness of infrastructure
- we convened the Payments Strategy Forum, to provide strategic direction to the UK payments industry
- we introduced a suite of measures to address the ownership and governance of, and access to, payment systems
- we set out behavioural standards for those under our regulation
- we established our monitoring and enforcement standards

**2.12** In the six years since this initial statement of our priorities, in addition to achieving all of the above, we have taken on many further pieces of work:

- We have published guidance, monitored compliance and taken enforcement action in our roles as the lead competent authority for enforcement of the Interchange Fee Regulation in the UK, the competent authority for monitoring and enforcing regulations 103,104 and 61 of the Payment Services Regulations 2017 and the joint co-competent authority (with the FCA) for regulation 105 of the Payment Services Regulations 2017.
- We inquired and reported on the issues raised in a super-complaint brought by Which? concerning authorised push payments. This has led to our work on APP Scams, and to our work requiring banks to implement Confirmation of Payee messaging.
- We have worked with other regulators to maintain access to cash as a means of payment.
- We are carrying out a market review of access to card acquiring services, to see whether merchants are treated fairly when accessing payment services.

**2.13** This work has led to better outcomes for payment systems and their users. Opening access to payment systems allows for more firms to offer new products and services to consumers. Our work with the UK's interbank systems has enabled consumers to have more confidence that their payments are not misdirected. There are now better protections for consumers to reclaim money lost to scams. Our work on access to cash means that consumers continue to have free access to ATM withdrawals within their communities, while our work on investigating whether competition is working effectively has led to competition enforcement and an investigation into the services that allow merchants to accept digital payments.

**2.14** We recognise that there is more that can be done. We need to adjust our approach to ensure our work is directed where it will have the greatest impact. In the last few years, the payments ecosystem has changed. Sometimes this has been as a result of our work, or because new technology has enabled new business models and services.

## How the PSR Strategy will fit with our annual plan

- 2.15** Each year, we publish an Annual Plan which sets out our aims for the year and how we will go about delivering against them. Typically, this involves balancing our resources across a number of projects and our ongoing activities.
- 2.16** Once finalised, our PSR Strategy will give us a framework to make decisions about what we do, and how, over the next five years. Our Annual Plans will detail the activities we intend to take each year that will help us meet our Strategic priorities. We will explain how each activity in our Annual Plan fits within the scope of the strategy, and how we will measure our success.
- 2.17** It will be important to link our regulatory activities to changes in the strategy success metrics. As part of the process, we will monitor and publish the progress of our decisions and determinations on an annual basis.

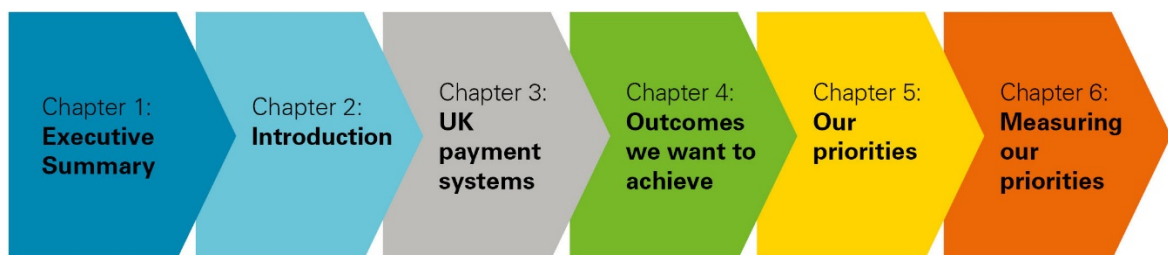
## How the PSR Strategy links to our Administrative Priority Framework

- 2.18** Once it is confirmed, our PSR Strategy will help us to decide the strategic importance of decisions regarding, for example, which investigations we open and continue, and how we respond to applications and complaints, subject to any specific legal duties we might have.
- 2.19** Our Administrative Priority Framework describes the types of issue we will consider and questions we will ask ourselves in order to help make these decisions. In making these decisions, we will initially consider the degree to which taking action provides us with an opportunity to advance one or more of our statutory objectives, functions and duties, as we are unlikely to pursue an action which does not clearly do this. We will then weigh up the impact and strategic importance of taking action, against the associated risks and resource implications. Our strategic priorities will inform that assessment.
- 2.20** Our Administrative Priority Framework is illustrative, rather than exhaustive, and we will consider other factors where and as appropriate. However, in due course (and after we have confirmed our strategy, taking into account feedback from this consultation), we will update our Administrative Priority Framework, to ensure our strategic priorities are embedded in our decisions through that formal mechanism.

## What we've done so far

- 2.21** In 2020, we undertook a campaign of engagement to hear different perspectives on our work and our approach. We broke our initial engagement down into three themes: competition, innovation and future payment methods, and choice and availability of payments.
- 2.22** To help us explore these themes we had contributions from a range of external organisations representing stakeholders from across the sector, including British Retail Council, Emerging Payments Association, UK Finance, Vendorcom, Toynbee Hall and the Financial Services Consumer Panel. We also published contributions from individual members of staff. Taking the form of blogs, think-pieces and video discussions, these contributions helped shape the debate.
- 2.23** We've summarised the key viewpoints from the engagement in Annex 1. The discussions were invaluable in helping us learn what our stakeholders think, want and expect from us in the future. They have influenced this proposed PSR Strategy.

## How we present our proposed PSR Strategy



- 2.24** The rest of this document is set out to reflect the above approach:
- **Chapter 2** outlines the current status of payments and payment systems in the UK and describes how we see the landscape evolving.
  - **Chapter 3** describes the outcomes we will work to achieve in payments.
  - **Chapter 4** sets out our priorities for achieving those outcomes, and how we plan to meet those priorities.
  - **Chapter 5** details how we will measure if we are achieving our stated outcomes.
- 2.25** For each of these areas we are asking for stakeholders' opinions on our description of the issues and our view of the best way forward.

### **A note on users**

In this document we frequently refer to 'users of payment systems'. Both those sending and receiving funds are users of payment systems. Consumers, businesses, charities and many government agencies are all users of payment systems, and all need effective and efficient payment systems to be able to pay each other, merchants or suppliers. However, none of these groups are likely to have direct relationships with the underlying payment system, which may make it more difficult for payment system operators to keep the interests of these users in mind.

Inevitably, the interests of various user groups do not always perfectly align. Where regulatory intervention is required to resolve conflicts, we will act in line with our statutory objectives. However, in many cases interests do align: for example, governments want payments to consumers to be made as quickly and efficiently as possible, and merchants and consumers have a shared interest in convenient retail payment methods.

Consistent with other economic regulators, as a general principle, we will focus on whether changes are likely to deliver improved outcomes for 'end users', in the near or longer term. This means considering what impact changes might have on individuals and (non-payment) businesses wanting to make or receive payments. We principally do this by promoting the competitive process (rather than individual competitors), and acting to protect users where necessary.

Where system-level change is required, we may have a role in setting expectations, and collaborating with the industry and users, or using our formal powers to secure change. Some problems with payments may be specific to individual payment service providers, and other regulators might be better placed to act.

## **Consultation questions**

**2.26** We would welcome views on the following questions:

### **Questions related to Chapter 2: Payments and Payment Systems in the UK**

1. Do you think the key trends we have identified adequately capture the most important system-level changes payments and UK payment systems are likely to experience over the next five years? If not, please explain what we have missed and why it is important.

### **Questions related to Chapter 3: Outcomes we'd like to see in payments**

2. Do you think the key outcomes we want to focus on provide the right balance between promoting competition and innovation and doing so in a way that benefits all the businesses and consumers that make payments in the UK? Please explain why or why not.

### Questions related to Chapter 4: Our Priorities

3. Do our strategic priorities provide the coverage, focus and flexibility we need to achieve the outcomes we want to focus on over the next five years? Please explain why or why not.
4. Do these strategic priorities provide clarity on the choices we make, and especially on why and when we choose to intervene? Please explain why or why not.

### Questions related to Chapter 5: How we will measure whether we are achieving our strategic priorities

5. Do you think the measures we propose will help us to assess whether we are achieving our strategic priorities? Please explain why or why not.
6. What other criteria do you think are central to measuring our effectiveness and should those complement or replace those we propose in this document?
7. Do you know any existing sources of data we can use to assist our metrics?

## What happens next

- 2.27** We are consulting on our proposed PSR Strategy and welcome stakeholder feedback and views on the questions above.
- 2.28** Given the significance of this document, it's really important that we hear a wide range of views during the consultation period. We want you to understand what we are proposing and why, and provide feedback that helps us create our final PSR Strategy.
- 2.29** To support this, you can engage with our proposed strategy in the following ways:
- There are [videos](#) from our Senior Leadership Team introducing the PSR Strategy and putting it into context.
  - We will be hosting a series of webinars to discuss our proposed strategy and answer questions you might have.
  - There will be a number of digital 'regional' events to meet and engage with local representatives such as local businesses, consumers, representative groups and Members of Parliament.
- 2.30** Further details on our planned engagement activity can be found on our dedicated PSR Strategy webpage at <https://psr.org.uk/publications/general/our-proposed-strategy>
- 2.31** The deadline for feedback is 10 September 2021.

# 3 Payments and payment systems in the UK

In this chapter, we describe:

- what we see as strengths and issues relating to the UK's payment systems, including the impact that they have on payments markets
- the inherent features of payment systems that affect how payments markets work and our regulation of them
- the features of the UK's payment systems that affect outcomes, and which reflect factors that are more specific to the UK market
- areas where we observe potential change to payment systems in the future, which have the potential to improve outcomes but also some that bring new risks and issues

## The UK's payment systems

**3.1** The UK's payment systems are critical to the UK economy. In 2019, **40 billion payments worth over £92 trillion pounds** were settled and cleared in the UK.<sup>1</sup> Bill payments, salary payments, ATM withdrawals, and grocery shopping – among many other critical uses for both businesses and consumers – all depend on the systems we regulate.

**3.2** Our regulatory powers as defined under FSBRA can only be applied to those payment systems that are designated to us by the Treasury. There are currently seven payment systems designated<sup>2</sup> for us to regulate:

**Table 2: Designated payment systems**

<b>Bacs</b> (operated by Pay.UK)	The bank account to bank account system that processes payments through two principal payment schemes: Direct Debit, which is predominantly used by individuals to pay (recurring) bills, and Direct Credit which is predominantly used by businesses to pay employee salaries and wages.	In 2019, 16% of all transactions made in the UK were made using Bacs
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1 UK Finance (2019).

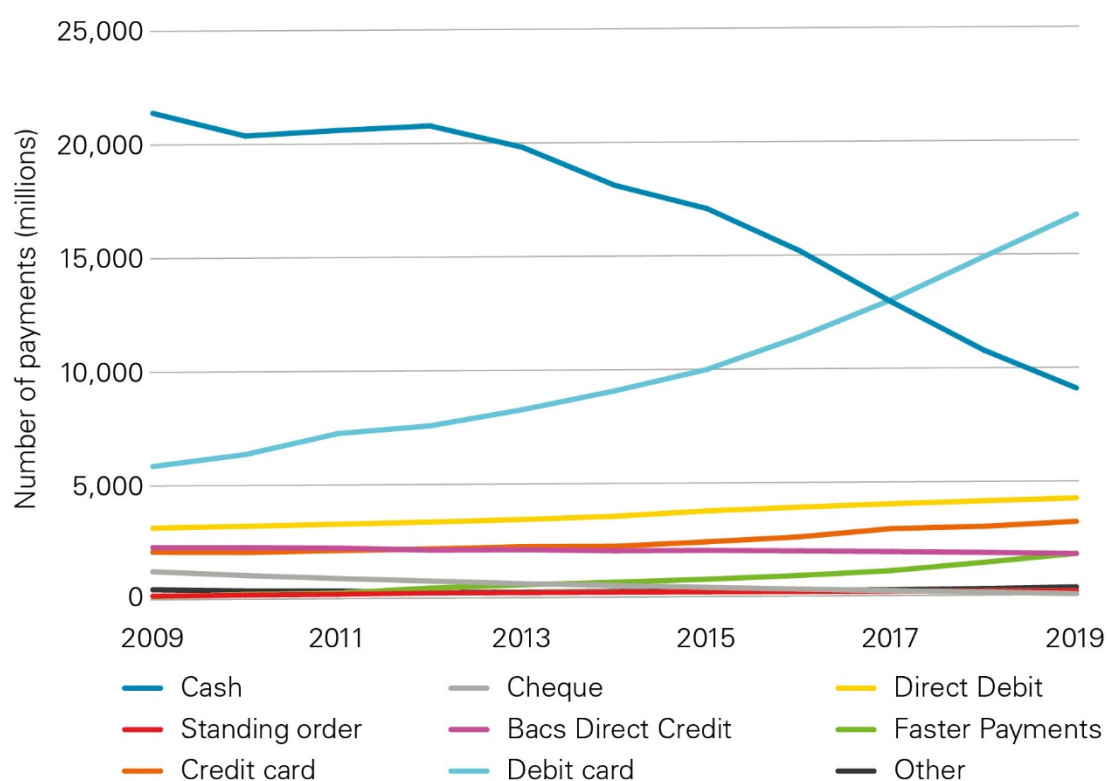
2 Under the Financial Services (Banking Reform) Act ('FSBRA') 2013.

<b>CHAPS</b> (operated by the Bank of England)	The UK's real-time, high-value sterling payment system, where payments are settled over the Bank of England's Real Time Gross Settlement infrastructure. Accounting for over 90% of the daily sterling payment value, it is used to process both wholesale (e.g. international payments between banks) and retail (e.g. house purchases) payments.	In 2019, less than 1% of all transactions made in the UK were made using CHAPS
<b>Cheque &amp; Credit Clearing</b> (operated by Pay.UK, including the Image Clearing System)	The bank account to bank account system in the UK that processes cheques and other paper instruments, including those processed through the Image Clearing System (ICS) which enables digital images of cheques to be exchanged between banks and building societies.	In 2019, 1% of all transactions made in the UK were made using cheques
<b>Faster Payments</b> (operated by Pay.UK)	The bank account to bank account system that provides near real-time payments, as well as standing orders. Over 400 financial institutions offer Faster Payments, making it available to the vast majority of current account holders in the UK. Whether transferring money to family and friends, making a charity donation or paying for a utility bill via standing order, almost all internet and telephone banking payments in the UK are now processed via Faster Payments.	In 2019, 6% of all transactions made in the UK were made using Faster Payments
<b>LINK</b> (operated by LINK Scheme)	The ATM to bank account system that enables you to take cash out of your bank accounts (and other activities) using the LINK network of ATMs in the UK.	In 2019, 23% of all transactions made in the UK were made using cash
<b>Mastercard</b> (operated by Mastercard Inc)	The card payment system processing debit and credit card transactions made using a Mastercard branded card. These payments can be made online through providing your card details or by using your (contactless) card.	In 2019, 55% of all transactions made in the UK were made using a debit or credit card
<b>Visa</b> (jointly operated by Visa Europe and Visa UK)	The card payment system processing debit and credit card transactions made using a Visa branded card. These payments can be made online through providing your card details or by using your (contactless) card.	



