

The PSR Strategy

Response to CP21/7

January 2022

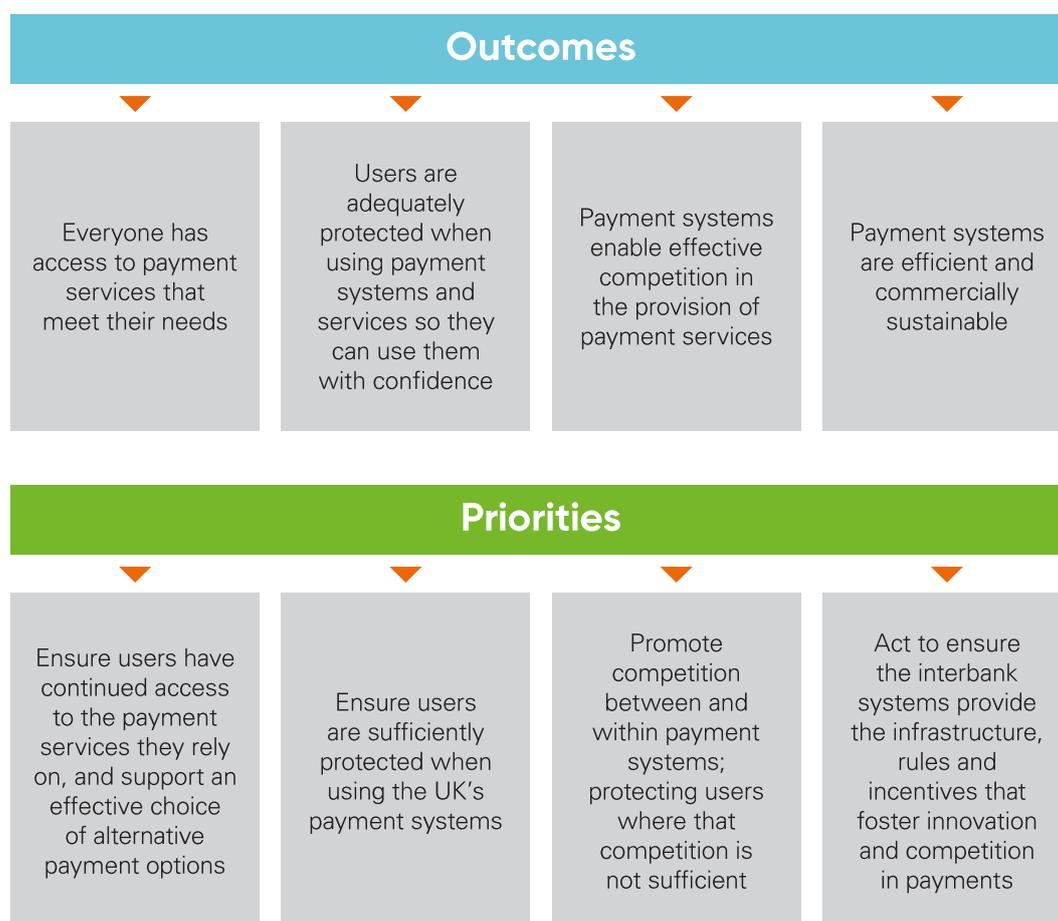
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1 Introduction

1.1 In June 2021, we published a consultation on our proposed PSR Strategy, seeking the views of our stakeholders before we confirm the strategy. We set out that, although there is much to celebrate, payments do not yet work well enough for everyone. And there are opportunities for further improvements. We proposed four outcomes that we want the entire UK payments ecosystem to achieve in the next five years, and four priorities outlining what we propose to do to achieve those outcomes.

Figure 1: Our proposed outcomes and priorities



1.2 The consultation on our proposed PSR Strategy closed on 10 September 2021. In total, we received 34 responses to our consultation. Respondents broadly welcomed the strategy and agreed with the approach taken and the four outcomes we proposed. This document summarises the responses and highlights the key changes we made to our strategy based on these.

