PSR Payment Systems Regulator

PSR Strategy

Stakeholder submissions to our consultation CP 21/7

January 2022

Contents

Names of individuals and information that may indirectly identify individuals have been redacted.

Association of Convenience Stores

ACS Submission: PSR Five-Year Strategy

ACS (the Association of Convenience Stores) welcomes the opportunity to respond to the proposed PSR Strategy. ACS represents 33,500 local shops and petrol forecourts including Co-op, McColls, BP and thousands of independent retailers, many of which trade under brands such as Spar, Nisa and Costcutter. Further information about ACS is available at Annex A.

Convenience retailers operate consumer-led businesses which respond to changing demands for payment services from their customers. The convenience sector uniquely trades within all types of communities and makes a valuable contribution to financial inclusion, for example by providing bill payment services (in 76% of stores), cashback (70%), free-to-use ATMs (49%), Post Offices (24%) and pay-to-use ATMs (23%)[1].

The predominant payment methods accepted are cash (in almost all stores), debit (97%), credit (95%), contactless (85%), mobile (85%) and card-not-present transactions (51%)[2]. This payments mix and the use of payment methods in the sector is diversifying rather than following a simplistic transition from cash to digital. ACS' Voice of Local Shops Survey finds that for most the total cost of processing cash and card payments (including labour time, service charges and banking costs) is about the same (58%), with cash cheaper for 31% of stores and card cheaper for 11%[3].

Reliable, efficient and cost-effective payments systems are crucial for convenience retail businesses. This strategy strikes a balance between protecting access to existing methods of payment such as cash and embracing innovation by encouraging competition. We recommend the PSR proactively works with HMT officials to ensure access to cash legislation does not undermine the sustainability of the LINK ATM network and considers potential interventions for use if access to cash via the network worsens.

Convenience retailers are increasingly aware of rising payment processing costs but navigating the acquirer market remains highly complex due to diverse fee structures and a burdensome switching process. The market review into acquiring services should proceed with remedies identified in the interim report and ensure merchant service charges cover all non-MSC fees to provide greater transparency to business. The PSR must also act to control escalating card scheme fees in addition to encouraging competition from new fintechs using new open banking facilities. Key to the success of emerging payment options will be business awareness and trusted consumer protections.

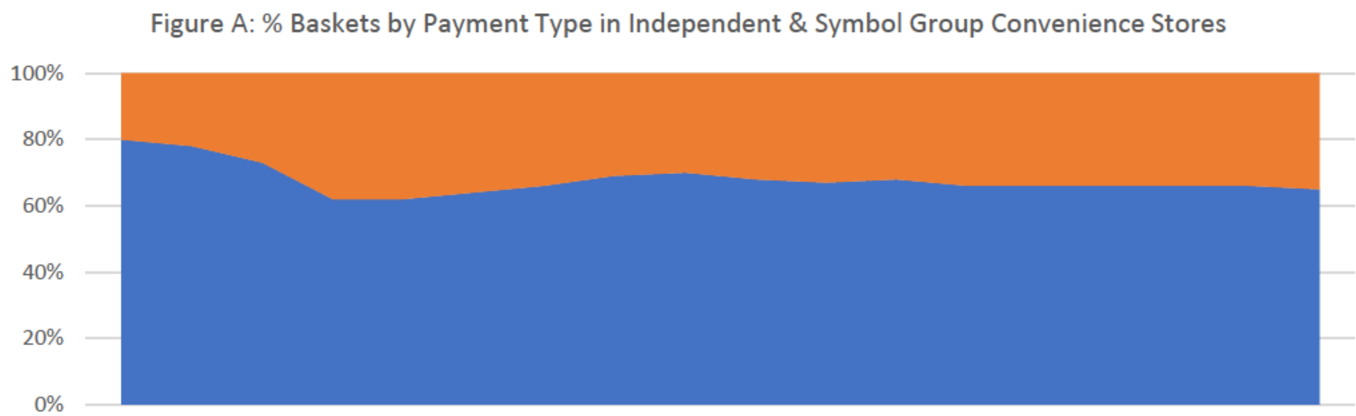
For more information, please contact [redacted]

[1] ACS Local Shop Report 2021
[2] ACS Local Shop Report 2021
[3] ACS Voice of Local Shops Survey: August 2020

Payments and Payment Systems in the UK

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?