- 3.3** Faster Payments, Bacs and Cheque and Credit Clearing are all owned and operated by Pay.UK, which is a not-for-profit entity. CHAPS is owned and operated by the Bank of England, and LINK, Visa and Mastercard are all owned and operated independently. Unlike many other countries, the UK does not have a separate national debit card system.
- 3.4** There is some limited overlap between the functions offered by some of these systems – for example, LINK, Mastercard and Visa all support ATM transactions and either Faster Payments or Bacs could be used for business to consumer payments.
- 3.5** The total value of UK payments was £8,743 billion (excluding CHAPS) in 2019, with debit cards the most used payment method by volume of transactions.<sup>3</sup>

**Figure 2: The changing share of UK payment methods**



Source: Payments Markets 2020, UK Finance

- 3.6** The payments sector is changing; digital payments are becoming more convenient and new business models are creating new payments products and services. The use of cash is in decline: over 20% down in the past three years prior to COVID-19. There has been a growth in the proportion of ATMs owned by independent ATM deployers (IADs), partly as a result of branch closures by the major retail banks, combined with expansion by the IADs. As the use of cash declines across the country, we have seen some reductions in the numbers of free-to-use ATMs. The geographic coverage of the free-to-use ATM network remains good.

<sup>3</sup> UK Payments Markets 2020, UK Finance

- 3.7** Many transactions that were once paid for using cash are now made by debit card, resulting in a rapid growth in the share of debit card transactions. In 2017 the volume of debit card transactions was greater than the volume of cash transactions for the first time, and has continued to increase. Likely factors for consumers' increased preference for debit cards include:
- the growing consumer acceptance of chip-and-pin and then the expansion of contactless authentication
  - the expansion of card acceptance (including following the entry of payment facilitators such as Square and iZettle into the card acceptance market, who offer services to smaller merchants)
  - the use of debit cards in passthrough digital wallets such as Apple Pay and Google Pay
- 3.8** More recently, the balance between cash and card transactions has been affected by the shift towards conducting more of our lives online, including as a result of COVID-19.
- 3.9** Payment systems largely offer the same services to their participants as they did in 2015, but the ways that people pay for goods and services has evolved. These participants – banks and other financial services providers – have been able to offer new methods of access to their customers, who now rely heavily on internet banking or mobile banking over smartphones, which allow them access to Faster Payments services.
- 3.10** Over recent years, the interbank payment systems have developed other functions which have not yet had as much impact:
- Paym allows consumers to make payments using mobile phone numbers as the account reference. Consumers' access to the Paym service is via their account provider.
  - Pay by Bank was intended to allow for retail purchase transactions using Faster Payments. Take up has been slow amongst banks, merchants and consumers, and the service has not achieved the share of transactions seen in other countries for similar solutions.
- 3.11** In addition, the cheques infrastructure has been upgraded to allow for the digital processing of these payments. This has increased convenience for many users of cheques, but cheque volumes continue to decline and now account for less than 1% of payments made in the UK.
- 3.12** Most other payment methods are growing, but are not gaining share in any significant way in comparison to debit cards. There may be some signs of substitution between Bacs Direct Credit (DC) and Faster Payments: Figure 2 above shows Faster Payments share increasing while Bacs DC declines slightly. But we do not expect most uses of Bacs DC – salary and welfare payments – to migrate to Faster Payments. There is little evidence of significant substitution between debit cards and Faster Payments:

this situation may change as take up of Open Banking-enabled services drives more transactions to Faster Payments.

- 3.13** The landscape has also shifted, or is likely to shift, in light of wider changes in society and the economy. The recent pandemic has affected how payments are made. Separately, we have already seen changes in consumer habits and preferences (e.g. greater use of online shopping, widespread use of smartphones). We also need to be mindful of the wider strength of the economy, the wider pressures on financial services firms, and the potential impact these have on the availability and cost of funds for investment in payment systems and new payment services. We also need to be mindful of whether such events bring about temporary or more longstanding changes to payment systems and how they are used.
- 3.14** As we assess the ways in which our payment systems are used and the ways in which their roles evolve, we have thought about which features of payment systems come about as an inevitable result of the role that they play in the economy and how they work, and which features may be the result of the UK's specific approach to payments. This distinction is useful, as it highlights the extent to which we might be able to bring about change to these different features, and which are more likely to endure.

## Some features of payment systems are inherent to their role: payment systems as platforms

- 3.15** Since the turn of the millennium, much attention has been focused on two-sided markets where distinct groups of users are brought together to make transactions on digital platforms.<sup>4</sup> Automated payment systems have always fulfilled this role.
- 3.16** Platforms perform a coordination function amongst their participants. Payment systems provide for a common set of technical standards that must be applied across the network for transactions to be sent between each other. Payment systems will also establish a common set of rules that apply to their members – these rules will differ in their breadth of impact between systems, but all payment systems must have at least basic standards of conduct to cover, for example, the time required for payments to settle and clear across the network. These rules allow for confidence and predictability for both payment service providers and end users.

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4. Two-sided markets, or platforms, give value to two distinct groups of users (e.g. travellers and hotels in an online booking platform; or payers and payees on each side of a payment system). The value of the platform to each group is enhanced if there are more users on the other side. That is, the more shops accept a payment system, the more valuable it is to payers; and the more payers who want to use that payment system, the more value the merchant gets from accepting it. In contrast, in what is sometimes called a pipeline market, value simply flows through a supply chain from manufacturer to consumer and the intrinsic value of a unit of the product does not increase with the number of its users.

- 3.17** In the rest of this document we distinguish between ‘payment services’ and ‘payment systems’. Payment systems are co-operative arrangements between system operators, payment service providers and other participants which provide the rules and functionality for payments to take place smoothly. Payment services are the services that payment firms offer to consumers or businesses, allowing them to transfer funds to other consumers and businesses.
- 3.18** When offering new services or functions to people or businesses that wish to make or receive payments, coordinated change across the industry is normally required. The manner and extent that payment service providers can offer new services to end users depends on the relevant markets, but may also depend on changes that need to be universal to be effective.
- 3.19** New users of payment systems are usually recruited not by the platform itself, but by platform members that offer payment services to end users. In payment card systems, acquirers will sell on payment processing services to merchants, and issuing firms will provide cards to consumers. Branding that applies across the network may allow end users to understand where they may access the payment functions offered by the system, and the standards that apply when using the system.
- 3.20** The way in which platforms coordinate functions or develop rules can vary significantly. The interbank payments systems in the UK were developed as a cooperative venture that was managed collectively by the banks. Responsibility for its governance and operation has recently been transferred to a not-for-profit entity, Pay.UK, whose objectives require it to take the interests of all users, including end users, into account when performing its functions. In contrast, the largest card payment systems, Visa and Mastercard, are controlled by global commercial organisations. LINK is owned and operated independently, but on a not-for-profit basis.
- 3.21** The nature of platforms can make it harder for a new platform to enter and compete with an established one. There are several reasons:
- The cost of establishing new platforms is high, but the marginal cost of each transaction is low. This decreases the chance of successful entry by new participants.
  - Platforms benefit from indirect network effects. A payment system with a large number of retailers using the system to receive payments will be attractive to those making retail payments, as there will be a higher likelihood of being able to transact with any given retailer. By attracting more people and businesses looking to make payments, the system will then become even more attractive to other retailers.
  - Once networks are established, however, it may be easier for incumbent platforms to offer new services to their users than for entrants to build a new network and offer new services. This can lead over time to an entrenched advantage in the quality of services offered.

- 3.22** Platforms may perform a gatekeeping function: some groups of users may be constrained in their choice of whether to use the platform or not, or may face high costs to switch away. Platforms with gatekeeper characteristics may be able to exploit 'captive' users of the system in various ways, even if there is a degree of competition for other groups of users.

## Some features of the UK's payment systems are specific to our payments markets

- 3.23** There are some features of the UK's payment systems that can be observed here but may not be caused by the systems' role as a platform. Some features occur here in the UK but are not inherent features of all payment systems:
- In the majority of cases, consumers are not charged a separate fee in order to make a payment, whether by their payment service provider or by their payee. The cost of payments is often recovered by firms in other ways, which may not be apparent to the end user. This may have an impact on the ability of payees (for example, retailers) to signal their preference for one type of payment service over another.
  - There is much overlap across the membership of most payment systems: the UK's banks are high-volume members of both card clearing systems and interbank clearing systems.
  - There is a high degree of concentration in the provision of debit card clearing services, with card issuers typically determining whether current accounts offer payments via the Visa or Mastercard networks (but not offering this choice to their customers).
  - The providers of the UK's card clearing networks compete with each other (and with national payment system providers) in many other markets outside of the UK. They may develop services to respond to competition elsewhere, which they then deploy into the UK.
  - Mergers and acquisitions have been and remain a feature of UK payments markets, including involving the incumbent providers of card clearing networks. Many of these transactions involve multi-national firms and firms based in other countries, but affect current or prospective service providers in the UK.
  - The governance and commercial incentives differ across the systems used in the UK. The UK's retail interbank payment systems are operated by Pay.UK, who offer their services on a cost-recovery basis as a not-for-profit entity. Pay.UK has limited independent capacity to engage in mergers and acquisitions, invest independently in marketing, brand or other promotional activities, or expand globally. As we discuss in Chapter 4, we think that the differing incentives across payment systems and their participants affect how Pay.UK operates and its ability to develop new rules or promote new functionality.

## Payment systems and services are changing

**3.24** Some of the features of the payments landscape have changed since our establishment six years ago and will continue to change. We need to take these into account, and we will also reflect on areas where we would like to see more change.

### Increasing competition between payment systems

**3.25** Historically, we have seen a number of payment systems being designed specifically for a particular purpose, with relatively low levels of inter-operability and/or opportunities for users to move payment volumes between these systems.

**3.26** In recent years, advances in technology have allowed payment systems to provide more services on each network, either through improvements to the central system or by making use of technology that allows additional information to be provided in addition to the standard clearing messages – for example, APIs.

**3.27** We are also seeing moves towards common messaging standards, that increase the opportunities for interoperability. Indeed, the renewal of the interbank payment systems is planned to deliver ISO20022 messaging standards, on a single clearing and settlement layer.

**3.28** Growth in non-cash retail payments has been dominated by card systems in the past six years, but there are opportunities for competition from other payment systems, particularly interbank systems. Such competition could be increasingly important, as debit cards are a highly concentrated market with limited opportunities to improve competition between the cards systems. Visa currently provides over 95% of debit cards in the UK, and Mastercard provides most of the remainder.<sup>5</sup> Meanwhile, card schemes have been launching products aimed at business-to-business payments.

**3.29** Looking ahead, the future looks more likely to be characterised by a small number of payment systems supporting a wider range of different payment services. And for these payment services to be available – in principle or in practice – across more than one payment system.

**3.30** This raises the prospect of greater interoperability and more opportunities for competition between systems, reflecting the greater overlap in the payment services that they can support.

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5 UK Payment Statistics 2020 – UK Finance

## New systems and their impact on users

- 3.31** Digitalisation and new platforms have led to disruptive change in other industries, and in payments sectors in other countries.
- 3.32** The UK has high levels of debit card ownership, with many individuals moving away from routine use of cash and cheques. This may affect the prospects for further disruptive change in UK payments markets, as relatively large numbers of people and businesses have already moved to making and accepting payments digitally.
- 3.33** There are, however, potential ways for new payment systems to be established, including through:
- a. the deployment of new technologies (most obviously systems based on distributed ledger technology, or those delivering lower cost through use of cloud technology), and/or
  - b. the entry of an existing non-payment network – such as a social media firm – into the payments space
- 3.34** New payment systems have the potential to bring greater choice and competition. Due to the underlying features of payment systems, they also have the potential to grow to operate at scale in relatively short periods of time. This would particularly be the case if the new network already had a large user base (historically acquired for a different purpose).
- 3.35** This is, of course, not just a hypothetical consideration. There are new payment systems in development today – both systems that intend to offer services to consumers and systems that are intended only for use by commercial banks.
- 3.36** We are, therefore, mindful of the likelihood that new payment systems will be established in the UK. In such circumstances – and in light of the underlying features of payment systems – we might expect government to consider the case for designating them to us for regulation.
- 3.37** This has led us to consider how our approach may need to change if new payment systems were designated to us, and whether our approach is consistent across the systems we currently regulate. The way we approach the regulation of new systems will include the way they interact with existing systems. They will offer new services and choices, so it is important that people are informed about these choices and protected appropriately from risk (for example, the risk of losing money or being scammed). Where more than one system presents the same risks to end users, we would expect to take a consistent approach to how we regulate these systems. This mirrors the ‘same risk, same regulation’ principle adopted by the Bank of England.

## Changing role of the interbank payment systems

- 3.38** Interbank payment systems are crucial to the economy. They process most of our salaries, welfare payments, bill payments and payments between different people.
- 3.39** The role of the interbank payment systems is changing:
- a. Our work to open up access to Faster Payments and Bacs has created more competition between PSPs, offering new services on these systems.
  - b. The growth in online and digital banking has made it easier for individuals and businesses to make and receive payments using, in particular, Faster Payments.
  - c. Open Banking has led to new standards for initiating payments, and allows more firms to provide payment services. This should lead to new innovative services for people and businesses using the systems.
- 3.40** The foundation of Pay.UK has also changed the systems' governance arrangements and the process by which the rules of each system can be changed.
- 3.41** The interbank systems now support more services and participants than they were originally designed for. Furthermore, some of the systems are now being used in ways for which they were not originally designed and/or in ways that have created new risks that need to be managed.
- 3.42** This has led to some gaps in service and quality – for example, the systems' limited ability to tackle authorised push payment (APP) scams. This has raised questions about whether the rules and technology in place for Faster Payments are appropriate. One example of this is the need to introduce Confirmation-of-Payee capability.
- 3.43** The NPA programme should provide a technical infrastructure that will future-proof payment services in the UK and allow interbank payments to meet a broader range of needs by providing a robust and sustainable infrastructure where innovation and competition can thrive. But developing and implementing it requires coordination across the system operator and its participants.
- 3.44** This will also likely not be the end of the need for interbank systems to adapt. We would expect payments markets to continue to evolve and so the rules governing participation and use of interbank systems will also need to evolve to keep pace and to realise potential future benefits.
- 3.45** This raises questions about whether the governance of the scheme rules is sufficiently flexible to keep pace with the changing demands placed on the systems. We have also highlighted the legislative barriers to the PSR acting to require certain changes to scheme rules, while Pay.UK has also highlighted the current constraints on it acting.



## Decline in the use of the UK's ATM network

- 3.46** As we have seen, the use of cash as a payment method – and so the use of the UK's ATM network – has declined in recent years.
- 3.47** Historically, the commercial provision of free-to-use ATMs has provided important benefits to society, including to those who are reliant on cash as a means of payment. However, as the use of cash declines, the commercial case for some payment providers offering continued free access to cash from ATMs is likely to reduce.
- 3.48** In addition, the cost of maintaining this network will be spread across fewer transactions, increasing the average cost of providing cash access through ATMs in this way. As banks, building societies and other payment firms are not required to be members of the LINK network, this raises the prospect that some members may choose to leave the scheme. These decisions – taken on the basis of commercial costs and benefits – would not fully reflect the benefits that the network brings to society and to the vulnerable in particular.
- 3.49** More generally, as cash use declines, it is likely to become more costly to maintain the current cash infrastructure. This points to the need to explore alternatives to reliance on ATMs and on the potential benefits of supporting digital alternatives that provide similar benefits – meet similar needs – to cash.

## Regulation of payments in the UK

- 3.50** The PSR, the FCA and the Bank of England all have roles in regulating payments in the UK. We work closely with the other regulators, and with HM Treasury. These three authorities have different remits. In general terms, the roles of the three authorities in relation to payments can be thought of as follows:
- PSR regulates the designated payment systems (see Table 2 in paragraph 3.2) and participants of such systems, to make sure those systems work well for everyone.
  - FCA regulates the conduct of payment firms (including banks, payment institutions, e-money institutions and payment initiation service providers, for example). It has a statutory objective to make relevant markets work well, and operational objectives to protect consumers, protect financial markets and promote competition.
  - The Bank of England regulates firms that could impact financial stability.
  - The Prudential Regulation Authority (PRA) is the prudential regulator of around 1,500 banks, building societies, credit unions, insurers and major investment firms. As a prudential regulator, it has a general objective to promote the safety and soundness of the firms it regulates.