Key changes to our proposed strategy at a glance

Promoting competition in payment systems vs. mitigating harm

We have clarified that we may need to act to protect users before the impact of effective competition has had time to take effect. Our proposed strategy emphasised promoting competition and unlocking the potential of the existing interbank¹ systems. It also recognised the need to protect end users where competition is not enough. It was implicit – but not clearly spelled out – that while we work towards long-term solutions, we may need to step in to protect consumers in the meantime. In the strategy, we shared our high-level thinking on how we decide to intervene and what indicators might help us do so.

Governance of interbank systems and the role of Pay.UK

We have adjusted our fourth priority to reflect our view, following feedback, that under current arrangements there is no single body that can apply common conduct or liability standards across all Faster Payments users. With the introduction of Open Banking, Pay.UK's rules do not extend to all Payment Service Providers. We have retained the focus on the central importance of the New Payments Architecture (NPA), and on the ability of Pay.UK to make and enforce rules. We have, however, more clearly articulated the challenges to achieving good outcomes for all interbank payments, including those initiated through Open Banking services.

Measuring progress

Following feedback, we have amended the measurement chapter to provide more clarity about how we will measure whether we are achieving our strategy. We have clarified that the purpose of measurement is to check whether the strategic outcomes, priorities and actions remain appropriate and – if not – how they should be changed. We have also set out a clear set of high-level indicators we will use to measure each outcome; noting we may add to these over time. We have committed to a full strategic review against the outcomes and priorities after about 2.5 years. Also, we will publish a lighter-touch annual review of progress against the four strategic outcomes which will allow us to review and monitor whether we need to make any changes to our priorities or actions.

¹ In this document, we refer to payment systems that support payments between deposit accounts as 'interbank systems'.

2 Analysis of responses

Key insights

2.1 After considering the responses, which are summarised in more detail below, the following key insights emerged.

- Stakeholders largely welcomed the PSR developing a strategy and the opportunity to feed into it. Nearly all respondents supported the 'outcomes-based' approach and showed wide support for the choice of outcomes. Some, however, felt we could have been clearer about how we measure whether these outcomes are being achieved.
- A number of respondents stressed the importance of the priorities being flexible to adapt to progress and innovation.
- Some end users criticised the strategy for characterising current harms to users as future risks. These, and some other respondents, suggested we should explain more clearly the criteria for when we will intervene to prevent harm to end users (as opposed to waiting for competition to take effect).
- Some respondents warned against promoting competition 'for competition's sake', suggesting that card payment systems in particular are doing well on measures that matter to consumers. They said we should only promote competition when it benefits end users.
- A number of respondents stated that our priority on governance of interbank systems was too narrowly focused on the governance of Pay.UK. One concern was the ability and capacity of Pay.UK to facilitate any expansion of the interbank rule books and enforcement against those rules. Respondents also questioned how we see our role compared to that of Pay.UK. They asked us to clarify the distinction between the role of a regulator and the role of a payment system operator.
- Some respondents suggested we should consider including more information and discussion on the implications of a number of particular topics. These included Open Banking, central bank digital currencies (CBDCs), the needs of businesses and public sector institutions as end users, cross-border payments, and the cost to businesses of accepting card payments.
- Finally, a number of respondents highlighted that the line between payment systems will become more blurred as services will increasingly be provided over more than one payment system or a single payment system will provide more than one type of service. As such, they suggested we should not focus on promoting competition between existing systems.

Summary of responses

- 2.2** We received 34 individual responses to our consultation. Through these responses, around 300 individual suggestions to add or make changes to a particular part of the strategy were made. This includes suggestions on the key trends we identified (Chapter 2 of the proposed strategy), our suggested outcomes (Chapter 3), our suggested priorities and related actions (Chapter 4), and measurement (Chapter 5). The majority of these comments constituted specific detailed points relating to work we are already undertaking.
- 2.3** Where these suggestions related to our overarching strategy, the points are summarised in the sections below. Where they related to specific work undertaken by one of our existing projects, the remarks were forwarded to the corresponding project teams for consideration.

