

## **Chair's Foreword**

Looking back at my first seven months as the Chair of the PSR Panel, I would like to share my observations and provide some insights on future next steps. 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. Coming into this role I made sure to spend quite a bit of time with each Panel member as well as the PSR's Managing Director and his policy team in order to understand the modus operandi established thus far and get a feel for everyone's perspective, expertise and interests. In its current state, the Panel reflects broad expertise across both the user and provider community for payments. In my view, the composition of the Panel naturally has to evolve with the marketplace. And it is key to remember that our members do leave their professional hat at the door and act as independent contributors, which I am delighted to say is being practiced rigorously.

My predecessor has done a great job at establishing and running the Panel, including its practical governance processes and engagement approaches. Since my arrival we have further taken steps to increase collaboration between the Panel and the PSR teams to ensure early engagement, be open to providing ad hoc advice and making sure that our expertise is leveraged to the maximum by the different teams, whether this is in relation to consultations, strategy ideas, research and analysis or working with other parties.

With the continued impact of COVID-19 on the payments sector – decline in cash and challenges for smaller merchants to accept non-cash payment methods, whilst consumers still face digital exclusion in terms of the payment choices available – we are at the same time watching the global payments evolution with the arrival of Central Bank Digital Currencies (CBDC) in some countries and note the increased focus of the UK in that regard. This is in addition to the big payment infrastructure changes that the UK is undergoing in the coming years, such as the renewal of the Bank of England's RTGS System, the industry efforts on the New Payments Architecture and the future for retail payments in the UK and globally overall. Above and beyond that, the role of stable coins in payments and the question of how these should be regulated for purposes of consumer protection is another area of increased focus.

Timely input, knowledge transfer and debate around the evolution of our payment systems and how we best ensure consumer protection and competition at the same time is more crucial than ever and the Panel is ready to help at all levels.

I very much look forward to continuing to work with the Panel and the PSR such that the speed of change in payments can be guided in the direction that benefits the overall resilience of our systems, enables healthy competition and entices innovation such that all users can benefit from best in class payment services.

On this journey I am assisted by an excellent Secretariat and a very supportive Managing Director as well as all of his teams and I am very grateful for that. Looking forward to our next steps.

Dr. Ruth Wandhöfer

Chair, Payment Systems Regulator Panel

## **Payment Systems Regulator Panel Annual Report 2020-21**

### **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, experiences and concerns of all categories 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, banks, credit card services and technology providers.

During 2020-21, the Panel continued to make a priority of encouraging 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. For example, in March 2021, Panel members held an informal subgroup meeting with PSR staff to discuss the PSR's five-year strategy before it was finalised.

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 as guests to observe exchanges directly and engage in detailed discussions where appropriate.

## **Strategic issues**

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 5-10 years. Panel members were keen to help the PSR identify user interests, and the potential roles for, and constraints on, payment service providers. During the year the Panel had a series of constructive engagements with the PSR on these issues, supplemented by a workshop in March 2021 to provide input on the focus and intended outcomes of the strategy prior to its publication.

Key themes that the Panel highlighted during the year include the rapid acceleration in the pace of change and increasing complexity of the regulatory landscape; the potential long-term impacts of the UK's withdrawal from the EU on consumers, competition and innovation in payments; and the risks to the viability of the current cash infrastructure, exacerbated by the Covid-19 crisis, that could place disadvantaged consumers and smaller businesses at risk of systemic exclusion. The Panel also highlighted the need for the PSR to ensure that all its actions were effectively aligned with the PSR's emerging longer term aims and that these actions provided clear and consistent messages across the entire payments landscape.

## **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 risks and concerns 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.

### **Covid-19**

The full impact of the Coronavirus (Covid-19) started to be felt towards the end of the last reporting period (2019-20). In April 2020, the Panel welcomed the regulator's commitment to engage and communicate with a wide range of stakeholders, and stressed the need to listen out for concerns raised by the payments provider and user communities as the virus crisis ran its course, and to respond flexibly and rapidly to the payments issues that were arising on the ground. The Panel also highlighted the need for the PSR to maintain its intelligence of broader changes in society and politics that were likely to arise from the crisis, as well as in consumer behavior and any new vulnerabilities that might emerge as a result, and to assess the effectiveness and implications of its interventions in the sector.

### **Access to Cash**

During the year, the Panel discussed the issues around access to cash and the ability to make cash transactions. There had been a striking decrease in cash demand caused by the lockdown and it was forecasted that, post-pandemic, as much as half of this decline could remain permanent. Nevertheless, even with a decline of this magnitude, cash would remain an important payment method. Panel members were concerned about the need to ensure that the most cash-reliant consumers, particularly in isolated areas, had easy access to cash when they needed it. They also stressed that it was just as important to track changes in business practices, as the number and distribution of retailers accepting cash might also drive down the use of cash and lead to consumer detriment.