**3.51** This means that, for example:

- large payment system operators like Pay.UK and Visa are principally regulated by the PSR and Bank of England
- payment firms like Revolut and Wise (formerly TransferWise) are principally regulated by the FCA and the Prudential Regulation Authority (PRA)
- banks like Virgin Money and Monzo are principally regulated by the PRA and FCA
- some banks also provide indirect access to payment systems, like NatWest and Starling, and so are also regulated by the PSR in respect of that indirect access (in addition to the more general regulation by the FCA and the PRA)

**3.52** There are some complexities and exceptions which are set out in Annex 2.

# 4 Outcomes we'd like to see in payments

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The key outcomes we want to focus on in the next five years are:

- All users have access to payment services that meet their needs in terms of functions, quality, cost and other relevant factors.
  - Users' interests are adequately protected when using payment services so that they use systems and services with confidence.
  - Payment systems are designed and operated to enable effective competition in the provision of payment services.
  - Payment systems are efficient and commercially sustainable.
- 

**4.1** Our PSR Strategy describes the outcomes we want to achieve for business and individual users and consumers. In this chapter, we describe the future we will work towards as we continue our work.

## Outcome 1:

**All users have access to payment services that meet their needs in terms of functions, quality, cost and other relevant factors**

**4.2** Payments are essential to people's lives and businesses. They are the one financial service that everyone uses and relies on every day. Our society and economy also rely on them to function effectively. Consumers and businesses need payment systems and payment services to receive salaries or welfare payments, to buy and sell, to make charity donations and to invest savings. These transactions are made possible by the payment systems we regulate.

**4.3** Users will naturally have different needs, and these will change depending on how they are using payment systems. Payment system users are a diverse group of people and organisations, who make and receive payments for many reasons. Some of those reasons require specialised services and functions. For example, Direct Debits are supplied to meet the needs of billers and bill payers, and retail purchases require point of sale standards and technology to meet the needs of merchants and their customers. As services are designed and delivered, the needs of both payer and payee in any type of payment transaction should be taken into account. As we consider whether users' needs are met – and if not, whether we need to intervene – we will want to understand:

- whether the cost of payment services affects users and their ability to access services, and if the cost is appropriate and fair
- whether the quality of the services is sufficient for users' needs
- whether each function that users need is provided for by at least one system
- whether all users can access payment services they rely on
- whether systems work to prevent harm (such as fraud) from happening, provide redress for failures of the system, and whether that redress is effective and appropriate for the level of risk of the system

**4.4** Business needs will tend to differ from consumer needs, but they will also vary between different types and sizes of business. Many very small, or micro, businesses will have much more in common with an individual consumer than with a large multinational retailer. For example, a sole trader may see payments as a necessary cost of doing business but not have much time to consider the service provision they receive. In contrast, a large national retailer would typically have employees dedicated to managing their payment costs and services.

**4.5** We would like to see the needs of all groups catered for, but the impact of a failure to meet users' needs will vary according to the type of failure and the type of user. For example, the loss of certain payment services for a few hours could be a minor inconvenience to some consumers, but could create a significant loss of income for a small business. Consumers who are financially excluded, financially vulnerable or have an uncertain income, may need different services to more affluent consumers. They may also be exposed to greater risks when using the same functions. Payment systems – both operators and other participants – should be mindful of the needs of vulnerable consumers when designing and implementing their services.

**4.6** In any automated payment made between people or organisations, payment system operators and payment service providers will have differing roles to fulfil as part of the arrangements of the system. We think it is important that the payment system as a whole works to ensure that users' needs are met. Both the rules and standards that govern payment systems, and the services that are provided to users, should be established with the needs of the consumers and organisations that use them in mind.

## How UK payment systems are performing against this outcome today

- 4.7** We think that at present most users, most of the time, have access to payment methods that meet their needs. But we recognise that there are some groups of users who might be underserved. We also understand that the landscape is changing and this might lead to some users having fewer options.
- 4.8** Some payment methods – most notably cash, but also cheques – are declining in volume and so may become less cost-effective to support as a system in the future. We know, however, that the continued availability of these methods is important to some groups of users. We understand that it is important to protect these users' interests.
- 4.9** Conversely Direct Debit and Direct Credit are very widely used and depended upon, but may not meet all users' needs. These payment methods may not allow enough flexibility for consumers with uncertain or low income to pay bills or employers with complicated payroll requirements. Payment methods that do offer greater flexibility may not be widely available to consumers or employers.
- 4.10** A further issue is that some existing payment methods are declining in importance and, looking ahead, may not be as universally accepted as they are today (notably cash). Some payment methods have been introduced in recent years that may meet some of the needs of users that depend on declining payment methods, or fill the gaps in existing methods. But the offer and adoption of new payment methods – for example, Paym, Pay by Bank, or Request to Pay – is sometimes slow and the new methods may not be made available to all the users that need them.
- 4.11** There are several reasons that might act to inhibit the adoption of new services (even where they appear to meet a legitimate need), including:
- the services rely on networks to be established among users
  - coordination between different firms – payment system operators and payment service providers – may not be sufficiently effective
  - offering new services may not be in the commercial interests of payment service providers
  - access to the service may rely on access to expensive technology or specific financial products, or
  - once new payments are made available it becomes clear that they do not meet the needs of users and so are not adopted.

- 4.12** New technologies – in particular the use of Application Programming Interfaces (APIs) and overlay services – may allow for some of these barriers to be overcome, allowing for a wider provision of payment services and allowing more users' needs to be met. But some of these challenges will remain: new technology is only likely to be deployed if it is in a payment service provider's commercial interest to do so, and if there is a route to building a network of users at sufficient scale.
- 4.13** Improved payment system governance, such as a clearer focus on the needs of end users in the way rules and standards are established, may also help to overcome some of these issues.

## **Outcome 2:**

### **Users' interests are adequately protected when using payment services so that they can use systems and services with confidence**

- 4.14** As we have described above, there are a range of different payment systems and ways to make payments in the UK. Many users will have at least a degree of choice in the payment method they use for many transactions. For example, when paying at a supermarket till, many people can choose between using cash, a debit or credit card (contactless or not) or using a card payment via their mobile phone.
- 4.15** Some users, in particular large businesses, are more likely than others to be able to understand and assess the costs and benefits of different payment services and systems, as they may have resource devoted to it. As payments are a service that most people principally need to be simple and convenient, individuals and some smaller businesses may not have the time or information to assess the complicated trade-offs between various providers and services.
- 4.16** Where users can make informed choices about the relative costs and benefits of using different payment services, their needs are more likely to be met through effective competition.
- 4.17** We think that the overall cost of payments matters. We are interested in costs imposed by payment system operators or technical infrastructure providers on their participants, and also in costs recovered from users by payment service providers. Users should be able to predict costs, so they can compare providers and choose what works best for them. We would expect certain minimum information to be available to those who are able to exercise a choice. As well as clearly setting out any fees for a payment before any agreement is made (which is required under the PSRs 2017)<sup>6</sup>, we expect a clear description of the services offered, and of any obligations that agreements place on users, whether payer or payee.

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6 Regulation 43(2)(c)

- 4.18** But some consumers and some businesses are not always able to choose their payment method. There are several reasons for this, including:
- some payment types are only offered by one payment system, and only have one method of access available to users
  - some payment methods may not be accessible to users with certain disabilities
  - the user's payee may limit the types of payment method that they accept
- 4.19** It is also possible that a user's choice is limited by the way payment options are presented to them. For example, firms may direct users towards payment types which bring them benefits – lower cost, higher revenue, easier operational processing – rather than promoting payments that bring higher relative benefits to users.
- 4.20** We expect payment systems and payment service providers to consider the interests of all sets of users, and to ensure that users are adequately protected when using payment systems and services, whether by prevention or redress after the fact. We expect payment systems to act where this is not the case.
- 4.21** It is always important to us that user needs are met and they are protected when making and receiving payments. However, we recognise it is unlikely to be optimal for comprehensive protections to cover all users in all circumstances. Trade-offs need to be made between the costs and benefits of protection measures so that payments provide value for all users. And, as we have recognised in our work on APP scams, that means some degree of personal responsibility by users is often necessary to reduce the scope (and therefore cost) of protections that are needed.
- 4.22** When payment systems and their participants are assessing whether user protections are sufficient, we expect them to consider the risks faced by users, and in particular consumers, when using payment services. We expect their assessment to be based on realistic assumptions about consumer behaviour, and we expect them to take into account how the system is used. As the use of payment systems evolves, we expect the rules and standards that govern which protections are available to users to change accordingly and reflect any risks inherent in new uses of the system.
- 4.23** Where competition between service providers does not exist, or does not lead to good outcomes for users (for example because users do not have choice, or where information is unavailable or insufficient), we may need to intervene to ensure that the system as a whole works in users' interests.
- 4.24** We will take a broad view of user interests, including for example what methods of redress users have available to them in the event of errors or failures and the contractual terms that allow users access to a payment method.

## How UK payment systems are performing against this outcome today

- 4.25** How consumers and businesses are protected when something goes wrong with their payment is predominantly determined by law. For example, The Payment Services Regulations 2017 apply to many payment services, including the services provided by banks, building societies and card providers, and set out a right for a consumer or business to be refunded if a transaction was made without their authorisation.<sup>7</sup> It also outlines which service provider is liable if it made a mistake during the execution of a payment (for example, a wrong amount was transferred, or the payment was sent to the wrong account).
- 4.26** Some payment systems offer additional protections that go beyond those guaranteed by the Payment Services Regulations 2017. Most of these protections apply when consumers make payments to purchase goods or services.
- 4.27** All debit and credit card payments offer purchase protection through the chargeback scheme. This scheme gives consumers and businesses a chance of getting their money back from their bank or card provider if a purchase they made was faulty or not provided. Chargeback is not a legal protection; members of card payment schemes offer it as a condition of their participation in the scheme.
- 4.28** Credit card payments over a value of £100 additionally benefit from the protection afforded through section 75 of the Consumer Credit Act 1974. This provision holds the credit card company jointly liable for any breach of contract or misrepresentation by a retailer or trader. It allows consumers to make a claim against their credit card companies for a refund if retailers refuse to honour the contract properly, and these protections apply even if the retailer has since gone out of business.
- 4.29** Payments made by Direct Debit benefit from a Direct Debit Guarantee. This guarantee protects businesses and consumers in the event that there is an error in the payment of a Direct Debit – for instance, if a payment is taken on the incorrect date, or the wrong amount is collected – but it cannot be used to address contractual disputes between consumers and the billing organisation.
- 4.30** When the Faster Payment Service was first implemented in 2008, it was intended mainly to support person-to-person payments to be supported by account providers' telephone banking or online services. Faster Payments's simplicity and flexibility has allowed it to grow and to support many different uses since that time.
- 4.31** Faster Payments as a system imposes few conduct requirements on its members. The Payment Services Regulations 2017 impose some basic requirements on payment service providers that allow for reimbursement if payment service providers make processing errors or allow unauthorised payments that lead to losses.

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<sup>7</sup> For payments made using credit card, refund rights for authorised transactions are set out in the Consumer Credit Act 1974.



- 4.32** However, different uses of Faster Payments lead to different risks. Push payments (that are irrevocable after authorisation by a consumer) can be exploited by fraudsters, leading to life-changing losses for some victims ('authorised push payment scams'). We have been working together with the industry and with Pay.UK for some time to tackle this issue. This has led to our work on the Contingent Reimbursement Model and to the implementation of Confirmation of Payee checks as standard for the largest banks.
- 4.33** We have found in our work on consumer protection that general consumer awareness of protection is low, meaning that while some consumers have some knowledge of different protections, many may not know precisely what protection is offered in different circumstances and only realise they are not adequately protected after making a payment.<sup>8</sup> There is also a strong likelihood that many consumers underestimate the risks of something going wrong with their purchases, and do not choose the payment method based on the degree of protection it offers.
- 4.34** We think it is likely that the ways in which Faster Payments is used will continue to evolve. It is clear that tackling consumer losses when using payment systems requires systems and their participants to think not only about when and how losses should be refunded to consumers, but also about how to avoid the loss taking place – we think there is likely to be further scope for changes to rules, standards and technology to make Faster Payments transactions safer for all concerned.
- 4.35** As we discuss in Chapter 2 above, we consider it more likely now than in the past that new payment systems may be established and will offer services to consumers and businesses. If this happens, we will take an interest in how free users are to choose whether to use the service, and whether the system adequately protects against risk to users.

### Outcome 3:

## Payment systems are designed and operated to enable effective competition in the provision of payment services

- 4.36** Competition in payment services is important in providing the conditions for services to be offered at appropriate prices and good quality. It should also encourage innovation to provide a greater variety of services.

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<sup>8</sup> <https://www.psr.org.uk/publications/consultations/cp21-4-consumer-protection-in-interbank-payments-call-for-views/>

- 4.37** Firms that are members of the same payment system can compete to provide services to users. In these cases the arrangements set out by payment system operators may influence how effectively firms can compete. Payment systems should not impose unnecessary barriers to participation so that new entrants can access systems. Our work on access to payment systems has allowed for new participants to join the UK's interbank systems, and this in turn has allowed those new entrants to provide new services to users.
- 4.38** However, payment system operators do not only influence competition between payment service providers through the access conditions set out. Payment systems should support the development of new services and capabilities so that new use cases and business models can be provided by payment service providers.
- 4.39** We think that there are increasing prospects for competition between service providers for services supported by different systems. The renewal of the UK's interbank systems will follow a design which allows for more flexibility in the services that can be supported: simple push payments sent over the central clearing system can be enhanced with further information or differing standards by overlay services.
- 4.40** We may see a future with fewer payment systems, but where payment service providers may more easily choose between which they use: we think that existing systems will each support more types of service, but also that as the UK's interbank systems implement a newer international messaging standard – ISO20022 – it may become simpler to switch payment volumes between systems which use that standard.
- 4.41** We expect payment systems to operate in a way that enables and supports competition both between payment systems and amongst participants in the same payment system. We will consider whether the governance structures, terms and fees applied by payment systems promote greater competition between them.

### How UK payment systems are performing against this outcome today

- 4.42** Today, the ability to use different payment systems for similar transactions is relatively limited. For example, retail transactions are largely made by debit and credit card payments, and the interbank systems do not provide the technical capability that would allow mass transfer of these transactions onto the interbank rails. Open Banking will, however, start to change this for some retail uses.
- 4.43** The design of the NPA is intended to allow for the creation of new services which might compete with existing services, and through the use of overlay messaging some new services may be provided without requiring every system participant to make technology changes. However, the competitiveness of systems across payment types is not only a matter of technical infrastructure, but also a question of economics and commercial incentives.