Trends

- 2.4** The large majority of stakeholders agreed that the key trends we identified captured the most important system-level changes payments and the UK's payment systems are likely to experience over the next five years. Stakeholders, however, stressed that it is difficult to predict the impact of these trends, and asked the PSR not to rely too heavily on current conditions continuing. Instead, flexibility will be needed to dynamically change the body of work the PSR undertakes. Some suggested the PSR should undertake active horizon scanning for trends to assist with changing its priorities.
- 2.5** Consumer and business representatives particularly welcomed the proposed strategy focusing on the need to combat rising fraud and the inclusive digitalisation of UK payments. Industry stakeholders agreed with our view that different systems will increasingly be able to provide comparable services and saw more competition between service providers and the emergence of new systems as key trends. Respondents generally supported the idea that where more than one payment system presents the same risks to end users, we would expect to take a consistent approach to how we regulate these systems.
- 2.6** Some respondents highlighted that the key trends should more clearly reflect changes relevant for businesses. Respondents also stressed that changing user preferences can also drive change.

Outcomes

- 2.7** The majority of responses across different respondent categories supported the outcomes we outlined in our proposed strategy. Respondents particularly welcomed the strategic perspective on how the PSR plans to promote the further development of the UK's payments market.
- 2.8** Industry stakeholders stressed that although the PSR is rightly focusing on choice and inclusion, protection, competition, and commercial sustainability, it should progress these keeping in mind consumer and business outcomes. They stated that competition for the sake of competition should not be pursued. They believe the PSR will need to find a balance between forcing more competition and the risk of stifling changes by focusing too heavily on promoting a particular option. Equally, innovation and choice should be customer and market driven.
- 2.9** Consumer and business representatives stated that the next 5 to 10 years will see a renewed focus on ensuring payments work for all. They thought the PSR should continue to progress its work at pace and adopt an outcome-based approach that can enable choice, protect vulnerable users, encourage innovation in the market and support growth in the UK economy.
- 2.10** Respondents across different categories also stressed that the PSR should consider the needs of all end users, including consumers, businesses and the public sector when thinking about outcomes. They also thought conflicts could arise between the different outcomes and warned that this could lead to trade-offs.

Priorities

- 2.11** Most stakeholders generally supported our proposed priorities, and thought they provided clarity on the choices the PSR makes and why we would choose to intervene. Although respondents thought the priorities are the right points of focus for us in the current landscape, nearly half stressed that substantial changes are likely in the next 5 to 10 years. They, therefore, asked us to build in flexibility allowing for a swift change in direction when it becomes clear other actions may have a bigger impact. Some respondents also asked us to reconsider the items we said we would keep under review. These include environmental sustainability, the use of data within payment systems, and cross-border payments.
- 2.12** Around a third of respondents raised that certain priorities may be too narrowly focused on the existing interbank systems. Respondents across different stakeholder categories were also interested in understanding the timetable for particular workstreams under each priority. Finally, respondents requested further clarity about how the PSR will work with other regulators to limit duplication and make clear to stakeholders the specific responsibilities of the different regulators.

Access and choice for users

- 2.13** Nearly all respondents showed support for our work on this priority, as they consider it a tool to support competition and promote innovation. They stressed that the PSR should continue to promote a range of access options.
- 2.14** Industry stakeholders stated the PSR should also reconsider access for declining payment systems if other existing payment methods continue to meet needs. They also believe it is important that all players offering comparable payment services are held to the same standard, regardless of their form of access.
- 2.15** Consumer representatives highlighted that the PSR should take into account a number of principles when considering access and choice for consumers and businesses. They argue, payment choices should be:
- **Accessible:** everyone must be able to pay or be paid
 - **Fair and affordable:** the cost of using a payment should not exclude or cost more for particular groups in society
 - **Reliable:** the payment option should provide continuity of service
 - **Sustainable:** any payment choice should be economically sustainable, and a failure should not result in consumer or business loss
 - **Safe and secure:** a minimum level of protection should be provided, including against fraud and firm failure
 - **Transparent:** costs, data use and protections should be clear and easily understandable

Sufficient protection for users

- 2.16** Nearly all respondents welcomed the inclusion of consumer protection as a priority for the PSR. They especially thought protection against fraud, and the PSR's existing work on Authorised Push Payment scams, should continue at pace.
- 2.17** Industry stakeholders favoured a collaborative approach to tackling protection by convening all relevant parties when developing solutions. They stressed that protection should be aligned to the payment use case rather than the system as a whole, to better reflect the risks of harm related to any given payment. They also thought robust protection should be reinforced by an economic model so the cost of protections can be balanced against its benefits.
- 2.18** Consumer and business representatives agreed that fraud presents a clear and immediate risk to the strategy delivering on its outcomes. They also stressed that competition on protection should not come at the expense of the consumer. These representatives thought a consistent and robust level of protection across payment methods should be provided. However, they also acknowledged that not every payment service will need a uniform level of protection.