Yes. The pandemic has somewhat accelerated existing trends towards digital payment methods, although a significant proportion of convenience store customers remain reliant on cash. Covid-19 preceded an initial reduction in cash payments as retailers were advised to encourage contactless payments, which has now partly reversed and stabilised. 65% of transactions were paid for using cash in independent and symbol group convenience stores in June 2021, compared to 78% in February 2020 (see Figure A)[4]. The proportion of transactions by payment method varies considerably depending on store location and customer profile. Cash use in the sector is higher than the wider economy due to low average basket spends (£10.82)[5].



	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21
Card	20%	22%	27%	38%	38%	36%	34%	31%	30%	32%	33%	32%	34%	34%	34%	34%	34%	35%
Cash	80%	78%	73%	62%	62%	64%	66%	69%	70%	68%	67%	68%	66%	66%	66%	66%	66%	65%

Only 13% of retailers expect to handle more cash in five years' time, compared to 74% who either disagree or strongly disagree[6].

Our Priorities

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?

Access to Payment Services

Securing long-term access to cash is important for financial inclusion, national economic security and preventing spikes in payment processing costs for retailers. The PSR should work closely with HMT on its legislative proposals to ensure they do not create undue risk to the future of the PSR-regulated LINK ATM network. We are concerned the proposed method-agnostic approach of setting minimum access requirements alone would precede accelerated moves away from established

[4] Evolution of Payments in the UK's Independent Convenience Stores. The Retail Data Partnership. June 2021
[5] ACS Local Shop Report 2021
[6] ACS Voice of Local Shops Survey: May 2018

cash access infrastructure towards less suitable or secure withdrawal facilities. This could artificially reduce cash use further.

The PSR must be prepared to act if national coverage of the LINK ATM network worsens. We understand setting exact parameters for additional interventions is difficult, but data must inform swift action where appropriate, for example if a bank left the network. The PSR should continue to work with LINK to reduce the number of cash deserts caused by the closure of 'protected' ATMs. We do not support mandating acceptance of any payment method in shops, which would signal a collective failure of the payments industry to manage business processing costs and accessibility.

Promoting Competition

We are already starting to see limited competition within and between payment systems increase costs for convenience retailers. Increasing card scheme fees from Visa and Mastercard are unavoidable for retailers and barriers to entry are too high for new competitors. Convenience retailers are increasingly reviewing the cost of processing payments due to awareness about evolving consumer preferences and rising fees. The PSR should indeed encourage the use of Open Banking by fintechs to offer new payment services for retailers. Key to the success of this increased competition from alternative payment systems will be increasing business awareness and ensuring consumer protections are trusted.

Encouraging these new payment services should occur alongside measures to intervene on excessive card scheme fees, especially as debit and credit card payments will remain predominant over the timeframe of this strategy. The threshold for intervention has surely been reached – the PSR's own research confirms scheme fees more than doubled from 2014 to 2018, with most fee increases occurring since the Interchange Fee Regulation. These fees are continuing to increase at a rapid pace with no choice but to pay for convenience retailers and the countless variables behind fees making it difficult to understand bills. This ultimately causes higher costs for consumers. The PSR must include reducing scheme fees in its strategy and has the appropriate regulatory powers to tackle this ongoing and anti-competitive harm at the centre of the payments industry.

Limited competition also underlines the importance of the market review into the supply of card acquiring services. The complexity of acquirer bills is preventing retailers from accurately forecasting bills with changes in fees often opaque and not clearly communicated. Fee structures are diversifying beyond the headline merchant service charge and the switching process is highly burdensome, especially when handling possible changes in acquirer-supplied payment terminals and auditing PCI DSS compliance. We support the following measures: requiring contracts with acquirers to have an end date to prompt comparisons, banning automatic renewals and reducing exit fees for hardware contracts to accept card payments, and more accessible and interpretable pricing information which covers all non-MSC fees.

<u>How we will measure whether we are achieving our strategic priorities</u>

Do you think the measures we propose will help us to assess whether we are achieving our strategic priorities?

Yes, but more can be done. The PSR should measure the availability of key payment systems, including outages or downtime of different payment systems. LINK should continue to report on the trading status of its 'protected' ATMs while the PSR should monitor changes in market share and key price indicators for different payment systems, for example card scheme fees and acquirer fees.