- 4.44** For some years now, more payments in the UK have been made by debit card than by any other payment method. These payments are generally made for retail purchases. Other payment methods that were previously used very commonly to pay for goods and services – cheques and cash – are in decline, and the competition they provide for debit card services is reducing as a result. Given the very high and stable market share of one provider for debit card clearing services – over 95% of all debit cards in circulation in 2019 were Visa-branded cards – there is a long-term risk to competition in retail payments.
- 4.45** Payment systems gain revenue and recover their operational costs in different ways. The interbank systems are funded by transaction fees paid by participants. These systems have a not-for-profit model: participants fund Pay.UK and its systems on a cost-recovery basis and while banks may pass on the cost of participation to commercial clients, they will normally will not charge consumers to make payments using these systems. The UK's ATM system, LINK, is also run on a not-for-profit model, but the rules of the system allow card issuers to pay interchange fees to ATM providers.
- 4.46** Conversely, the card systems used in the UK are established as listed companies and seek to generate profits to their shareholders. Card networks are supported by fees paid between participants (interchange fees, paid from acquirers to issuers) and fees paid from participants to the payment system operators and technical infrastructure providers. The fee structure of card schemes is complex, but includes both transaction fees, which may differ by type of transaction or whether the transaction has been made across state borders, and also licensing fees paid by participants as a condition of entry. In this model, the payment system operator, technical infrastructure provider and issuing firms all gain revenue as a result of membership of a card system.
- 4.47** There is a large overlap between participants in card systems and in interbank systems, although there are card issuers who are not members of interbank systems, and banks who are members of interbank systems that do not offer payment cards to their customers. Financial services firms offer credit card products and supply debit cards linked to current accounts, but a part of the basic offering of a current account is that money may be sent to or received from other UK accounts, which uses interbank systems. For firms that are members of both types of system, consumer payments represent a revenue source if they are processed by a card system but a cost if they are processed by an interbank system.
- 4.48** Within the rules of card systems, interchange fees are paid from acquirers to issuers. In practice, however, acquirers pass the cost of these fees on to their clients, the merchants. Across both types of system, the costs of operating the system are not normally passed directly on to consumers as individual charges for making payments.

- 4.49** Even before the implementation of the NPA, changes to the regulatory framework might have prepared the ground for more payment types to be processed by the interbank systems. The introduction of payment initiation service providers (PISPs) has not so far led to a large expansion of using interbank systems for retail purchase transactions. This could be partly because some data or functionality that is required for these transactions is not supported on interbank systems. It could also be because the banks, who have no commercial interest in encouraging the growth of independent Payment Initiation Service Providers, lack the incentive to make the customer journey for these services attractive.
- 4.50** This raises a further issue – the incentives on participants to support change. It is unlikely that participants will prioritise the enhancement of systems that represent a net cost to them over the enhancement of systems that represent a net revenue gain. Building consensus for system enhancements will be difficult. Interbank systems might not offer the full range of functionality required for some payment types, which will in turn mean that they cannot compete effectively with card systems for those payment types.

## Outcome 4: Payment systems are efficient and commercially sustainable

- 4.51** The costs of operating UK payments are ultimately paid for by consumers and businesses (even if they do not always face the direct cost at the time of making a payment). It is therefore important that payment systems are run efficiently so that they represent value for money.
- 4.52** Payment system operators and technical infrastructure providers will normally charge participants fees for participation in the payment system, but when assessing the efficiency of a payment system we will also need to take other costs into account. Financial services firms and businesses will incur costs initially when integrating their technology systems with central payment systems, and over time as they process payments and make any technology changes required for continued participation.
- 4.53** We understand that charging participants fees is necessary in order to allow recovery of investment costs, continuing operating costs and to support development and innovation in payment systems. Payment system operators and their technical service providers typically face high costs when establishing the system but relatively low ongoing ('marginal') costs while operating: the additional costs incurred by a payment system to process an additional payment is negligible. In this context it is often not obvious how to establish what an efficient level of charging might be, as charges need to support effective use of the systems while also recovering investment costs.

- 4.54** Cost recovery arrangements will affect how firms that participate in more than one payment system are incentivised to invest in change and development. It seems likely that firms – in particular retail banks – will prioritise investment in systems that offer revenue to them above investment in systems that represent cost to them. As the payments landscape evolves, it will be important for us to understand how costs are passed through the payment system. Certain costs may be paid disproportionately by certain types of user or participants, or we may find that high costs discourage entry by new firms.
- 4.55** The overall cost of processing payments (across all parties) matters. As payment system operators develop services, they should help their participants and users to make their own processing more efficient. We also expect to see different payment systems work cooperatively where that cooperation can allow for a greater defence against the possible misuse of payment systems – fraudulent payments, payments to sanctioned accounts, payments in service of organised crime or terrorism.
- 4.56** Payment systems rely on investment in technology and processes in order to meet the changing needs of participants and end users. These costs ultimately need to be recovered over the long term, and funds need to be available for future investment, as technology changes. This points to the need for a sustainable funding model for payment systems. It is, however, important to distinguish this general need for a sustainable funding model from the need to fund all payment systems in perpetuity. Payment systems will change over time, and so some will reduce in importance, and ultimately cease operation.
- 4.57** We have also considered issues around environmental sustainability given the current climate crisis and how this should affect our work. We think that the decarbonisation of UK energy production will improve the environmental sustainability of payment systems – as digital payment systems rely on electricity consumption to operate.
- 4.58** However, there are some new types of payment system under discussion which appear to come at a very high environmental cost. There may be a future role for the PSR to ensure that any environmental impact of new systems and services is understood, and we will keep this area under review.<sup>9</sup>

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<sup>9</sup> In line with section 172(1) FSBRA, we will continue to have due regard to the impact of our operations on the community and the environment.

## How UK payment systems are performing against this outcome today

- 4.59** There are several areas in the UK's interbank payment systems where current arrangements do not always allow for efficient processing. Both Bacs and Faster Payments allow for simple push payments, but each system has a different proprietary messaging standard. In effect this means that one system cannot easily be used as a substitute for the other: businesses and payment service providers find it difficult to easily switch payments between systems, and the overhead in connecting to both systems to support both bulk and single payment types is doubled. The messaging standards that are currently used do not allow for useful contextual information to be sent with a payment: this affects businesses' ability to reconcile payments to invoices. We think it is possible that as Faster Payments is used for more reasons, the limitations of the current standard used for messaging will become more apparent.
- 4.60** We think that the design of the NPA – which should allow for more information to be passed with a payment clearing message, but also allows for any new information gaps to be filled by the use of overlay services – will remedy these issues. We think it is also likely to allow for greater competition in the market for retail purchasing services.
- 4.61** But in order for interbank payments to develop in a way that delivers the best outcomes for users the NPA programme needs to address these technical issues and also be supported by a set of rules that support effective use of that technical capability. To do this, Pay.UK's governance needs to allow it to effectively develop and promote the systems under its remit. This may point to the need for further evolution of Pay.UK's current role, possibly supported by legislative change and changes to its governance.
- 4.62** Following the implementation of Open Banking standards and the introduction of Payment Initiation Service Providers in recent years, there are already some firms using an overlay service to initiate payments from large retail banks with the consent of the account holder. The NPA will bring more opportunities for firms that are not members of the system to be involved in payment transactions. We recognise that the standards that apply to payment transactions are not always merely technical messaging standards. For some types of payment transaction, there will be a need to set rules or minimum standards governing the interaction between counter-parties, businesses and consumers across the network (for example, in the event of a disputed payment). We think there is currently a gap: there is no one agency that is well placed to establish minimum standards of this kind. Even where Pay.UK can establish and monitor standards, they will apply only to its members.

# 5 Our priorities

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In this chapter, we set out what how we will approach doing what we can to help to achieve those outcomes. These are our priorities for the coming years:

- Ensure users have continued access to the payment services they rely upon and support effective choice of alternative payment options.
  - Ensure users are sufficiently protected when using the UK's payment systems, now and in the future.
  - Promote competition in markets and protect users where that competition is not sufficient, including a) between payment systems within the UK and b) in the markets supported by them.
  - Ensure the renewal and future governance of the UK's interbank payment systems supports innovation and competition in payments.
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**5.1** In Chapter 4, we outlined four outcomes that we would like to see in payments. In this chapter, we set out how we will approach helping to achieve those outcomes. We also note the work we have already done that should help to bring them about.

**5.2** To recap, the four outcomes we want to see are:

1. All users have access to payment services that meet their needs in terms of functions, quality, cost and other relevant factors.
2. Users' interests are adequately protected when using payment services, so that they use systems and services with confidence.
3. Payment systems are designed and operated to enable effective competition in payment services.
4. Payment systems are efficient and commercially sustainable.

**5.3** To work towards these outcomes, we need to establish priorities for our work. There are many approaches we could take to ensuring that users' needs are met, but we need to focus our efforts on those that we consider are most effective.

- 5.4** We recognise that the payments sector is dynamic, and that there could be changes that affect what the PSR should be prioritising. We are setting our priorities now, but we understand that there may be other demands on our time and resource over the coming years that we have not foreseen here. We will continue to analyse the UK payments landscape on an ongoing basis to identify possible long-term trends, risks and opportunities of potential strategic significance. Where we identify issues affecting payments markets, we will consider how our involvement can be most effective. In doing this, we will work closely with other organisations, including where they are best placed to take action.

## How we plan to achieve the four outcomes

### Priority 1:

Ensure users have continued access to the payment services they rely upon, and support an effective choice of alternative payment options

#### Why this is a priority

- 5.5** Payment systems are essential to society and the economy because they allow individuals and organisations to make payments to one another. Payment systems keep the entire economy going and their safe and secure operation is relevant to all individuals and organisations in the UK and in every country.
- 5.6** Behind every payment made or received there is a network of organisations, technology, processes and procedures, all working together to enable payments to be made, whether it's by cash, cheque, card or mobile phone.
- 5.7** Moreover, this is a sector that does not stand still. Companies find new ways of delivering payments because it's more efficient or because they find that there is demand from users for easier and more convenient ways of making payments.
- 5.8** Within the last decade, the UK's payments sector has continued to innovate and, as user needs have changed, so has the use of different payment services. In 2017, the volume of debit card transactions overtook the volume of cash transactions for the first time, and the use of cash has dropped over 20% since. In many ways, this decline has also been reinforced by COVID-19, which accelerated the move away from using physical currency to paying via more digital means.
- 5.9** Many people still rely on cash in their everyday lives. It is important that their interests are protected so they are not left without a convenient way to pay. As a minimum, everyone should have easy access to a payment method that works for them. As no two people or organisations are the same, that means a range of payment options is needed to fulfil the different needs of all the various users.



- 5.10** But we think it's also important that each individual user has choice. Choice tends to allow everyone to have a convenient way of making or receiving payments for different types of transactions. It is also important that alternatives are available if someone's first choice of payment method is unavailable.
- 5.11** Choice also matters because it tends to support competition: if users have a choice of payment service, providers will need to make their product high quality (for example, easy and convenient to use) and low cost (for users which are charged for payments) in order to attract people to use it. By strengthening choice and competition there is more likely to be the innovation and improvements to service quality of payment systems.<sup>10</sup> The implementation of any new system represents an opportunity for unmet user needs to be fulfilled, for existing needs to be served in a better way and for more participation in the payments ecosystem.
- 5.12** The PSR has a statutory duty to promote effective competition. However, in addition to this, we see effective competition as a way to promote the interests of users, rather than as an end in itself. Competition has proven itself to deliver a range of good outcomes for consumers and businesses. More competition between payment systems should encourage payment systems and payment providers to treat their users fairly and provide choice for users if any individual payment systems fail.
- 5.13** We also see competition as the best way for us to further our statutory objective to promote innovation. Where firms are competing for customers, they will have incentives to innovate – for example, in order to provide attractive products and services, or to reduce the costs of producing or supplying them.
- 5.14** While competition is an important way to deliver better outcomes, it is not necessarily sufficient to do so. There are inherent features of payment systems and markets that point towards the need for regulation. In addition, effective competition relies on a set of rules and on general compliance with them. The prohibitions on cartels is one general example. But payment systems also have rules that govern participation, and affect the terms on which competition can take place.
- 5.15** As new systems are implemented we will need to ensure that users, whether consumers or organisations, are able to access payment services in a way which is fair and which enables them to benefit, in just the same way as we do when regulating existing systems. New systems may also raise new issues. For example, systems or their participants may impose barriers to their use for consumers and businesses, and those users may be asked to make new types of trade-off to gain access to systems. For example, consumers may only be allowed access to new systems if they consent to broad uses of their transaction data, or their access may be defined by ownership of a certain device.

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<sup>10</sup> We note that effective competition does not require *all* customers to have an alternative. It can be effective where a sufficient proportion of users have a real ability to switch to an alternative choice and as long as certain criteria are met, as customers overall get a competitive deal as a result of the group which is able to switch.

- 5.16** There are also instances where users may also not always have a choice of payment method. They may be constrained by the methods accepted by their payee and, in some cases, payees may try to influence the payer's choice of payment method by making some methods more obvious or convenient than others.
- 5.17** Proprietary networks may also impose access criteria that represent barriers to entry for payment service providers. Open and transparent access to payment systems for payment service providers is essential for effective competition and innovation in payment services. It is vital that a range of payment service providers can access the payment systems on reasonable terms so that they can provide their services to their customers, the users of payment services.
- 5.18** To ensure all users continue to benefit from the advantages of innovation and competition in the UK payments sector, we need to ensure that service providers can access payment systems and users can access payment services on a fair, open and transparent basis.

### **What we are already doing**

- 5.19** We are carrying out a programme of work to make sure people can make payments in the way they want.
- 5.20** Through our work on access to cash, we are seeking to understand consumers' and society's cash needs, the factors that drive their demand for cash and how they access it now and in the future. We are also building a picture of the range of existing and potential methods of providing people with their cash, whether they operate on a level playing field and whether there are barriers to their further development and use.
- 5.21** Turning specifically to ATM provision, one example of the work we've already undertaken is a significant piece of work with LINK – the UK's biggest ATM network – to make sure it delivers on its commitment to maintain the existing geographic spread of free-to-use ATMs for cash access. We also worked with the FCA and the University of Bristol to develop a comprehensive map of access points across the UK – using data provided by industry and have been working with industry to identify and develop sustainable solutions to make sure people have access to cash over the long term. Throughout this work we are closely engaging with government and other relevant authorities, the industry, consumer groups and other stakeholders with an interest in cash.
- 5.22** Since 2015, establishing an open and accessible UK payments industry has been a top priority for us. In the last few years, we have focused on promoting a range of access options to allow PSPs to choose the form of access that best suits their circumstances. We require operators to have proportionate, objective and non-discriminatory access requirements and to publish these, notify us of any changes and report annually on how these criteria are being applied and are working. We also require the four main sponsor banks (Barclays, HSBC, Lloyds and NatWest) to publish certain access-related information, including an up-to-date description of their indirect access propositions, the key characteristics of that access and any eligibility criteria sponsor banks may set for potential customers.

## What we will do

**5.23** In our description of Outcome 1 in Chapter 3, we set out some relevant factors:

- We think that most organisations and individuals currently enjoy a good and growing choice of payment services.
- However, there are still gaps, such as direct debit and direct credit not allowing enough flexibility.
- The declining use of cash is also a threat to achieving this outcome, as many people still rely on it.
- New payment methods and services have been introduced in recent years to fill some of the gaps, but take-up has often been slow.
- New technologies offer the potential to fill the gaps, but also face challenges to mass adoption.

**5.24** Going forward we will want to ensure that users' needs are met in terms of reasonable cost and quality of new and existing payment systems. While encouraging informed users is important, we will intervene as appropriate to ensure that users' needs are met and providers do not impose terms and conditions that are detrimental to individuals, merchants or any other payment user in the UK.

*We will support development of new services that meet user needs*

**5.25** We think there are significant opportunities for the payments ecosystem to bring new services and more efficient payment methods to the UK's individuals and organisations over the next decade. The entry of new systems and services will lead to increased competition in the provision of services, and have the potential to fill the gaps that are needed to achieve Outcome 1 (i.e. all users have access to payment services that meet their needs). **We will seek to make sure the arrangements are in place to support the development of new services that meet users' needs** (such as transparent access conditions and appropriate governance).