Competition in payment systems

- 2.19** There were a number of views across the different respondent groups on our suggested priority on competition. While some respondents supported the PSR increasingly focusing on providing competition between different payment systems offering comparable services, others thought this approach may not be as effective as intended. They argued that in the future any given payment may use a combination of services provided by different payment systems. They, therefore, thought competition would be more effective at a payment service level, rather than at a system level. Some stated effective delivery of the NPA may help in this regard.
- 2.20** Other stakeholders pointed out that while they supported the PSR's efforts to increase competition in the industry, it should only do so to deliver good outcomes for consumers and businesses. They stressed competition may not always be the best tool to do so. These stakeholders believe the PSR should not exclude exploring other avenues to improving outcomes for consumers and businesses, such as facilitating industry cooperation.
- 2.21** Some respondents, and business representatives in particular, stated that while promoting competition between payment systems is the right focus for the PSR, the benefits of that competition may not be felt for a few years. They argued that there is an absence of any meaningful commitment to address current harms within the card payments system despite substantial evidence of excessive and ever-growing costs to users. They thought the PSR should supplement its long-term objective of increased competition with more short-term regulatory interventions (for example, on interchange or scheme fees) to avoid consumer and business detriment.

Governance of interbank systems

- 2.22** A majority of respondents were in favour of improving common standards, which can be effectively created, amended and enforced, including on interoperability between different industry players. That said, a substantial number voiced concerns about the particular focus of this priority on the role of Pay.UK.
- 2.23** Some stressed the PSR should avoid favouring one payment system over another. Others thought the priority relied too heavily on actions of Pay.UK to deliver change and that the PSR would be better placed to enact some of these changes. They stressed rule changes should not be seen as substitutes for regulation, particularly when market outcomes are sought. Others still highlighted that this priority could be widened to all payment systems, and that more clarity could be given about the role of Open Banking for interbank payments.
- 2.24** Finally, a number of respondents thought the PSR could help to provide clarity on the roles, responsibilities and liabilities for interbank payments. They suggested reviewing the operating cost model and balancing system access with appropriate controls. Some stressed that any funding model should ensure the cost of innovation is shared fairly across industry participants.

Measurement

- 2.25** Stakeholders across different respondent categories indicated they would like to see more detail on measurement, including by setting time-limited objectives and indicators that would determine success for the PSR. They fully supported the PSR's plan to improve measurement and welcomed the establishment of a new Strategy, Analysis and Monitoring Division as a key driver to achieving this.
- 2.26** Stakeholders also believe the PSR should develop a data strategy that considers existing external sources of data and aims to minimise the impact of any necessary data requests. Overall, respondents thought the PSR should hold itself to high standards and ensure transparency, confidentiality, efficiency and proportionality.

3 Our response

- 3.1** Based on the feedback we received, we have not significantly changed the proposed strategy. We have, however, made a number of changes to the description of our suggested priorities and to the measurement chapter based on respondent feedback. In finalising the document, we have made a number of minor edits to refine the wording and shorten the document.

Promoting competition in payment systems vs. regulatory intervention

- 3.2** In our proposed strategy, our third priority set out our intention to enable competition between, as well as within, payment systems. Previously, we focused mainly on enabling competition within a particular payment system. Based on the feedback we received, we will continue to focus on enabling competition between payment systems. This includes enabling competition between the systems themselves, as well as between firms providing comparable services and operating on different systems. We remain convinced that, in the long term, the outcomes from greater inter-system competition will include greater innovation and payments that better meet the varying needs of consumers and businesses at a reasonable cost.
- 3.3** We do, however, recognise that these benefits will take time to take effect. Some respondents raised concerns that, in focusing on competition, the PSR may not be tackling areas which are already causing harm and will continue to do so until competition becomes effective. Respondents also challenged us to provide more clarity about when and under what circumstances we would intervene.
- 3.4** With this in mind, **we have made it more explicit in our strategy that we may need to intervene before the impact of effective competition has had time to take effect.** For example, we may need to remove or reduce barriers to competition developing. Alternatively, we might consider it necessary to take action to promote the interests of consumers and businesses, to protect them from harm in the short term.
- 3.5** **We have also elaborated on how we choose when to take action and what tools to use.** When making these choices, we will consider the potential trade-offs between shorter- and longer-term actions, our different strategic outcomes and priorities, and the wider consequences of those choices. We also take into account our powers and procedures guidance (which references our administrative priority framework²) when deciding what, if any, action to take.

