

## **Payment Systems Regulator Panel Annual Report 2021-22**

### **Chair's Foreword**

I am pleased to report that the last year has been a very productive and effective year for the PSR Panel. The role of the Panel is to support the PSR with independent advice, stress test approaches to the continuously changing payments landscape and ensure that the PSR plays an effective and meaningful role in this regard, in particular in the area of consumer protection, competition and innovation.

With changes in the UK, European and global landscape continuing to accelerate at an unprecedented pace, the PSR invited the Panel to undertake a dedicated piece of work with the objective of identifying barriers to digital payment uptake in the UK as well as to formulate strategic and practical recommendations on tackling those as well as supporting the increased choice of digital payment solutions for consumers and businesses. This work was delivered with the support of a specifically set up PSR Panel subgroup and presented to the PSR and the broader market in May 2022. Given the criticality of digital payments in a world of continuing decline of cash that is at the same time increasingly challenged by the 'cost of living crisis', the PSR Panel will continue to support the PSR and the market to enable choice and increase digital payment inclusion.

The PSR Panel also supported the development of the PSR's 5-year strategy plan with an emphasis on outcome driven objectives and the ability for the PSR to measure its progress on these. In addition, the Panel emphasises the need to stay agile in light of the rapidly evolving market, not least around the continuing evolution of the crypto ecosystem, the concerning developments around fraud and the developments around Open Banking and the future New Payments Architecture (NPA).

The Panel welcomed that fact that there was increased interaction with the PSR teams, in particular in the context of ongoing PSR priorities such as the Card Acquiring Market Review, Open Banking and the topic of Interbank Payments and consumer protection. Enhanced knowledge transfer will support the delivery of key PSR priorities and the Panel looks forward to continue close engagement on all of these issues and more that are to come.

I very much continue to look forward to working with the Panel and the PSR in order to help manage the ever-changing external forces and support the provision of a resilient, inclusive, competitive and innovative payments ecosystem in the UK.

I very much thank the Panel, the Secretariat and the Managing Director for the ongoing support and look forward to continuing our collaboration.

**Dr. Ruth Wandhöfer**

Chair, Payment Systems Regulator Panel

## **Introduction**

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

The Panel has a diverse membership drawn from across a wide range of payment user and payment provider interests. Members represent different constituencies of service users, including individual consumers, large and small corporate customers and the Government (as a user of payment services); and on the provider side, members include senior experts from payment systems operators and technology providers.

During 2021-22, the Panel continued to encourage PSR staff to make full use of the Panel, both by seeking collective Panel input at an early stage in policy development, and by tapping into the expertise and experience available from individual members. The Panel has four main meetings a year, which are complemented by a number of ad hoc workshops on specific topics. The main meetings tend to focus on issues with a strategic cross-sectoral impact, and each meeting is followed by a report from the Chair providing advice and feedback directly to the PSR Board. The Panel's workshops tend to be more informal - providing an opportunity for Panel members to work closely with PSR staff in exploring evidence and ideas in more detail than a formal Panel meeting would allow.

The Panel attaches great importance to maintaining an open line of communication with the PSR Board, Chief Executive, Executive Committee and staff – not just through exchanges of papers and formal written reports but also through regular contact. To facilitate these links, the Panel has continued to welcome senior PSR staff to join Panel meetings to observe exchanges directly and engage in detailed discussions where appropriate.

## **Strategic issues**

This year, the PSR invited the Panel to undertake a new initiative to understand potential barriers to the take-up of **digital payments** and identify potential solutions. The Panel was tasked to develop and understand the different uses for digital payments, assess what barriers there might be and identify what appropriate regulatory action might be required. [The Digital Payments Initiative Report](#), published in May 2022, drew on the knowledge and experience of the panel members, through a series of subgroups and engaging with a range of stakeholders through the process.

One important focus during the year was the Panel's participation in the early stages of the **PSR's long-term strategy planning**, based around the desired outcomes for users of payment services over the next 5 years. The Panel welcomed the move to a focus on outcomes in the strategy. Members urged the team to include more detail on what has been achieved to date, what further progress is needed, and how the PSR will measure success in achieving those outcomes, with clear milestones along the way. The Panel also stressed the need to focus on supporting consumer trust in payments. The PSR provided the Panel with a further update on the strategy before it was published, and Members recommended that the PSR focus on 2-3 measures of how the payments sector is progressing against the intended outcomes that could be tracked on a regular basis over a reasonably long time period.

Key **risks** that the Panel highlighted during the year included the rapid acceleration in the pace of change and increasing complexity of the regulatory landscape, the fragility of trust in the payments system, the sustainability of participants in payments networks, the concerning increase in digital payment fraud (e.g. App scams), the risks to the viability of the current cash infrastructure, and the macroeconomic and political environment. The Panel also highlighted the need for the PSR to be confident that it has the right levels of consultation and intelligence in place to understand the changing payments environment and offer agile solution-based outcomes.