The Panel also discussed the longer-term implications of the Covid-19 crisis in access to cash. Rapid changes in the payments landscape may cause the digital divide to become ever more acute. The Panel urged the PSR to do all it could to minimize this risk – for example by taking steps to ensure that consumers understood the full range of payment options available to them, and by maintaining confidence in digital payments, through effective rollout of Confirmation of Payee. The Panel also highlighted the benefits of promoting innovation in the supply of cash, for example through the Post Office offering cash deliveries, if, as seems highly likely, the ATM network continued to contract. Work in this area should also consider alternatives to cash and making those solutions widely available, including considering leveraging mobile networks as long as broadband coverage was not at 100% in the UK.

The Panel stressed the importance of a joined-up approach to monitoring developments in the round, to ensure all parties had a holistic view of the range of factors affecting cash use. The Panel welcomed the PSR's ongoing work with the FCA to collate data on cash usage, and encouraged the PSR to include more readily trackable measures to create a clear picture of the speed at which changes were taking place, in order to carefully consider long-term impacts and possible solutions. The Panel encouraged the PSR to work with the other authorities to outline its success factors – what a 'good' outcome would look like.

## **Confirmation of Payee (CoP)**

The Panel has long been supportive of this project. Overall, the Panel welcomed the successful implementation of Confirmation of Payee across the six big banks, representing 90 per cent of the market, and also its full or partial implementation by two non-directed banks. The Panel encouraged the PSR to take a proactive role in ensuring further progress with this extremely important initiative, which might require a mixture of collaborative approaches and active use of regulatory powers. The aim should be achieving 100 per cent coverage as soon as practicable to provide a consistent experience for customers, to support them to use online payments services with confidence and avoid scams..

The Panel also discussed that CoP was not a definitive solution to combat all APP scams, and invited the PSR to consider how to provide more education to consumers on identifying different types of fraud. The Panel also felt that more behavioural analytics should be deployed by banks to avert the APP scam risks. It encouraged the PSR to continue reviewing how CoP was able to successfully combat different types of fraud, including any displacement to other providers.

## **Consumer Protections in Interbank Payments**

Panel members welcomed the PSR's review of consumer protections when using interbank payment systems. They generally agreed that the PSR should start by considering what "good" would look like across payment methods, and then where most value could be added for consumers, both now and to support innovation and competition. It was not necessary (or realistic) to expect uniformity across all payment mechanisms, eg compared with the enhanced protection provided in relation to credit card payments over £100. But it would be helpful to establish any detriment arising, for example, from weak protection that inhibited consumer use of certain payment systems and hence held back competition. Differing levels of consumer knowledge and understanding of the protections available were also important to factor into the assessment.

## Appendix 1 - Members of the PSR Panel between April 2020-March 2021

<b>Ruth Wandhöfer</b> ( <i>Chair, from 1 December 2020</i> )	Independent Banking Expert
<b>Robin Abrams</b> ( <i>from 1 October 2020</i> )	Chair of Banking & Finance Policy, Federation of Small Businesses
<b>David Brooks</b>	Head of Finance Operations, Sainsburys
<b>Natasha De Teran</b> ( <i>from 1 October 2020</i> )	Former Head of Corporate Affairs, SWIFT
<b>David Gaselee</b>	Director of Transaction Product Management, Barclays Corporate Bank
<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>Conor Langford</b>	Vice President, Client Director, Visa
<b>Jeff Moody</b> ( <i>from 1 October 2020</i> )	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> ( <i>from 1 October 2020</i> )	Founding Director, The Inclusion Foundation
<b>Paul Thomalla</b>	International Head of Payments, Finastra
<b>Stephen Locke - Chair</b> ( <i>until 30 November 2020</i> )	Independent Advisor
<b>Sian Williams</b> ( <i>until 30 November 2020</i> )	Head of National Services, Toynbee Hall
<b>Jana Mackintosh</b> ( <i>until 16 July 2020</i> )	Head of Public Policy and Regulatory Affairs, WorldPay
<b>John Howells</b> ( <i>until 30 November 2020</i> )	CEO, LINK Scheme
<b>Paul Rodgers</b> ( <i>until 30 November 2020</i> )	Chair and Founder, Vendorcom
<b>Andrea Dunlop</b> ( <i>until 30 November 2020</i> )	Divisional CEO, Paysafe

## **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.