2 For more information, please see: <https://psr.org.uk/publications/general/powers-and-procedures-guidance-june-2020/>

Governance of interbank systems and the role of Pay.UK

- 3.6** In our proposed strategy, our fourth priority was *'Ensure the renewal and future governance of the UK's interbank payment systems supports innovation and competition in payments'*. **We have changed this priority to: *'Act to ensure the interbank systems provide the infrastructure, rules and incentives that foster innovation and competition'*.**
- 3.7** We have made this change after reflecting on comments from respondents and our work on interbank payments over the last year. Some respondents expressed concern that we were proposing a 'quasi-regulatory role' for Pay.UK. Others expressed doubt that Pay.UK currently has the ability or capacity to make and enforce rule changes that establish robust consumer protection measures. Respondents also suggested our proposed strategy did not adequately reflect the changes to the landscape following the introduction of Open Banking standards.
- 3.8** Based on this feedback, and because there is currently no single entity which can apply common conduct or liability standards across all Faster Payments users, **we have taken a broader view of the challenges of achieving good outcomes for all interbank payments.** We will continue to focus on the central importance of the NPA, and Pay.UK's ability to make and enforce rules. However, we also recognise that a range of organisations can influence how interbank systems are accessed and used, and that this will evolve after implementation of the NPA. We expanded on the future regulation of the payment elements of the Open Banking Future Entity. We also discussed our approach to the challenges of coordination across different participants, as our interbank systems are used for a wider range of use cases.
- 3.9** We have also amended the name of our fourth priority, to make it clearer what we are looking for from the interbank payment systems.

Measuring progress

- 3.10** We invited feedback on the measures and data sources we could use to help us assess whether we are achieving our strategic priorities. We also recognised we will need to develop our ability to measure progress against our strategy, and developments in payments more generally, including through the establishment of our new Strategy, Analysis and Monitoring division.

3.11 We received suggestions from respondents on the metrics and criteria we should use. Some respondents also provided suggestions for particular data sources we could use. Using this feedback, we amended the measurement chapter to clarify the indicators we will use and how and when we will use them.

- **We clarified that the purpose of measurement** is to check whether the strategic outcomes, priorities and actions remain appropriate and – if not – how they should be changed. This includes considering whether we need to start work on the areas we are currently keeping under review as well as evaluating the impact of the work we undertake.
- **We have committed to a strategic review** approximately halfway through the life of the strategy (that is, 2.5 years after publication).
- In the meantime, **we will conduct annual reviews** using quantitative and qualitative measurements to tell us whether the payments industry as a whole is moving towards the outcomes we have set out in the strategy. These reviews will be published alongside the Annual Plan and Accounts (and will inform the work programme within it). We also commit to ensuring that any reviews will not place undue burdens on our stakeholders, including by considering existing external data sources we can use.
- **We set out a clear set of indicators** we will use to measure progress against each of our four outcomes. These indicators, which build on the measures we set out in the proposed strategy, are not an exhaustive list but will be adapted as we continue to improve our measurement capabilities.

Smaller changes

3.12 Several respondents mentioned that the **needs of all users, including business users**, should be clearly reflected alongside consumer needs in our strategy. We agree and have reflected this in the final strategy.

3.13 Some respondents made the point that the adoption of a **central bank digital currency** (CBDC) would likely have significant implications for UK payments, and mean revision of our strategy. We amended the strategy to acknowledge, in some forms, a CBDC could have a very material impact on payments and our strategy. We will keep engaging with the Bank of England and other authorities as the thinking on a UK CBDC evolves.