**5.26** We think that during the lifespan of our PSR Strategy new payment systems are likely to be designated for our oversight. We are working to ensure that our approach to the regulation of any newly designated payment systems is robust and proportionate, for example, the use of any new cryptoasset-based system that HMT designates as a payment system under FSBRA. A starting point for our approach is likely to be that systems which consumers regard as offering the same service should be held to the same regulatory standards.

**5.27** We expect any new payment system that offers services to UK users or participants to be reliable and accessible. We expect systems and services to be developed with the needs of users in mind. However, we understand that decisions made by payment systems and participants may lead to different outcomes for different groups of users. We will continue to have due regard to our Public Sector Equality Duty in relation to our decision making. And **we will make sure we understand the perspective of**

**vulnerable consumer groups towards new ways of paying and the choices available to them.** Limited access to technology, physical or mental disability, age, and income levels – amongst other things – may affect a user’s experience of making payments. It is important that the system as a whole – PSOs, technology providers, participants and service providers – takes the experience of those consumer groups into account when designing and implementing payment services.

- 5.28** Some implementations of new payment systems – for example, any cryptoasset-based system or central bank digital currency – will have wider implications for the economy and for existing payment models in competition with them. Not all of these issues will necessarily fall to us to address. The Bank of England is responsible for financial stability as it relates to financial market infrastructure, and the FCA is responsible for the supervision of firms that carry out regulated activities.<sup>11</sup> As we look to define our approach to new systems, we will work together with HMT and other regulators to **consider when designation to us is appropriate, ensure that regulatory approaches are aligned, and the division of responsibilities are clear.**<sup>12</sup>

*We will protect access to cash*

- 5.29** **We will continue to protect access to cash for those that rely on it,** including through the work we are already doing to monitor LINK’s commitments and to develop sustainable solutions to maintain access to cash.

*We will support and protect competition*

- 5.30** Beyond that, **we will support and protect competition, given its potential to fulfil user needs.** We have seen some firms finding ways to help meet specific consumer needs during the COVID-19 pandemic – including to help those who rely on cash but have found it harder to access. We want to see the industry developing solutions to meet all user needs. If we don’t see that happening, we will consider whether regulatory action is required.

- 5.31** For PSPs to be able to offer competitive and innovative products and services to users, those PSPs must be able to access payment systems on a fair, open and transparent basis and be able to choose the form of access that suits them best. We recognise that different forms of access will suit different PSPs depending on their size and their business model, for example. We will continue to **promote a range of access options,** including direct and indirect access to payment systems.

### **The limits to what we can do as a statute-based regulator**

- 5.32** Currently, we do not run an authorisation regime, unlike some other UK regulators, and our approval is not required before new payment systems offer services in the UK. Our focus is different to that of the UK’s other financial services regulators, and at present we do not expect to set supervisory tests or conditions for entry for any new payment system.

<sup>11</sup> However, the Bank of England is responsible for the supervision of firms they authorise and regulate.

<sup>12</sup> See paragraphs 3.50 to 3.52 and Annex 2 for an explanation of the split of responsibilities between regulators.

**5.33** However, our regulatory powers as defined under FSBRA can only be applied to those payment systems that are designated to us by HM Treasury. If new payment systems seek to establish themselves in the UK or offer services to UK users, they will need to be designated to us before we can act to ensure fair access, oversee the interests of users, or act against any market abuses that may take place.

## Priority 2:

### Ensure users are sufficiently protected when using the UK's payment systems, now and in the future

#### Why this is a priority

**5.34** Since the PSR began its work in 2015, payment systems have evolved significantly. The interbank systems now support more services and participants than they were originally designed for. Over time, this has led to some gaps in service and quality – for example, the systems' limited ability to tackle APP scams.

**5.35** Our work on Authorised Push Payment (APP) scams highlights the need for protection. Where it isn't provided, it can have a devastating impact on people. Despite the many steps we've taken, APP scams remain the second largest type of payment fraud both in the volume of scams and value of losses.<sup>13</sup> As criminals become more imaginative in their attempts to steal money these problems could get worse in the future.

**5.36** The UK's payment systems also continue to evolve alongside the changing needs of those who use them. With all of us collectively making more payments online, different risks may present themselves requiring different levels of protections compared to those provided to us in the past. These protections are especially crucial for consumers in vulnerable or disadvantaged situations, for whom losing a sum of money could have life-changing effects and who may lack the option to choose between alternative ways to make a payment.

**5.37** When the market works well, changing users' needs are likely to be met. This is because competition between payment providers and increasingly across different payment systems allows consumers to choose the payment method that best suits their needs. This pushes payment providers and systems to innovate and ultimately provide better quality and more widely available services in order to try and set their services apart from those provided by their competitors. Supporting this competition and the development of good alternatives to existing payment services will therefore be crucial in the future.

**5.38** We will, however, need to consider whether competition on its own will deliver sufficient protections and also whether market rules or other incentives lead to competition between firms acting against the outcomes that we would like to see. For example, there is a risk that a race to provide cheaper services could reduce levels of protection, taking advantage of consumers' limited understanding of the risks that they are taking on.

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13 UK Finance, Fraud – the facts 2020, <https://www.ukfinance.org.uk/policy-and-guidance/reports-publications/fraud-facts-2020>.

**5.39** As we have seen through our work on APP scams, a well-functioning protection mechanism will also require a level of coordination between different payment service providers. This is unlikely to be provided through competition alone. And where coordination is currently not functioning properly, more may need to be done at system-level to ensure the right level of protection can be provided.

### **What we are already doing**

**5.40** During our work on APP scams, it became clear that the industry systems needed to improve their technology. However, a number of factors appear to have slowed progress on the implementation of new services or functions like Confirmation of Payee.

**5.41** The original super-complaint in relation to APP scams highlighted that banks' incentives may be difficult to align given the externalities involved. The beneficiaries of a compensation scheme might be the customers of other banks. Efforts to reduce fraud at one bank would benefit the customers of other banks, even if those other banks took no action themselves. Payment systems by their nature involve such interdependencies between participants.

**5.42** A primary role of platforms is to enable coordination between parties who would otherwise be unable to do so. However, coordinated or collective action may be difficult for Pay.UK or other collective bodies to achieve, even if all participants stood to gain from it and their interests were fully aligned, which is unlikely to ever be the case.

**5.43** Recognising this, we intervened and directed the six largest banks to implement Confirmation of Payee within the same timeframe. We are currently also consulting on coordinated approaches to the problem of APP fraud, as attempts by the banks to act collectively to compensate victims of fraud have also produced unsatisfactory results.

**5.44** We have also started looking at how protections within interbank payments can be bolstered beyond protection against fraud. We are considering whether similar coordination issues prevent interbank payments providing the necessary levels of protection for new payment types, such as retail purchases.

**5.45** Innovations, including those developed through open banking, continue to improve opportunities for retail payments over interbank payment systems, especially Faster Payments. Currently, consumers may find they only have a limited set of remedies available to them when something goes wrong with a purchase made using an interbank payment. In a recent Call for Views, we have asked what more can be done to improve the protection for retail purchases within interbank systems and whether further regulatory action is needed to overcome potential coordination issues.

**5.46** Although their use to date has remained low, we expect open banking-initiated interbank payments to grow significantly in the future. We have work underway considering what is needed to increase trust in interbank payments and increase competition between card and interbank payments. We are also working with other regulators and government to identify an appropriate regulatory framework for open banking-initiated payments, so that they fit within the wider regulatory landscape.

## What we will do

**5.47** In our description of Outcome 2 in Chapter 3, we set out these relevant factors:

- A range of protections apply to credit and, to a lesser extent, debit card transactions.
- Faster Payments as a system imposes few conduct requirements on its members.
- Faster Payments is now used for a range of uses for which it was not originally designed. Different uses of Faster Payments lead to different risks, with APP scams being one key example.
- We think it is likely that the ways in which Faster Payments is used will continue to evolve. Protections will need to be suitable for any new uses.

**5.48** Protection in interbank payments is an ongoing priority for us. We continue to work on approaches to tackling the challenges of APP scams, as well as protections for new services using interbank systems, including Open Banking.

**5.49** We want interbank payments to provide credible alternatives for more payments use cases. We discuss the benefits for choice and competition elsewhere in this PSR Strategy. But alternatives will only be beneficial to users (and therefore credible) if the protections associated with those alternatives are appropriate. There are a number of challenges here, and a lot of work to be done. For example:

- In contrast to the card systems in the UK, which are established as listed companies and seek to generate profits to their shareholders, the interbank systems are funded by transaction fees paid by participants. These systems have a not-for-profit model: participants fund Pay.UK and its systems on a cost-recovery basis and may not gain revenue directly from their investment in these systems, depending on the services offered and the types of user these are offered to. Pay.UK needs adequate funds to be able to undertake the coordination and other tasks that enable the continued development of the interbank system. Participants may have different interests in funding additional Pay.UK initiatives and may have incentives to 'free ride' on investments made by others. Since resources and funds will be limited, Pay.UK will need to make trade-offs between different initiatives.
- The high and increasing popularity of debit cards as the most popular way of paying in the UK is largely down to the convenience with which it can be used, particularly since the advent of contactless cards and devices, which provide an almost 'frictionless' experience. For another payment service to provide a credible alternative, it will need to be convenient enough for a large number of consumers to choose to use it instead of a debit card.
- The Open Banking programme has provided for new ways of initiating payments from consumers' accounts. It will be important that the Open Banking technology allows for mass retail payments, but also that appropriate protections are developed in order to provide trust and confidence in the service.

- As further uses for interbank systems are developed, it will be important that adequate protections for users are developed alongside them.

**5.50** One approach to creating the protections necessary for interbank payments to provide a credible alternative to card payments could be for the PSR to decide what the relevant protections should be and how they should be designed and funded. We could then require them to be created using our direction-making powers.

**5.51** However, it is inevitable that the system operator will understand the technical capabilities of its system better than a regulator can. And participants in the schemes understand their customers' needs better than the regulator. A more effective approach is therefore likely to be for us to create the conditions where Pay.UK and its participants have the incentives and funding to create and develop the relevant protections. It is likely to happen more quickly and efficiently if commercial incentives exist on relevant participants to make it work, and that the governance of the system rules supports competition.

**5.52** To achieve this, **we will consider how best to develop Pay.UK's governance of the interbank rules**. We want to give Pay.UK a stronger role to lead the development of protections (and other conduct rules), coordinating its participants where necessary. Systems and participants will need to align their responses in agreeing, implementing and enforcing these types of rule. As payment systems are called upon to support more types of payment, there may be a greater need for coordination around conduct rules. Without it, system users will be unable to rely on system-wide standards of service or redress.

### Priority 3:

Promote competition in markets and protect users where that competition is not sufficient, including a) between payment systems within the UK and b) in the markets supported by them

#### Why this is a priority

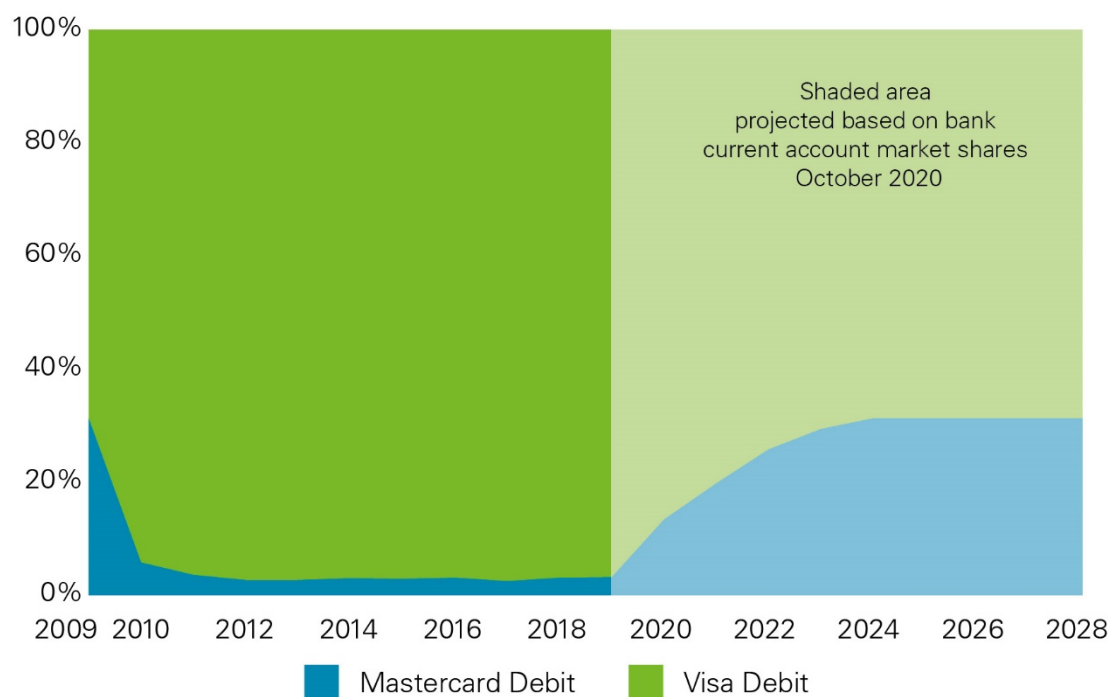
**5.53** The growth in the use of debit cards to be the most popular payment method in the UK highlights the importance to consumers of convenient methods of making retail purchases. We have also seen a rapid increase in the use and importance of online and digital payments for many merchants, as well as for business to business payments. Card payments underlie the vast majority of those payments.

**5.54** It is not clear that there is sufficient competition in retail payment methods to provide good long-term outcomes for consumers and businesses. There are a number of factors that point towards this being a risk that the PSR should consider further.



**5.55** In 2019, Visa provided over 95% of debit cards in circulation in the UK. Mastercard provided 60% of credit cards. Between them, the two card schemes accounted for 99% of all card transactions. As Figure 3 shows, these shares have been relatively stable since 2011. However, due to some switching announced by debit card issuers, we expect some movement of debit card transactions from Visa to Mastercard over the next few years.<sup>14</sup>

**Figure 3: Proportion of volume of debit card transactions by scheme**



Source: 2009-2019 UK Finance; 2020-2028 PSR projection of issuer switching

Notes:

1. NatWest, Santander, First Direct and TSB have announced intention to switch issuing debit cards from Visa to Mastercard
2. PSR projection assumes a third of customers are switched each year
3. Analysis assumes current account market shares are stable

**5.56** There have been long-running concerns about pricing for cards transactions, including whether the incentives they provide result in good outcomes for consumers. For example, litigation in several countries around the world has sought to establish whether interchange fees, paid in card systems from the merchant's bank to the cardholder's bank for each transaction (but borne by the merchant and likely to be passed on to the consumer), are a legitimate way of allocating costs and incentives across the network.