## **Priority Issues for the Panel**

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

### **New Payments Architecture (NPA)**

The Panel received an update from the PSR on the delivery of the NPA. The Panel welcomed that Pay.Uk is currently preparing to deliver, however identified the delay in resolving the detriments of the NPA project and realising the benefits given its size and importance to the industry. Whilst Members noted that the overall cost of delivery was a key issue, they also discussed whether the PSR should have the ambition to work towards the establishment of a real-time payment platform. If there are further delays in executing the NPA, there would be risks that newer technology would continue to overtake it and it would not be able to deliver the benefits it was intended to at its inception. More generally, the Panel advised that the PSR should also actively consider the scope for permitting collaboration amongst payments industry participants, where it is considered beneficial - for example in getting innovation off the ground.

### **Interbank payments**

The Panel discussed the reasons for the slow speed of developments in interbank payments so far. Members advised that further development would be dependent upon fixing the trust issues present in the market and increasing clarity around the protection for non-card payments. PSD2 provides a consumer protection framework for payments, but this was not clearly communicated to the end user. The lack of Open Banking availability at point of sale was identified as another reason for the slow speed of developments. From a merchant perspective, the clarity of the commercial model was questioned. Cash and card transactions still dominate over digital payments, and Panel members expressed concerns over the future of digital payment charging once interchange fees were no longer in use.

The Panel emphasised the need to promote consumer trust in this space, trust which takes a long time to build but can be damaged easily. The risk of losing consumer trust and confidence because of fraud was a serious concern which would need to be resolved through consistency of messaging and collaboration between the industry and the regulator to bolster education and promote trust and confidence. Members also noted that consumers do not currently make an active choice between different payment methods; however, they urged the PSR to address the relevant knowledge gaps by collecting and analysing data on consumer choice and the reasons behind it. If consumers better understood the different risks and pricing reflected in payment methods, they may well exercise choice more often.

### **Open Banking**

The Panel discussed the potential role that the PSR could play in the future of Open Banking. Members agreed that since Open Banking is based on the underlying infrastructure of payments, the PSR has a key role to play in driving adoption and clarity in this space. In particular, they observed the inconsistency of messaging by the different banks and other ancillary areas such as confirmation of payee, the handling of APP scams and the availability and functioning of request to pay services. Consumers are not always aware of their protections in Open Banking, which means that services are not being used as often as they could be. Streamlining Open Banking-related

messaging to consumers and broader user groups, as well as consistency of service, were seen as key requirements to make Open Banking a success.

Members Panel suggested that the PSR consider creating a broader Open Banking stakeholder group to address these points. In particular, including third party Payment Providers would be integral to understand their business models and help communicate clearly to end-users how they can use their services.

### **Card-acquiring market review (CAMR)**

Members discussed the complexity and lack of transparency of card fees, as there are many variables that flow into an offering (SLAs, speed, extra services etc). The different ways of presenting these fees make it extremely difficult for users to compare services. Users, especially SMEs, will need to see clear evidence of the cost-effectiveness of alternatives in order to be encouraged to switch.

The Panel noted that POS terminals are no longer an issue in inhibiting competition and that half of the merchants currently source their terminals elsewhere, e.g. using soft terminals. It is rather the technology stack behind the terminals that can be the prohibitive issue.

It was recommended that the industry should standardise information and that the PSR should set this as an outcome for the industry to deliver. As the majority of merchants are opting out of transparency and accept bundled fees instead, the PSR needs to better understand what needs to change in order to deliver a more competitive market.

### **Cryptoassets**

The Panel welcomed an introduction from the team on the current workstreams in this area and the PSR's planned work over the next two years. The Panel agreed that it would be worthwhile for the PSR to think about what it wants to see from new and innovative payment systems more broadly, in regards to resilience, openness, competition and access. However, it was widely agreed that this should not be limited to crypto assets, which was not considered a priority area of payments to which the PSR should devote a large amount of resource at this stage. The Panel encouraged the PSR to instead remain focused on current payments challenges, especially those impacting the most vulnerable users.

## Appendix 1 - Members of the PSR Panel between April 2021-March 2022

<b>Ruth Wandhöfer (Chair)</b>	Independent Banking Expert
<b>Robin Abrams</b>	Chair of Banking & Finance Policy, Federation of Small Businesses
<b>Natasha De Teran</b>	Former Head of Corporate Affairs, SWIFT
<b>Flora Hamilton</b>	Head of Financial Services, CBI
<b>Andrew Hewitt</b>	Director of Payment and Data Solutions, FIS
<b>Matthew Hunt</b>	Chief Operating Officer, Executive Director, PAY.UK
<b>Jeff Moody</b>	Commercial Director, British Independent Retail Association
<b>Mark O'Keefe</b>	Founding Director, Optima Consultancy
<b>Jo Oxley</b>	Director, Government Banking Service
<b>Anne Pieckielon</b>	Founding Director, The Inclusion Foundation
<b>Conor Langford</b>	Vice President, Client Director, Visa
<b>David Gaselee</b>	Director of Transaction Product Management, Barclays Corporate Bank
<b>David Brooks</b> <i>(until May 2021)</i>	Head of Finance Operations, Sainsburys
<b>Paul Thomalla</b> <i>(until November 2021)</i>	International Head of Payments, Finastra

## **Appendix 2 - Payment Systems Regulator Panel Terms of Reference**

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

### **Scope**

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

### **The Panel's Duties**

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

### **Membership**

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

### **PSR and Financial Conduct Authority Duties**

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

### **Accountability**

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