Main points raised that have not caused us to make changes

- 3.14** Some respondents reasoned that our focus on competition between payment systems does not reflect a changing world. They anticipate, for example, greater convergence of payment systems and payment transactions flowing across multiple payment systems. We acknowledge this as a trend in payments but disagree that this significantly affects our priorities.
- 3.15** Greater convergence of systems means different systems will compete to provide similar services to users. Effective competition between those systems should drive better outcomes in the form of lower-cost and higher-quality services that meet users' needs. Even if single payments are flowing across multiple systems, we will still want to see different systems competing or enabling competition at each stage of the payment transaction. Competition will therefore continue to be a key driver for cost-effective and innovative payment services.
- 3.16** Some respondents highlighted that our aim should not be to enable competition for competition's sake. While we agree with the statement, we have not made any changes to the proposed strategy based on this argument. We consider the document is already clear on this point.³
- 3.17** Respondents also stated we should be more explicit about what changes to payment systems we want to see and when, by publishing a road map alongside our strategy. We think this is unlikely to be appropriate when considering the next five years. We are not including a detailed road map with the strategy. However, the document does set out the work we are already doing which will help achieve each of the priorities, and what else we will do. We will continue to outline our detailed plan of work for each year in our Annual Plans, and we will make it clear how that work relates to the strategy. We will also continue to contribute to the Financial Services Regulatory Initiatives Grid⁴, so that stakeholders can see an overview of key work that affects them in the medium term.
- 3.18** On our priority regarding the governance of interbank systems, some respondents suggested that our focus should be widened to all designated payment systems. While we agree governance is important for all systems, we are not making any changes to the strategy. Our stated outcomes already make clear that we expect all payment systems to promote the interests of end users and be economically sustainable. While we have suggested some changes to this priority⁵, we have retained the focus on interbank systems as other systems we regulate do not have the same difficulties setting, amending or enforcing rules and driving innovation.

3 For example, on page 11 of our proposed strategy, we said: '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.'

4 For more information, see: <https://www.fca.org.uk/publications/corporate-documents/regulatory-initiatives-grid>.

5 See paragraphs 3.6 to 3.9 of this document.

3.19 Respondents also asked for further information on how the PSR will work with its fellow regulators to limit duplication and provide clarity to stakeholders on the responsibility split between the different regulators. While we agree this is important, we did not change the strategy based on this comment as the PSR already has a legal duty to ensure the coordinated exercise of functions.⁶ We also have a Memorandum of Understanding setting out the various roles and responsibilities between different financial services regulators.⁷

3.20 Finally, respondents made a number of suggestions we agreed with but did not require changes to our strategy, as the suggestions were already in line with it. These included:

- the PSR adopting an outcome-based approach for its strategy that can enable choice, protect vulnerable users, encourage innovation in the market and support growth in the UK economy
- having regard to the continued funding of declining payment systems if needs continue to be met by other existing payment methods
- service providers offering comparable services being held to the same regulatory standards
- the PSR taking into account accessibility, fairness, affordability, reliability, sustainability, safety, security and transparency as criteria to consider when looking at the needs of businesses and consumers
- consumer protection standards aligning to the risks related to a payment use case, rather than the system as a whole
- balancing the cost of protection with the need for a sustainable economic model

6 S. 98 FSBRA

7 For more information, see: <https://psr.org.uk/how-we-regulate/working-with-other-regulators/>.

Annex 1

List of respondents

In total, we received 34 responses to our consultation. In alphabetical order, the following entities provided a response:

- Association of Convenience Stores
- Barclays
- British Retail Consortium
- Citi
- CMSPI
- Confederation of British Industry
- Cross-Government
- Emerging Payments
- FCA Financial Services Consumer Panel
- FDATA
- HSBC
- Icon Solutions
- Innovate Finance
- Keep Me Posted
- LINK
- Lloyds
- Mastercard
- Modulr
- Nationwide
- NatWest Group
- Northern Ireland Consumer Council
- Northey Point
- NoteMachine
- Open Banking Implementation Entity – Consumer and SME Representatives
- Pay.UK
- Santander
- Sentenial (NuaPay)
- Transpact
- UK Finance
- UK Hospitality
- Virgin Money
- Visa
- Vocalink
- Which?

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