14 <https://www.mastercard.com/news/europe/en-uk/newsroom/press-releases/en-gb/2021/february/natwest-group-and-mastercard-expand-payments-partnership/>  
<https://newsroom.mastercard.com/eu/press-releases/santander-to-issue-mastercard-debit-in-the-uk/>  
<https://www.mastercard.com/news/europe/en-uk/newsroom/news-briefs/en-gb/2020/august/first-direct-selects-mastercard-as-partner-for-debit-cards/>  
<https://newsroom.mastercard.com/eu/press-releases/tsb-to-issue-mastercard-debit-and-credit-cards-in-2018/>

- 5.57** The rules and structure of charges for these payments may also act to dampen the functioning of effective competition. Consumers do not directly pay to make payments – and so their choices are not affected by differences in the costs of providing different payment methods.<sup>15</sup> And because making a payment requires the payer and payee to use the same system, a consumer or merchant’s choice of payment method is heavily impacted by how many other people use that system.
- 5.58** Direct participants in payment systems can further influence the competitiveness of payment systems by steering their customer. For example, if a PSP, such as an issuing bank, considered the costs of participating in a system were too high compared to the benefits or revenues, they may elect to withdraw from that scheme altogether, or try to direct users to an alternative system that offer similar services. As a consequence, participants in payment systems which could potentially compete with each other may all have incentives to prefer one system over another.
- 5.59** For those reasons, we think it is possible that while payment systems may have the technical capability to support similar services and to compete with each other – and indeed there is common participation in both systems – the different commercial models underlying those systems, and the incentives that result, may prevent competition from operating as effectively as it could.
- 5.60** The decline in the use of cheques and cash in recent years, (even before COVID-19), means the competitive impact they have on retail debit payments is low and falling. And as we have discussed above, there is not currently a widely used alternative interbank payment method.
- 5.61** The very high and stable market shares in debit payments might not indicate that there is an underlying competition problem if there is a significant threat of new providers entering the market. This threat of new entry can act to make incumbent providers – even those with high market shares – act in a competitive way. This is referred to as ‘contestability’ of a market.
- 5.62** However, as we have described above, payment systems have a number of inherent features that act to discourage entry of new firms, including: the high fixed costs associated with building the payment systems; and the network effects that can prevent sufficient numbers of customers from adopting the new system.
- 5.63** Looking ahead, it is possible that new payment technologies might provide a route for new entrants to launch new services. Indeed, it is well known that a number of firms are looking into developing payment services, and potentially payment systems, based on cryptoassets. If combined with existing customer networks (built outside of payments) this could provide a credible route for new entry into the market.

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<sup>15</sup> Surcharging – i.e. charging consumers for the use of certain payment methods – was banned when the Payment Services Regulations 2017 came in in January 2018.

**5.64** Overall, therefore, while we are mindful of the potential for new entry, we identify that there is a significant risk that the UK payments market will move towards a future without sufficient rivalry. Over time, this could undermine the outcomes that consumers and businesses receive from payment systems and payment firms.

#### **What we are already doing**

**5.65** Over the last few years, we have been carrying out a market review into the supply of card-acquiring services following concerns that the supply of these services may not be working well for merchants, and ultimately consumers. In 2020, we published our interim report on the supply of card-acquiring services which shows that merchants could make savings by shopping around and either switching or negotiating with their current provider – but many small and medium ones don't. We have consulted on the contents of this interim report and will propose remedies in a final report later this year.

**5.66** We are also the lead competent authority for the monitoring and enforcement of the UK Interchange Fee Regulation (IFR), monitoring compliance with all provisions of the UK IFR, including caps and business rules. We have published guidance on our approach to monitoring and enforcing the IFR, and this role will remain an important part of our work.

#### **What we will do**

**5.67** In our description of Outcome 3 in Chapter 3, we set out some relevant factors:

- We face a long-term risk to competition in retail payments.
- For firms that are members of both cards and interbank systems, consumer payments represent a revenue source if they are processed by a card system but a cost if they are processed by an interbank system.
- The introduction of Open Banking has not so far led to a large expansion of using interbank systems for retail purchase transactions.

**5.68** To date we have focused largely on encouraging competition within payment systems by different PSPs. Going forward we want to focus our resources to **promote competition between payment systems**. We think that greater competition between systems will lead to better and more affordable services for system participants and for system users. We are keen to ensure that when competition between systems arises, that competition is effective and provides benefits.

**5.69** There are different approaches we could take to trying to bolster competition. The main ones appear to be either **supporting and developing the interbank systems to provide greater competition**, or to rely on the entry of new services and systems (for example, cryptoassets). Whilst we will continue to promote arrangements and conditions that are conducive to efficient new entry, at this stage we favour placing the emphasis on the role of interbank payments, as that appears to have the greatest chance of providing a credible alternative for retail debit payments.

**5.70** This places significant importance on the role of Pay.UK (Priority 4 highlights this further). We are under no illusion of the scale of the challenge to achieving this, as existing work on the NPA has underscored. This work is already underway with respect to the renewal and future governance of the UK's interbank payment systems (see Priority 4 below), but these are difficult and complex issues to address.

**5.71** If we don't see real prospects for improvements in competition, we don't rule out the potential need for us to regulate in order to protect consumers and businesses. We recognise that would present a number of challenges, in particular how we would go about regulating complex pricing arrangements, and how we would regulate in a way that still promotes innovation and high service quality. However, our objectives will require us to intervene robustly if other measures are not producing the competition outcome we seek.

#### Priority 4:

### Ensure the renewal and future governance of the UK's interbank payment systems supports innovation and competition in payments

#### Why this is a priority

**5.72** As stated in our first three priorities, competition and innovation can be effective tools in driving better outcomes for all those making payments. That is because competition between payment service providers helps ensure that the services they offer remain appropriately priced and good quality. Competitive pressure may also lead payment systems to become more efficient, increase innovation and widen consumer choice. This, in turn, not only makes the systems more commercially sustainable, but also increases the number of good alternatives available to consumers and businesses for any of their payments.

**5.73** To enable a payment system and its service providers to thrive in a competitive environment, good governance practices are needed. That means the way in which the payment system rules are set and updated, and the way in which payment system infrastructure is maintained and updated must both be transparent, efficient and in users' interests.

**5.74** So, the issues we want to address centre on the rules, systems and processes of the interbank payment systems. But this is likely to have implications for the corporate governance of Pay.UK.

**5.75** Rules and governance in other sectors have undergone a period of development and evolution in light of changing consumer expectations and improvements in best practice. So, it is not surprising that the governance of rules in payments also needs to continue to evolve.

- 5.76** A well governed payment system can maintain a sustainable business model, innovate and implement a competitive strategy by fostering understanding of user needs, pro-actively managing risk and ensuring appropriate levels of control and flexibility.
- 5.77** The governance and development of the different UK payment systems have evolved over time. Although card schemes in the UK were owned by a collection of banks in the past, the governance and development of the two major card payment systems, Visa and Mastercard, are today undertaken by multi-national, private corporations who operate the system, develop and ensure compliance to its rules, support brands and marketing, and develop (and increasingly acquire) new technologies and new services to add to their portfolios.
- 5.78** Like card systems, the UK's interbank payment systems (Faster Payments, Bacs and C&C) were originally owned and operated by a collective of large banks but are today owned and operated by Pay.UK. This is a not-for-profit entity which is required to take the interests of all participants into account when performing its functions.
- 5.79** Pay.UK also oversees the creation of the New Payments Architecture (NPA) which is the industry's proposed new way of organising the clearing and settlement of interbank payments. The NPA has the potential to future-proof payment services in the UK by providing a robust and sustainable infrastructure in which – through good governance – innovation and competition can thrive.
- 5.80** It promotes innovation by having a 'thin' – competitively acquired – underlying infrastructure and a set of open, standardised interfaces to enable complementary 'overlay' services to be run over it. We expect that innovation in these overlay services will, in the future, not only replicate existing functionality from the old interbank systems, but also enable new types of payments to be made over interbank payments. This should both address some of the problems we see with interbank payments today and lay the groundwork to fulfil our long-term aim of having an interbank payment system which serves as an effective competitor to the card schemes.
- 5.81** Although the vision of a modern interbank platform is now well understood and widely accepted, more needs to be done before this vision can be realised. We will continue to have an important role to play, alongside Pay.UK and others, to ensure that the implementation of the NPA in the next few years delivers on its vision.

## What we are already doing

- 5.82** In 2000, Sir Donald Cruickshank published a report which found that a significant barrier to innovation arose from the ownership and governance of the interbank payment systems, all of which were controlled and governed by the same group of large banks. According to the report, this barrier potentially hindered better outcomes for users.<sup>16</sup>
- 5.83** Shortly after the PSR was established, it convened the Payments Strategy Forum and subsequently supported and oversaw the Forum's main recommendations. These included modernising and simplifying the interbank payment systems by consolidating the operators of Bacs, Cheque and Credit (C&C), and Faster Payments and proposing the creation of the NPA which would make it easier for innovation to occur at a quicker pace.
- 5.84** In 2018, the operation of Bacs, C&C and Faster Payments was consolidated so it could be overseen by a single independent, public-interest company, Pay.UK, which was required to operate and manage these systems in the interests of all stakeholders. Pay.UK was also tasked with delivering the NPA as one of its core objectives. We oversee and regulate the work of Pay.UK.
- 5.85** The renewal of the UK's retail interbank infrastructure presents a significant opportunity to deliver improved resilience, meet the growing demands for digital payments and support increased competition, to benefit people and businesses across the UK.
- 5.86** For competition in the NPA to be effective and to create conditions for innovation, Pay.UK must follow certain principles in the design of the NPA. These include ensuring there is a 'thin' central infrastructure services (CIS) design (with only essential functions delivered in the CIS) and a wide range of access options.
- 5.87** In addition, we need adequate safeguards against any CIS provider's potential ability to distort competition in related markets – for example, because it has an unfair advantage over rival providers of similar overlay services.
- 5.88** The NPA has been a key focus for us. It is one of the biggest changes happening in payments and our role is vital in making sure it works well for people and businesses. Alongside the Bank of England, we are monitoring Pay.UK's work during the development of the NPA. Together we're working to ensure that the NPA is resilient, taking account of and promoting good outcomes for all users.

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<sup>16</sup> Foregone benefits from innovation and services that fail to get introduced or adopted are always some of the most difficult for a regulator to assess, since they cannot be directly observed. However, there is evidence to suggest that the benefits associated with the introduction of new interbank payment services – given their fundamental role in the UK economy and widespread use and adoption by consumers and businesses alike – can be very significant. The Payments Strategy Forum estimated the benefits from the introduction of a single service, Request to Pay, to be in the region of £2.1-2.4bn for the period 2019-2031.

**5.89** 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 followed 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.

**5.90** In February 2021, we consulted on introducing measures that would require Pay.UK to manage risks to competition and support innovation. The proposed measures include requirements on procurement, pricing and governance.

### **What we will do**

**5.91** In our description of Outcome 4 in Chapter 3, we set out relevant factors:

- There are several areas in the UK's interbank payment systems where current arrangements do not always allow for efficient processing.
- The design of the NPA should remedy these issues and should allow for greater competition in the market for retail purchasing services.
- The NPA will bring more opportunities for firms that are not members of the system to be involved in payment transactions.
- But for interbank payments to develop in a way that delivers the best outcomes for users, the governance structure of Pay.UK must allow it to effectively develop and promote the systems under its remit in the interests of those users. At present we are concerned that Pay.UK is not able to act effectively to bring about change.

**5.92** For the NPA to support competition and innovation, we expect Pay.UK to operate it effectively by coordinating activities even when individual incentives of participants are not aligned.

**5.93** The governance and development of the interbank system has evolved in a very different way from other payment systems.

**5.94** As with many other large digital platforms, card systems operate on a global scale and coordinate a wide range of complementary technologies and firms to enable them to deliver services and facilitate transactions. The system operators themselves derive their revenues from these services and transactions.

**5.95** Unlike the card schemes, the interbank system cannot coordinate or invest in its activities in the same way. Like the card systems, they were originally owned and operated by a collective of banks, but ownership has transferred to Pay.UK. Banks have a role as guarantors alongside a wide range of other stakeholders and are overseen by an independent Board. Pay.UK is therefore intended to undertake a similar role for the interbank payment system as Visa and Mastercard do for their respective card systems, but to act in the interests of all stakeholders when doing so.

- 5.96** The Pay.UK arrangement is intended to have the benefit of better aligning its operation and management with the needs and interests of all stakeholders in the system, rather than with the interests of a small collective of owners or a single owner. However, this may also mean that it is difficult for a consensus-based organisation of this kind to always act quickly or effectively. Whether we are required to intervene is likely to depend upon the capacity of Pay.UK to address these issues itself, but there are a number of factors that need to be addressed first.
- 5.97** Without adequate funds, Pay.UK may not be able to undertake the coordination and other tasks that enable the continued development of the interbank system. Participants may have different interests in funding additional Pay.UK initiatives and may have incentives to ‘free ride’ on investments made by others. Since resources and funds will be limited, Pay.UK will need to make trade-offs between different initiatives. **We will need to ensure that there is a sustainable funding model in place for Pay.UK, and that funds are allocated in a way which supports and promotes innovation and competition in overlay services.**
- 5.98** We will also need to consider how requests for new APIs or the introduction of new functionality into the core infrastructure are assessed and resources assigned to their development. Pay.UK will probably need to decide between requests from different stakeholders for new capabilities in the NPA, both in terms of whether they are supported and when they are scheduled. With lower barriers to participation and more diverse participants serving different customer needs, these conflicts are likely to be more acute than in the past. They will require a strong independent operator making effective decisions so that effective solutions which meet user needs can be brought to market quickly.
- 5.99** As we highlighted under Priority 2, Pay.UK will also need to develop conduct rules and policies to support new services. An example could be the development of a ‘consumer protection’ scheme to support retail purchases made over the interbank system. Participants in the interbank system may have incentives to develop such a scheme but Pay.UK might lack the capacity to do so.
- 5.100** Where rules and policies are applied to participants, Pay.UK currently has little enforcing ability. The only significant sanction available is to exclude those participants from the payment system. Doing this would be so disruptive to consumers and businesses that it is unlikely to be a proportionate response to most breaches of payment system rules. This means that the sanction is unlikely to ever be used in practice and that, as a result, Pay.UK may be unable to maintain compliance amongst its participants. **We will support developments to Pay.UK’s governance of the interbank rules so it has greater ability to enforce compliance with its rules and changes in those rules that improve outcomes for users.**
- 5.101** We will also need to consider the development of standards to enable services provided by different firms to interoperate. Interoperability of standards across different service providers can aid the faster adoption of new services, by removing concerns amongst customers that they will be locked into a particular service provider or standard. In the context of interbank payments it also enables different parties to transact without needing to be customers of the same service provider or bank.



**5.102** Interoperability may therefore promote entry and reduce the risk that a market for a particular interbank payment service might otherwise ‘tip’ and become dominated by a single provider. On the other hand, interoperability may also involve some costs and challenges which we need to be addressed. The interoperability of the basic functions in the NPA core infrastructure (via APIs) will need a process in place to develop the technical standards it needs. The process will also potentially need to develop much more complex overlay services that interoperate with each other, as well as with the core infrastructure. The interests of firms involved in the development of these standards may not be well aligned. One firm may see a benefit in delaying interoperability of a new service whilst it gains a market advantage over others. Even if interests are aligned, it could be very challenging to coordinate many different stakeholders and consider the interests of potential entrants, who may not be represented at all. **We will support and promote such coordination where we think it is needed but not happening.**

## Ongoing work to support our objectives

**5.103** We have set out above our ‘strategic priorities’ for the coming years, and the actions we will take to help meet those priorities. We will also continue to undertake other important work, which might not relate directly to the actions set out, but which nevertheless contributes to meeting the four priorities. This work will always be guided by how we can use our resources for the most impact, which will in turn be informed by our strategic priorities.