We recommend the Strategy is amended to include measurable and time-bound objectives for different payment methods. This should be supported by further quantifiable thresholds to determine when unacceptable harm is caused and further intervention is required. These thresholds should be developed via consultation, publicised and could use existing metrics such as those mentioned above. Developing these thresholds and measurable objectives would communicate confidence in the PSR’s capabilities as an established regulator. We would also support the House of Commons Treasury Select Committee reviewing the PSR’s performance against its agreed statutory objectives.

Do you know any existing sources of data we can use to assist our metrics?

ACS has several research sources which can inform the PSR’s evidence. This includes the ACS Local Shop Report and monthly payments data taken direct from retailer ePOS systems in partnership with The Retail Data Partnership. The ACS Voice of Local Shops Survey is a quarterly telephone poll of 1,210 independent retailers which we have used for payments research. We are willing to share more details on ACS’ full research options.

Annex A – About ACS

ABOUT ACS

The Association of Convenience Stores lobbies on behalf of over 46,000 convenience stores across mainland UK on public policy issues that affect their businesses. ACS' membership is comprised of a diverse group of retailers, from small independent family businesses running a single store to large multiple convenience retailers running thousands of stores.

Convenience stores trade in a wide variety of locations, meeting the needs of customers from all backgrounds. These locations range from city centres and high streets, suburban areas such as estates and secondary parades, rural villages and isolated areas, as well as on petrol forecourts and at travel points such as airports and train stations.

ACS | the voice of local shops

WHO WE REPRESENT

INDEPENDENT RETAILERS

ACS represents almost 19,000 independent retailers, polling them quarterly to hear their views and experiences which are used to feed in to Government policy discussions.

These stores are not affiliated to any group, and are often family businesses with low staff and property costs. Independent forecourt operators are included in this category.

SYMBOL GROUPS AND FRANCHISES

ACS represents over 14,000 retailers affiliated with symbol groups. Symbol groups like SPAR, Nisa, Costcutter, Londis, Premier and others provide independent retailers with stock agreements, wholesale deliveries, logistical support and marketing benefits.

Symbol group forecourt operators and franchise providers like One Stop are also included in this category.

MULTIPLE AND CO-OPERATIVE BUSINESSES

ACS represents over 13,000 stores that are owned by multiple and co-operative retailers. These businesses include the Co-Operative, regional co-operative societies, McColls and others.

Unlike symbol group stores, these stores are owned and run centrally by the business. Forecourt multiples and commission operated stores are included in this category.

THE CONVENIENCE SECTOR

WHAT WE SELL

In 2020, the total value of sales in the convenience sector was £44.7bn.

The average spend in a typical convenience store transaction is £7.46.

WHO WE ARE

There are 46,955 convenience stores in mainland UK. 72% of stores are operated by independent retailers, either unaffiliated or as part of a symbol group.

OUR COLLEAGUES

The convenience sector provides flexible employment for around 412,000 people.

13% of independent/symbol stores employ family members only.

HOW WE OPERATE

22% of shop owners work more than 60 hours per week, while 24% take no holiday throughout the year.

72% of business owners are first time investors in the sector.

OUR COMMUNITIES

Convenience stores and Post Offices poll as the two services that have the most positive impact on their local area according to consumers and local councillors.

80% of independent/symbol retailers have engaged in some form of community activity over the last year.

ECONOMIC CONTRIBUTION

Between August 2019 and May 2020, the convenience sector invested over £585m in stores.

The most popular form of investment in stores is refrigeration.

OUR RESEARCH

ACS polls the views and experiences of the convenience sector regularly to provide up-to-date, robust information on the pressures being faced by retailers of all sizes and ownership types. Our research includes the following regular surveys:

ACS VOICE OF LOCAL SHOPS SURVEY

Regular quarterly survey of over 1,200 retailers, split evenly between independent retailers, symbol group retailers and forecourt retailers. The survey consists of tracker questions and a number of questions that differ each time to help inform ACS' policy work.

ACS INVESTMENT TRACKER

Regular quarterly survey of over 1,200 independent and symbol retailers which is combined with responses from multiple businesses representing over 3,000 stores.

ACS LOCAL SHOP REPORT

Annual survey of around 2,400 independent, symbol and forecourt retailers combined with responses from multiple businesses representing 6,700 stores. The Local Shop Report also draws on data from Lumina Intelligence, IGD, Nielsen and William Reed.

