

Payment Systems Regulator

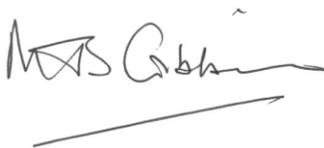
HM Treasury

Non-qualifying regulatory provision assurance statement: confirmed

The Regulatory Policy Committee (RPC) is content that, on the basis of the summary information provided, none of the measures or activities covered in the summary document should be considered as a qualifying regulatory provision for the purposes of the business impact target. The RPC has not been asked to provide a detailed view on any specific activity in this statement or to comment on any activities not covered in either this summary document or a separate assessment of a qualifying regulatory provision.

Comments on the non-qualifying regulatory provision summary

As initially submitted, the NQRP summary did not explain the mechanism through which the four listed pro-competition measures were expected to increase competition between payment service providers. The revised summary sets out clearly how these provisions operate in practice, providing assurance that the pro-competition criteria have been met.



Michael Gibbons CBE, Chairman

Non-qualifying Regulatory Provisions Summary Reporting Template

Regulator: Payment Systems Regulator

Business Impact Target Reporting Period Covered: May 2015 – May 2017

Excluded Category*	Summary of measure(s), including any impact data where available**
A – EU and International	<p>We have implemented two EU Regulations: the Interchange Fee Regulation and the Payment Account Directive (PAD). In both cases, transposition was completed by HM Treasury, and PSR has implemented the regulations consistent with the Directive and these transpositions. PSR has not gold-plated the regulation either by changing the transposition, or enacting provisions ahead of the EU schedule.</p> <p>As part of implementing the regulations, we published guidance on the Interchange Fee Regulation, and PSR’s approach to designating alternative switching schemes, as set out in the Payment Accounts Regulations 2015 (the PARs), and our approach to monitoring their compliance with the PARs.</p> <p>We have also commenced work to implement the parts of the Second Payments Services Directive (PSD-2) that the PSR is expected to be responsible for.</p>
B – Economic Regulation	None in this reporting period.
C – Price Control	None in this reporting period.
D - Civil Emergencies	None in this reporting period.
E – Fines and Penalties	None in this reporting period.
F – Pro-Competition	<p>Summary of measures</p> <p>We have introduced four measures to improve access to payment systems and the transparency of payment systems decision making. These measures all met the BIT pro-competition criteria and may have increased the net direct burden of regulation, whilst providing other benefits.</p> <p>New entrants to the payment services market need to gain access to the central payment</p>

systems in order to compete. Historically, this has been a combination of indirect access sponsored by one of Barclays, Lloyds, HSBC, RBS or Santander, and in a smaller number of cases, by the new entrants becoming full members of the payment systems themselves. PSR identified in its initial 2015 policy statement the need to open up direct and indirect access to the payment systems, and improving transparency about methods of achieving direct or indirect access, as key elements in increasing competition for payment services. Moreover, as access to the payment systems is an integral part of the retail and SME service offering, by allowing new entrants to tailor the type of payment systems access to their needs, we expect increased retail and SME banking competition.

PSR has placed considerable effort in improving access since we began operations in 2015, and significant progress has been made. For instance, no new members of the Faster Payments Scheme (FPS) joined between its launch in 2008 and December 2015; since then, five new members have joined.

More details on PSR's access and governance report can be found in our March 2017 report "Access and governance report on payment systems: update on progress and areas for ongoing focus", available from <https://www.psr.org.uk/sites/default/files/media/PDF/Access-and-governance-report-March-2017.pdf>

PSR General Direction 2

Requires Bacs, CHAPS, C&CC and FPS to have objective, risk-based and publicly disclosed access requirements which permit fair and open access (the 'Access Rule') and to report on compliance with the Access Rule (the 'Reporting Rule').

Prior to the adoption of GD2, the application processes to join the payment systems were not always clear, and GD2 has compelled the payment systems to provide objective, risk-based and publicly disclosed access requirements. In making it easier to access the payments systems directly, GD2 increases competition both by increasing the number of direct participants, and by increasing the number of providers of indirect access.

Since December 2015, five new banks have become direct members of FPS, and two have

become direct members of CHAPS. In 2017, we expect five banks and Payment Service Providers to join Bacs, four to join CHAPS and eight to join FPS. This increases competition for personal and business banking.

PSR General Direction 3

Requires LINK, MasterCard and Visa to publicly disclose their access requirements and to report on compliance with Part 8 of the PSRs 2009 ('Reporting Rule').

Reg. 97 of the Payment Services Directive 2009 requires LINK, MasterCard and Visa to have objective, proportionate and non-discriminatory rules for access to their systems that do not prevent, restrict or inhibit access or participation more than is necessary. This operates to increase competition in the same way as PSR GD2. PSR GD3 helps in this aim by requiring those operators to publish their access requirements.

PSR General Direction 4

Requires Bacs, CHAPS, C&CC, FPS and LINK to ensure appropriate representation of service-users' interests in the decision-making processes of their governing bodies and to report on compliance with this direction.

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Since the inception of BACS in 1968, the payment systems have been owned by consortiums of the banks, with the Barclays, HSBC, Lloyds and RBS acting collectively having an effective veto over the decisions governing the payment schemes. This has muted the signals from service-users, reducing competitive pressure on the direct members.

In requiring the boards of operators running these systems to include specific representatives of service-user interests, GD4 brings direct representation of non-proprietor PSPs to the decision making of those operators. This levels the competitive playing field, and reduces the opportunity for the largest PSPs to dominate the strategy of the payment systems concerned, thereby increasing competition.

	<p>PSR Specific Direction 1 Barclays, HSBC, Lloyds and RBS must each publish clear and up-to-date information on its sponsor bank services in respect of access to, and use of, any non-card regulated payment system which is not Northern Ireland Cheque Clearing by an indirect payment service provider.</p> <p>PSR SD1 addresses the lack of transparency that PSR found in the market for indirect access to the payment systems. By requiring the publication of the current sponsor bank service offerings, SD1 improves the provision of information on the indirect access services that are available, increasing effective competition amongst indirect access providers for the business of smaller banks and payment service providers.</p>
G – Large Infrastructure projects	None in this reporting period.
H – Misuse of Drugs/National Minimum Wage	None in this reporting period.
I – Systemic Financial Risk	None in this reporting period.
K – Industry Codes	None in this reporting period.
L1 – Casework	<p>PSR received a single super complaint from the Consumers’ Association (Which?) regarding authorized push payment fraud.</p> <p>PSR undertook normal reporting activity for the regulated payment systems and banks against the applicable General and Specific Directions, and undertook initial enquiries on a number of matters to consider if they raised competition or regulation issues that needed to be addressed.</p>
L2 – Education, communications and promotion	PSR has undertaken communications and stakeholder management activity as part of fulfilling our role and in relation to particular projects. Non-exhaustively, these have included a range of meetings with stakeholders, workshops, consultations, calls for input, speeches and our annual planning document.
L3 – Activity related to policy development	<p>PSR undertook two market reviews in relation to payment systems infrastructure and indirect access to payment systems, as well as policy development work in relation to card payments.</p> <p>Additionally, PSR has undertaken policy scoping work in a number of areas, though to date</p>

	these have not imposed direct costs on business.
L4 – Changes to management of regulator	None in this reporting period.