**5.104** We want payments markets to be competitive so we will:

- continue our work to open up access to payment systems – both direct and indirect – making it easier, quicker and cheaper for new service providers to enter the market and provide competition and innovation in payment services
- continue monitoring compliance with our directions, the Payment Services Regulations (PSRs) 2017, the Payment Card Interchange Fee Regulations (PCIFRs or ‘IFR’) 2015, and the Payment Accounts Regulations (PARs) 2015, and consider competition enforcement where we see anti-competitive behaviour
- receive complaints about anti-competitive behaviour or compliance with the above legislation and handle them appropriately

**5.105** In due course, we will update our Administrative Priority Framework to reflect the PSR Strategy, to ensure our priorities are embedded in our decisions through that formal mechanism.

## Issues we will keep under review

- 5.106** In coming to a view on what our priorities should be, we have considered a wide range of payments issues – including those that stakeholders have raised with us in our informal engagement period on the PSR Strategy, as well as in our general engagement. By choosing a set of priorities to focus on, there will naturally be some issues that we are choosing not to focus on as strategic priorities.
- 5.107** Of the other issues we have considered, the two that have been raised with us most consistently are use of data and issues in cross-border payments. We have also received feedback about the importance of ESG – environmental, social, and governance matters. We have discussed the importance we place on the social impact of payment systems and on how payment systems are governed in Chapter 3, which deals with the outcomes we want to see. We have considered whether and how we can usefully play a role in the environmental sustainability of payment systems right now. We will keep these three areas – data, cross-border payments and environmental sustainability – under review, and where evidence leads us to see a detrimental impact to competition in payment systems and our strategic outcomes, we will consider whether paying more attention to these areas would be a better use of our resources.

### Environmental issues

- 5.108** We understand that many governments and authorities are currently concerned about the environmental sustainability of the financial services industry. We have thought about how this should affect our work as we go forward. Away from payment processing, the link between the actions of financial services firms and achieving better outcomes for the environment is sometimes more obvious: for instance, the Bank of England's work on green finance has highlighted the importance to financial services firms of their exposure to risk due to climate change and has led to publication of guidelines for insurers.
- 5.109** We think that the decarbonisation of UK energy production will improve the environmental sustainability of payment systems, as digital payment systems rely on electricity consumption to operate. While we are mindful that some related technologies are energy intensive (notably certain cryptoassets, such as Bitcoin), they are not widely used for payments in the UK. We think that any new system used widely for payment in the UK is unlikely to rely on the type of computational processing required by the technology underlying certain cryptoassets that make very high demands on computer processing power and contribute to most of their energy consumption.
- 5.110** However, we recognise the importance of current climate change and biodiversity emergencies and so we would wish to scrutinise closely any proposed payment system which seemed likely to be seriously harmful to the environment. As new payment systems are established there may be a role for the PSR to ensure that there is sufficient transparency around the relative environmental impact of different payment systems.

## Use of data

- 5.111** The automation and digitisation of payments involves very large volumes of data being passed between participants via central systems. Payments data is often extremely sensitive, and transaction data – particularly when coupled with other sources of data – will often contain information that users would not wish to be made public. Such data may also be very commercially valuable, for the targeting of advertising or providing other non-payments services. The use of sensitive data is regulated under various pieces of legislation, including GDPR, which provides limited exceptions to the basic principle that customers must consent to the processing and storage of their personal data.
- 5.112** The amount of data sent between participants for each transaction differs between payment systems. Each system has its own messaging standards, which can allow payments to be processed efficiently. There may sometimes be tensions between the efficiency of standardised messaging and the benefits of innovations which require additional data or other changes to standard messages. Payment systems need to weigh any disruption caused by changes to messaging against needs of users and participants that can only be met by changing the data that can be transmitted between parties.
- 5.113** The messaging and processing which supports transactions via the card systems is generally richer in data than that for transactions made via the interbank systems. Payment system participants that hold deposit accounts for end users will have a great deal of information about the user (as may PISPs with access to those accounts under Open Banking arrangements), but little view across the system. Payment systems and their technology infrastructure providers may have a system-wide view of data being used in payment transactions and be able to observe trends or patterns in payments. However, they will hold little to no information about individual users or their account profiles.
- 5.114** The technical infrastructure providers for some systems have exclusive use of system-wide data. For some cases, a cooperative approach to the use of payments data may bring benefits. For example, it may be possible to assess trends and patterns in fraudulent payments – and so predict broad risks – only at the system level, while participants who manage deposit accounts will hold more contextual information on users and will be able to assess whether a general risk applies specifically to their customers.
- 5.115** We have in the past considered whether a different approach to the use of data could result in system-wide benefits, particularly in interbank systems. We looked at whether changing the contractual arrangements for the use of system-wide data might bring benefits to the system as a whole, perhaps for anti-fraud cases. We also looked at making data available in such a way that sensitive data was excluded, perhaps to allow for commercial uses. We concluded at the time of our review that any intervention on current systems was unlikely to be effective or proportionate.

- 5.116** With the design and delivery of the NPA there may be further opportunities to make use of system-level payments data in the interbank system. One of the NPA's aims is to establish ISO20022 as the standard for messaging in UK interbank payments. This should allow for richer data to be passed between participants in interbank payments. It will bring benefits to participants but may also mean that more useful data is held at a system level. We have requested that during the NPA implementation programme, Pay.UK should make synthetic data publicly available to allow interested firms to assess if system data may be developed to provide benefits broadly across the system.
- 5.117** The market for user data has changed in recent years and many services available over the internet offer user data for advertising and other purposes. It is possible that these types of arrangements will become more common in digital payment services in future. Large internet service providers, such as Google, Apple and Amazon, already provide smartphone-enabled wallets and other payment services to UK users.
- 5.118** We will keep uses of payments data under review as the market evolves. We are keen to ensure that if payment providers – service providers or systems – start offering access to payment services in return for broad uses of consumer or transaction data, any agreement is fair and works in the interests of users. We will always want to understand whether the ways in which data is used in payments support or hinder effective competition.

## Cross-border payments

- 5.119** Money does not just move between accounts in the UK: we recognise that cross-border payments are very important to the UK's users, and we receive feedback that tells us they are often a source of dissatisfaction. Cross-border payments are often described as lacking in transparency, slow and inefficient. This feedback normally comes in relation to correspondent banking arrangements or remittance payments, rather than to cross-border card system transactions.
- 5.120** We have considered whether we should address cross-border payments as one of our strategic priorities. The systems designated to us do not process cross-border correspondent banking or remittance payments. It is therefore unlikely that our powers would allow us to address such issues in systems that are not designated to us.

- 5.121** Other authorities are currently carrying out work which is intended to solve some of the problems in cross-border payments. One of the objectives of the Bank of England's RTGS renewal programme<sup>17</sup>, for example, is to coordinate synchronisation between settlement of payments in this country and others. The Bank of England is currently also working with other central banks to develop a roadmap to improve cross-border payments in collaboration with the G20, the Financial Stability Board, the Committee on Payments and Market Infrastructures (CPMI) and other relevant international organisations and standard-setting bodies. A report setting out the plan for action, including timelines was published in October 2020.<sup>18</sup> The Treasury's Payment Landscape Review has also highlighted the issue of cross-border payments.
- 5.122** We do not propose to focus on cross-border payments, but we will keep the issue under review. If we learn of issues that our powers will allow us to tackle, we may make cross-border payments a higher priority in the future.

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17 <https://www.bankofengland.co.uk/payment-and-settlement/rtgs-renewal-programme/functionality-of-the-new-rtgs-service>

18 <https://www.fsb.org/2020/10/fsb-delivers-a-roadmap-to-enhance-cross-border-payments/>

# 6 How we will measure whether we are achieving our strategic priorities

## Measures for each strategic priority

- 6.1** As we follow the priorities outlined in the last chapter, we will want to understand whether payment systems and payment services in the UK are closer to or further away from the outcomes we want to see. We always intend to base our work on evidence.
- 6.2** As far as possible we would like to quantify and measure the impact that our work has towards achieving our outcomes. But we recognise that there are many other factors that will affect the way that things turn out. We also think that sometimes the impact of our work may be indirect and difficult to measure.
- 6.3** At present, we do not have all the data and information we would like to measure the impact of our actions. We will develop our ability to measure over the coming years, including through the establishment of our new Strategy and Analysis department. We intend to make sure that our work is supported by good information, but we do not intend to make data collation and analysis the PSR's primary focus. We also want to ensure that our information and data requests are proportionate and do not constitute an excessive burden on the firms that we regulate.
- 6.4** Instead, we intend to identify good measures of our impact where they exist or could be readily established. We will also rely on other measures that may only partially or indirectly measure our contribution. We know that we work in an environment where many different causes may contribute to outcomes: we think that it may sometimes be difficult to interpret what the data we collect is telling us. We want to support the examination and scrutiny of our work, and we think that monitoring these measures is likely to tell us and others more about whether we are delivering or not. And where our contribution is difficult to measure, measures can still prompt a valuable discussion about the PSR's impact.
- 6.5** In this chapter, we suggest some measures that may support assessment against our outcomes, and the work we have prioritised to move towards those outcomes. We invite feedback on our proposed measures and alternatives to consider that are consistent with our priorities and constraints noted above.

## Priority 1:

Ensure users have continued access to the payment services they rely upon and support effective choice of alternative payment options

### How we can measure whether we are achieving this priority

- 6.6** In Chapter 4, which deals with our priorities, we set out that under Priority 1, we intend to support the development of new services that support user needs and allow for competition to provide new services to users. We will also continue to protect access to cash through our regulation of LINK and the provision of ATMs. We have thought about how to measure our progress against this priority, and some metrics we could put in place that would help us and others with this assessment.

#### *New services*

- 6.7** We will build on the work we have done with charity groups and consumer organisations to develop useful measures of the numbers and types of people and businesses that have difficulty making payments due to lack of access.
- 6.8** We will monitor any new payment services and methods that emerge, particularly those that are targeted at, or could benefit, consumers with limited access to payment services such as ATMs. We will also look at trends in the uptake of existing alternatives.
- 6.9** A more general measure of access, which could affect all users of a payment system, is its availability level. We propose to monitor the number, frequency, duration and severity of any outages in central payment systems, assess their impact on users, and consider trends and causes.
- 6.10** We will propose to also undertake research which helps us to build on our knowledge (e.g. from our biannual surveys of consumer behaviour) of how people transact and make payments in the UK and what characteristics influence their choice of payment option. This could help provide qualitative evidence to accompany data we collect on access.

#### *Access to cash*

- 6.11** We have already undertaken significant work to ensure the LINK ATM system meets its commitments to provide widespread geographic access to cash. We have directed LINK to adopt processes to maintain 'protected ATMs'.<sup>19</sup> LINK reports to us on a monthly basis on its progress against this aim. We think data on protected ATMs which LINK has not yet or is unable to replace will inform us of harm which users in communities will face as a result of a lack of ATMs. However, in interpreting this data we need to recognise that LINK may be unable to replace a protected ATM due to factors that are beyond its control, and beyond our control too (for example, there may be no sites available to locate an ATM).

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<sup>19</sup> PSR Specific Direction 8. We will consider the role of SD8, and any potential future measures in relation to access to cash with respect to designated payment systems, as the Government progresses its commitment to legislate.

### Key proposed measures

- Periodic research on how people choose to transact and make payments in the UK.
- Trends in the number and type of new and innovative payment methods and services which emerge over time.
- Uptake trends of existing alternative payment options for groups who currently rely on cash.
- Number, duration and extent of outages or faults on central systems.
- Total 'protected' ATMs which have yet to be replaced under the LINK direct commissioning scheme.
- Qualitative and quantitative information on users who are unable to make or receive payments, or incur costs in doing so.

### Priority 2:

### Ensure users are sufficiently protected when using the UK's payment systems

#### How we can measure whether we are achieving this priority

**6.12** As we set out our approach to Priority 2 in the previous chapter, we said that we would focus on improving consumer protections within interbank systems where necessary and look to achieve that aim by strengthening Pay.UK's governance arrangements. We have been working for some time on protecting consumers from fraud and are currently considering whether some form of protection should be extended outside cases of fraud.

#### *Fraud and Authorised Push Payment scams*

**6.13** The focus of our PSR Strategy is to address harms arising from those types of consumer fraud (app scams) where we have powers to intervene and to ensure adequate protections are in place. We propose to measure outcomes in terms of both the likelihood of a user being a victim of a fraud and the likelihood, if they are, that they will be able to recover their money.

**6.14** The biannual UK Finance Fraud Report gives a significant amount of data about consumer fraud, including app scams. The FCA also collects data on consumer-related fraud from firms they regulate. Where appropriate and allowed under the relevant information sharing provisions, we propose to request use of relevant parts of this data to measure the impact of the actions we are taking.



- 6.15** The likelihood of people falling victim to fraud is influenced by a number of factors, including our actions. These other factors could mean that the incidence of fraud increases over time, even if our actions are helping to reduce it. We need to compare the likelihood of fraud given the actions we are taking against the likelihood if we had taken no action (known as the 'counterfactual'). Measuring a possible effect of non-action can be difficult, but we could do this by comparing trends before and after the action is taken or making comparisons between firms which have implemented the measures we require and those which have not.
- 6.16** We also propose to measure the extent to which victims are being compensated under the Contingent Reimbursement Model Code that is overseen by the Lending Standards Board. This will allow us to assess whether individual firms are providing similar levels of reimbursement and applying the Code in a similar way. Any differences between firms will need to be investigated and explained. This measure will also allow us to assess overall levels of reimbursement over time, recognising that actions to reduce the likelihood of 'no fault' fraud may mean that a lower proportion of the remaining cases qualify for reimbursement. This data is collected by UK Finance as part of its Fraud Report. Although reducing the incidence of fraud should be the priority, ensuring that victims are suitably reimbursed when it occurs is also important.

*Further protection in interbank payments*

- 6.17** Finally, we think that measures to protect users ought to benefit everyone, not just those users who are victims of fraud or recipients of faulty goods. With the high and sustained level of media interest in APP scams, we may use our annual consumer and small business surveys to measure different users' perceptions of the risks of using different payment systems and how this influences their behaviour. Actions which reduce the risk of using particular payment systems will generally lead to consumers being more confident about using them. We recognise, however, that effective communication of the actions we are taking, and their consequences for consumers and businesses, will also have an important role to play.

**Key proposed measures**

- Levels of authorised push payment fraud (by value and volume) over time in comparison with a 'no action' counterfactual.
- Fraud prevention: the rate of transactions stopped by fraud warning messages (for example, Confirmation of Payee).
- Fraud resolution: rate of reimbursement, including levels of reimbursement under the Contingent Reimbursement Model Code.
- The number and nature of consumer protection-related complaints or disputes raised with payment providers (excluding APP Scams measured above).
- Surveys to assess knowledge of protections associated with different payment methods and perceptions of risk when using payment systems.

### Priority 3:

Promote competition in markets and protect users where that competition is not sufficient, including a) between payment systems within the UK and b) in the markets supported by them

#### How we can measure whether we are achieving this priority

- 6.18** As we set out in the previous chapter, we are considering a wide range of actions which we might take to promote competition in payments, and we are interested both in competition within payment systems between payment service providers and competition between payment systems. Some of these actions relate to competition between participants within the same payment system, such as our work in the Card Acquiring Market Review to ensure that competition between merchant acquirers provides a good deal for merchants of all sizes. Other actions relate to efforts to promote competition in the market for retail digital payments. Measures of competition within and between payment systems may overlap to some degree.
- 6.19** There are many quantitative measures which might inform our view of how well competition is working, but most would require data from individual firms in a standardised format. For more complex measures, such as trends in margins or profits, the collection and compilation of data can be a significant undertaking in itself, involving a large amount of interaction between the regulator and the firms. We have limited resources and our focus at this stage must be on the actions that need taking. We also need to balance the benefits of comprehensive data with the regulatory burden on firms of collating and supplying it.
- 6.20** We think that market shares or at least shares of supply, could provide a useful and straightforward measure of how the structure of payments markets is changing over time and, if switching occurs, where payments transactions are migrating to and from. This will give an indication of whether:
- firms within a payment system are competing with each other
  - if those in one payment system are competing for transactions which were previously processed on another system
- 6.21** The aggregate shares of firms in each payment system will represent their 'share of supply' within a given market. This measure should also reveal whether firms are switching systems.
- 6.22** The main challenge with this measure will involve ensuring that data on volumes and values relates to set of services which firms use when competing within the same market. For example, a proportion of transactions over the Faster Payments system will relate to retail payments which might also be made by cards (making the firms involved in these transactions competitors to each other). However, Faster Payments and Bacs will also support inter-account transfers and a variety of other payments which are not retail payments. Card payment systems are not widely used for these types of service. Transactions like these will need excluding when comparing interbank data with the

volume or value of retail payments made using other payment systems, like the Visa or Mastercard networks. We will work with the PSOs to form a view on what data is obtainable here.