BESPOKE POLLING ON POLICY ISSUES

ACS conducts bespoke polling of its members on a range of policy issues, from crime and responsible retailing to low pay and taxation. This polling is conducted with retailers from all areas of the convenience sector.

For more information and data sources, visit www.acs.org.uk

Barclays

BARCLAYS

Consultation Paper: Our proposed PSR Strategy

Submission by Barclays

Barclays is a British universal bank. We are diversified by business, by different types of customer and client, and geography. Our businesses include consumer banking and payments operations around the world, as well as a top-tier, full service, global corporate and investment bank, all of which are supported by our service company which provides technology, operations and functional services across the Group. For further information about Barclays, please visit our website home.barclays.

We welcome the opportunity to respond to the Payment Systems Regulator's ("PSR's") proposed Strategy.

Question Responses

Q1. 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.

The PSR has adequately captured the most important system-level changes that UK payments will likely experience over the next five years. The Strategy does, however, focus primarily on the consumer and, whilst this is important, we would welcome further emphasis being placed on trends in business and commercial payments. We have identified the following trends that are not mentioned within the Strategy but will be significant over the next five years:

- There has been a proliferation of providers entering the payments landscape who are both inside and outside the regulatory perimeter. The payments ecosystem, therefore, has become increasingly complicated and fractured, which adds to the difficulties of effectively regulating all payments providers. This has been exemplified by the trend of providers entering into partnerships to collaborate on technology and product development in order to solve for capability and distribution gaps. We anticipate mergers and acquisitions to continue within the industry for the foreseeable future.
- There are important changes in the way that businesses and the public sector are making payments. Faster Payments ("FPS"), for instance, is now the most popular method for business-to-business payments and accounts for over half of FPS volume. This is because FPS payments have replaced cheque and cash payments (and not Bacs Direct Credit). The introduction of Universal Credit ("UC") has significantly impacted the use of Bacs Direct Credit by reducing a multitude of weekly and fortnightly benefits into one monthly payment. With the Government accounting for approximately 40% of the volume of Bacs Direct Credit, the introduction of UC will disproportionately impact volumes. We expect the way that businesses pay and receive payments to continue to change over the next five years.
- Digital wallets represent the newest entrants in the end-to-end payment chain. Covid-19 has substantially increased the number of active users of digital wallets and their continued rise in users could have implications for innovation, pricing and access. Digital wallets could innovate further over time, with, for instance, China developing wallets that allow a consumer to participate in a unique 'super app ecosystem', and in the EU, the European Commission is looking at updating legislation looking into digital identification, all of which will have profound impacts on the modern payment ecosystem. The continued proliferation of payments options in the UK creates further complexity for merchants with differing protections and changing value propositions. We expect to see further choice in payment options continuing and believe that the impact of digital wallets into the payments chain should be considered by the PSR.
- Innovative payment methods including cryptocurrencies and stablecoins, all subsets of cryptoassets, represent new forms of payment that could increase in usage over the next five years. The Financial Conduct Authority's ("FCA's") consumer research into cryptocurrencies this year found that approximately 4.4% of adults hold cryptocurrency while median holdings and awareness are increasing. The PSR should continue to monitor cryptocurrency payments, by consumers and businesses, over the coming years and consider its potential impact on the payments ecosystem alongside Central Bank Digital Currencies ("CBDCs").

Q2. 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.

While we agree with the features of the payment system that the PSR is choosing to look at, we believe that the PSR should commit to open consultations on these respective areas before pre-determining any action. Industry engagement within policy development will ensure the right balance between promoting competition and innovation in a way that benefits all business and consumers.

Outcome 2: Users' interests are adequately protected when using payment services so that they can use systems and services with confidence

The PSR's second strategic outcome, notably in 4.34, discusses the potential for consumer protections to be incorporated within FPS. As noted in our reply to the PSR's Call for Views into consumer protections in interbank payments, we believe that the PSR should focus on increasing consumers' awareness of their protections by increasing the levels of transparency within the payments market. The PSR can play a more effective role in facilitating the simplification of payment choice and aiding consumers and businesses to evaluate payment options more effectively. Regulating for standardised outcomes should be a last resort and only taken forward should there be demonstrable evidence of a lack of innovation within a particular market or a clear lack of consumer choice available. Any proposals, additionally, should outline multiple options for how protections could be implemented in FPS with consideration of the commercial implications of each respective form of protection.