- 6.23** Trends in market shares are unlikely to be sufficient, in themselves, to reach a firm view on whether actions to promote competition are having the effects we anticipate. As with other measures, changes in markets might be attributed to a wide range of factors – such as technological change or shifts in consumer behaviour – which have nothing to do with our actions. We will remember this when interpreting the data. We may use trends from before we take any action to provide a counterfactual for trends in later periods.
- 6.24** We also propose to use other measures, including measures of direct outcomes for users, alongside data on market shares. The prices paid for services appears the best measure for us to adopt in the near term. We will identify a number of pricing indicators which we will measure to help us to consider trends over time. These indicators should represent prices which are paid by most or all users of the payment service or payment system. We are not suggesting that actions to promote competition are only effective if prices in a particular market are falling. Prices may be affected by a large number of factors, many of which we do not control. Measuring some prices but not others also carries the risk that firms adapt their prices to hide or disguise additional costs. We want to avoid measures which might distort the way firms compete or which firms can easily influence.
- 6.25** Since a key objective is to promote competition between interbank and card payment systems in the provision of retail payment services, we propose to measure the prices paid by users of those services. Our aim is to assess trends for each over time. The British Retail Consortium produces an annual survey of its members, which it uses to estimate the costs incurred by retailers in accepting payments over the card systems. UK Finance produces data on the volumes and value of card payments. We expect Visa and Mastercard would also have relevant data for our purposes. We will measure the prices paid by direct participants for retail transactions made over the interbank system. We may need other measures as the NPA is implemented and Pay.UK develops its thinking of how costs are to be recovered.
- 6.26** Where available, we will look at international data to help provide context to how competitive the UK payments sector is.

### **Key proposed measures**

- Changes in market shares of participants over time (both within the same payment systems and in different payment services).
- Market concentration measures.
- Changes in key price indicators (merchant fees, interbank transaction fees) over time.
- International comparisons for these metrics, where available.

## Priority 4:

### Ensure the renewal and future governance of the UK's interbank payment systems supports innovation and competition in payments

#### How we can measure whether we are achieving this priority

**6.27** In Chapter 4 we highlighted the importance of a governance structure that allows Pay.UK to effectively develop and promote the systems under its remit. We also described the role that successful delivery of the NPA can play in supporting innovation and competition in interbank payments. Pay.UK will need to take a number of actions to ensure that the full potential of the NPA can be realised and that the risks associated with the transition are appropriately managed. Our measures under this priority therefore cover both progress within the NPA programme and wider impacts of Pay.UK's approach to governance and our oversight of it.

#### *Pay.UK's approach to governance*

**6.28** Before the NPA is delivered there is still much that Pay.UK and the payment service providers it supplies services to can do to develop the UK's interbank systems. We want to see responsive and flexible payment systems that meet users' needs, and we think that Pay.UK's governance arrangements are critical to achieving that aim. New technology need not be delivered before new approaches are considered.

**6.29** In order for us to gain insight into how responsive Pay.UK's governance arrangements are we suggest that we measure how, and how often, the operating rules governing Pay.UK's systems change. We would like also to understand how many proposals for rule changes are made by Pay.UK's participants. We think that this information should allow us to form more of an impression of any unmet demand for change and development, and Pay.UK's ability to bring about change.

**6.30** We would also like to know more about whether Pay.UK can effectively maintain and apply its system rules. We think we should measure how and when Pay.UK reacts to any breaches of its rules, whether any disputes have been raised with Pay.UK and if so, how long these take to be resolved.

#### *NPA programme*

**6.31** We propose to initially assess Pay.UK's performance based on the list of actions that it needs to take in ensuring a new central infrastructure for the NPA. These include implementing a list of recommendations arising from a number of reports commissioned by the Bank of England and the recommendations from the Skilled Persons report which we asked Pay.UK to commission in late 2020.

- 6.32** The most visible milestone for Pay.UK will be when a new contract is entered into with a central infrastructure services provider. We will expect Pay.UK to monitor and report to us on delivery against that contract. However, we will also want to measure the proportion of transactions which take place over the NPA. This will help us to assess the extent to which the benefits of the NPA are actually being realised by users of the interbank payments systems.
- 6.33** An important objective of the NPA is to lower the barriers to entry for the provision of new and innovative 'overlay services' which can then run on top of the central infrastructure. These services will be used by other participants in the interbank system to provide existing or new services to their customers. Enabling 'overlay services' requires action at a technical level to define APIs and other standards which enable firms to interoperate with the central infrastructure and each other. This will ensure that competition between overlay service providers is fair and effective and that prices charged for access to the central infrastructure support the development of new services. We will measure these actions through the number of new providers of overlay services that enter the market and the volumes of transactions each of them supports. The total volume of transactions will be a measure of the impact of overlay service provision and the benefits for users, whilst the numbers of transactions different providers process will give an indication of how competition is working between them.

### **Key proposed measures**

- The nature and number of rule changes made by Pay.UK and proposals for rule changes considered from different participants.
- The extent and nature of compliance sanctions.
- The resolution time and rate of disputes raised with Pay.UK.
- Implementation by Pay.UK of the decisions we will make following our consultation on the delivery and regulation of the New Payments Architecture, leading to the effective procurement of a central infrastructure service provider.
- Proportion of transactions migrated from existing interbank payment systems (Faster Payments, later Bacs) to the NPA.
- Entry by new overlay service providers using the NPA central infrastructure (and volumes of transactions supported).
- Number of direct participants using new central infrastructure and % of total Faster Payments transactions for each participant member of new services offered by overlay providers.

## Summary of the proposed measures

**6.34** We summarise the measures we propose to adopt for each strategic priority, and provide an illustration of each, in Table 3:

**Table 3: Our proposed measure for each strategic priority**

Priority	Proposed measures
<p><b>Ensure users have continued access to the payment services they rely upon and support effective choice of alternative payment options</b></p>	<ul style="list-style-type: none"> <li>• Periodic research on how people choose to transact and make payments in the UK.</li> <li>• Trends in the number and type of new and innovative payment methods and services which emerge over time.</li> <li>• Uptake trends of existing alternative payment options for groups who currently rely on cash.</li> <li>• Number, duration and extent of outages or faults on central systems.</li> <li>• Total 'protected' ATMs which have yet to be replaced under the LINK direct commissioning scheme.</li> <li>• Qualitative and quantitative information on users who are unable to make or receive payments, or incur costs in doing so.</li> </ul>
<p><b>Ensure users are sufficiently protected when using the UK's payment systems, now and in the future</b></p>	<ul style="list-style-type: none"> <li>• Levels of authorised push payment fraud (by value and volume) over time in comparison with a 'no action' counterfactual.</li> <li>• Fraud prevention: the rate of transactions stopped by fraud warning messages (e.g. Confirmation of Payee).</li> <li>• Fraud resolution: rate of reimbursement, including levels of reimbursement under the Contingent Reimbursement Model Code.</li> <li>• The number and nature of consumer protection-related complaints or disputes raised with payment provider (excluding APP Scams measured above).</li> <li>• Surveys to assess knowledge of protections associated with different payment methods and perceptions of risk when using payment systems.</li> </ul>

Priority	Proposed measures
<p><b>Promote competition in markets and protect users where that competition is not sufficient, including a) between payment systems within the UK and b) in the markets supported by them</b></p>	<ul style="list-style-type: none"> <li>• Changes in market shares of participants over time (both within the same payment systems and in different payment services).</li> <li>• Market concentration measures.</li> <li>• Changes in key price indicators (merchant fees, interbank transaction fees) over time.</li> <li>• International comparisons for these metrics, where available.</li> </ul>
<p><b>Ensure the renewal and future governance of the UK's interbank payment systems supports innovation and competition in payments</b></p>	<ul style="list-style-type: none"> <li>• The nature and number of rule changes made by Pay.UK and proposals for rule changes considered from different participants.</li> <li>• The extent and nature of compliance sanctions.</li> <li>• The resolution time and rate of disputes raised with Pay.UK.</li> <li>• Implementation by Pay.UK of the decisions we will make following our consultation on the delivery and regulation of the New Payments Architecture, leading to the effective procurement of a central infrastructure service provider.</li> <li>• Proportion of transactions migrated from existing interbank payment systems (Faster Payments, later Bacs) to the NPA.</li> <li>• Entry by new overlay service providers using the NPA central infrastructure (and volumes of transactions supported).</li> <li>• Number of direct participants using new central infrastructure and % of total Faster Payments transactions for each participant member of new services offered by overlay providers.</li> </ul>

# Annex 1

## Summary of stakeholder feedback received during our engagement programme

### Competition

#### Viewpoints

Competition in payment services is ineffective because consumers do not discriminate between services on the basis of cost.

PISPs will play an important role in the future in improving the competitiveness of payment services.

Providers cannot compete for the provision of services supplied by Bacs because of a lack of interoperability.

#### Areas for discussion

**Challenges around acquisitions of smaller firms entering the market for payment services by larger firms.**



## Innovation

### Viewpoints

The needs of vulnerable consumers are not well served by the current pace of change, highlighting the importance of consumer protection.

There are different ways of achieving innovation. There is no consensus on what a regulator like the PSR should be doing to promote innovation.

The industry has over-invested in recent years, and there is no need for additional investment in central infrastructure.

The market is best placed to develop new propositions.

Our primary focus should be to deliver the right NPA solution.

A range of views on how we can best bring about innovation in payment systems – focusing purely on access to systems; convening industry players to allow for collaborative conditions which should lead to innovation; or settling requirements and minimum standards for systems and participants.

### Areas for discussion

**The PSR's role in convening the industry to work on joint solutions.**

**The importance of access to payment systems in allowing for new firms to deliver innovative services and products.**

## Choice and availability in payments

### Viewpoints

We should define our outcomes clearly and ensure that any intervention we might make is backed up by economic analysis.

International benchmarking may be useful to establish appropriate levels of choice in payments.

Some choices for payment are more appropriate than others, depending upon the value of the payment.

Providing more methods for making retail purchase transactions would increase systemic resilience.

### Areas for discussion

**Should regulators do more to ensure availability of cash, or will the decline of cash lead to greater opportunities for digital payments and regulators need not intervene?**

## Annex 2

# The roles of the regulatory authorities in payments

- 2.1** As the economic regulator for the payment systems industry it's important we work with and talk to other regulators and competition authorities whenever it helps meet our objectives. We regularly work with the Bank of England, FCA and CMA to ensure that the activities we undertake are consistent with those of other regulatory authorities in payments, not duplicative and take into account the regulatory burden placed on industry.
- 2.2** The **Bank of England** has several roles in UK payments. It supervises organisations who run infrastructures for financial markets – including payment systems – to ensure that those systems are resilient. It operates the CHAPS payment system used for high-value Sterling transactions (largely used for wholesale transactions between financial institutions, as well as some time-critical transactions like buying a property). It also acts as the settlement agent for several other payment systems in the UK.
- 2.3** The Bank of England, through the Prudential Regulation Authority (PRA), also authorises and supervises deposit takers, including banks and building societies, in the UK to ensure that they are financially resilient and sound.
- 2.4** The **FCA** authorises or registers other payment service providers (PSP) that are not deposit takers. It also supervises all PSPs, including the retail banks and building societies, to ensure that markets are working well. To do so, it has objectives to ensure consumer protection, competition and market integrity. The FCA is responsible for supervising the conduct of firms providing payment services under the Payment Services Regulations 2017. Beyond that, the FCA is responsible for regulating other activities (such as aspects of deposit taking and lending) under the Financial Services and Markets Act.
- 2.5** The **CMA** has competition law powers that apply across the whole economy. For the participation in payment system, the PSR can, concurrently with the CMA, also exercise its competition law powers to enforce the prohibitions on anti-competitive agreements and on abuse of a dominant position, and to make market investigation references.
- 2.6** The **PSR** focuses on payment systems. We seek to create the right environment for competition and innovation in payment systems, putting the interest of the people and businesses that use payment systems front and centre. Our powers extend to participants of payment systems: payment system operators, infrastructure providers and payment service providers

**Table 4: Roles of the FCA, PSR and Bank of England with respect to payments**

	<b>FCA</b>	<b>PSR</b>	<b>Bank of England and PRA</b>
<b>Objectives</b>	Protect consumers, protect financial markets and promote competition	Promote the interests of people and businesses using payment systems; promote competition and innovation	Ensure financial stability and promote resilience of payment systems
<b>Activity related to payments</b>	Conduct regulation including authorising and supervising PSPs, and related enforcement. Regulated firms include payment institutions, such as money remitters and non-bank credit card issuers, and e-money institutions.	Regulating the designated payment systems and participants of such systems, to make sure those systems work well for everyone.	Supervising payment systems, service providers and their users; delivering settlement and trustee functions, operating the RTGS and CHAPS systems, regulating the resolution of firms; issuing notes; regulating the safety and soundness of firms; aiming to ensure critical services are continued in the event of financial failure. The PRA also has a secondary competition objective.

**Table 5: Firms regulated by the FCA, PSR and Bank of England**

	<b>FCA</b>	<b>PSR</b>	<b>Bank of England and PRA</b>
<b>Regulated Payment Service Providers</b>	<p><b>Credit institutions – banks and building societies</b> (conduct supervision)</p> <p><b>Payment institutions – money remitters, payment card issuers and merchant acquirers</b> (authorisation, conduct and prudential supervision)</p> <p><b>E-money institutions</b> (authorisation, conduct and prudential supervision)</p> <p><b>Open banking firms – payment initiation service providers, and account information service providers</b> (authorisation, conduct and prudential supervision)</p>	<p><b>Payment service providers with regard to their participation in payment systems</b> – i.e. banks, building societies, e-money issuers</p>	<p><b>Credit institutions – banks and building societies</b> (authorisation and prudential supervision)</p>
<b>Not regulated under the PSRs 2017 but subject to some FCA oversight</b>	<p><b>Credit unions</b> – registered with the FCA and subject to BCOBs</p> <p><b>Agents of payment service providers</b> – registered at FCA</p>		<p><b>Credit unions</b> (prudential supervision)</p>

FCA	PSR	Bank of England and PRA
<p><b>Payment systems and infrastructure</b></p>	<p><b>Operators of payment systems recognised as FMIs and designated by HM Treasury: Bacs, CHAPS, Faster Payments, LINK, Visa Europe</b></p> <p><b>Vocalink</b></p> <hr/> <p><b>Operators of payment systems designated by HM Treasury: Mastercard, Cheque and Credit Clearing</b></p> <p><b>Independent ATM deployers</b></p> <p><b>Card payment systems monitored for IFR compliance: AMEX, Diners, China Union Pay, JCB</b></p>	

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