Implementing consumer protections would be a cost on behalf of the entity or entities that would be liable for providing those protections; this would result in consequences for the commercial model of those entities that would in turn impact merchants and consumers. Processing models, pricing models, risk appetite and current propositions would be affected by consumer protections being brought into force. There are also wider considerations regarding payment execution or speed of payment impact, which could be to the detriment of the consumer. Any response that focuses on changes to scheme rules could potentially also create enforceability and barrier to entry issues.

Embedded information about protections within consumers' payment journeys (where applicable) across all participants would drive considerable benefit. The PSR should focus on ensuring customers understand what protections are provided as a result of their payment of choice. We do not believe that consumers are aware of the different levels of protections in place for different payment types. On a separate, but related topic, we are also seeing increasing levels of Authorised Push Payment ("APP") scams in Open Banking payments.

Outcome 3: Payment systems are designed and operated to enable effective competition in the provision of payment services

The PSR's aspiration to see interbank payments being an option when "grocery shopping" should be a vision that is driven through consumer and business choice. While we support the expansion of consumer choice, we do not agree that interbank payments should become available through the discouragement of other payment options that consumers view as more convenient. Each form of payment type has a unique selling proposition with clear benefits and drawbacks. Interbank payments, for instance, are irrevocable in contrast to card payments. This means that card payments can be more flexible, allowing features such as offline authorisation and earmarking of funds. While it is possible to construct similar features for interbank payments, there are open questions as to whether it would be desirable to do so at scale and whether a non-profit payment system is the appropriate vehicle.

The cost to develop, maintain and increase the scale of alternative payment methods is significant. Payment Service Providers ("PSPs"), for instance, do not currently have the capacity to administer the volume of payments that financial institutions want PSPs to carry out. PSPs would be challenged should only a small proportion of debit card volumes migrate, and the cost to increase their capacity and increase the levels of transactions per second would be passed on. The PSR should consider the wider implications of encouraging interbank payments through the reduction in card payments. One means the PSR could additionally consider is how to encourage industry collaboration or partnerships to reduce the costs associated with increasing the scale of alternative payments methods.

Q3. 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.

Priority 2: Ensure users are sufficiently protected when using the UK's payment systems, now and in the future

We welcome the PSR's continued focus on tackling APP scams. We continue to believe that the most effective means to tackle APP scams is by targeting a reduction in scams at source, rather than focusing on mitigating their after effects. The retail banking sector has a critical role to play in detecting and preventing scams and helping to educate consumers on how they can protect themselves. However, the nature of scams has changed markedly in recent years, with the majority (our data suggests 60%) now enabled by criminals' exploitation of online digital platforms, for example, online commerce/auction websites, social media platforms and dating websites ("the scams ecosystem").

We consider, therefore, that it is critical for the PSR to work closely with colleagues in Government and other regulators to design, implement and supervise a policy and regulatory framework that prevents scams occurring in the first place. This should begin with the creation of a regulatory and legislative framework that delivers coordinated action against the organised criminals that perpetrate much of this crime; actively incentivises and requires the removal of vulnerabilities in the wider ecosystem that are exploited; and supports ever increasing preventative and detective methods from retail banks.

Despite these improvements, it is likely that some scams will unfortunately remain successful, and therefore a reformed reimbursement model that adequately reflects responsibility for the scam's success is required to mitigate consumers and business's losses where they have not been negligent. This would most appropriately be funded through contributions from those whose weaknesses – whether banks, the wider ecosystem, or firms that have suffered data losses – enabled the scam to take place, and/or through the proceeds of crime. On the latter, we welcome the ongoing consideration of the use of proceeds of crime as a potential funding source and would encourage the PSR to continue engaging with the Home Office on this topic.

Priority 4: Ensure the renewal and future governance of the UK's interbank payment systems support innovation and competition in payments

[redacted]

Issues we will keep under review: Data

[redacted] The FCA's Consumer Duty ("Duty") places a greater emphasis on a firm's responsibility to its consumers and restricting data across firms can have an adverse impact on the ability of other firms to tailor their products and innovate. The PSR should seek to understand further, in the context of the FCA's Duty, why organisations do not elect to share data and what the consequences could be for firms without access to the same levels of data across different payment types.

Q4. 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.

We believe that the strategic priorities do provide clarity on the choices the PSR makes and why it chooses to intervene. A substantial proportion of the changes required will benefit greatly from consultation and we encourage the PSR to be open to alternative ideas to achieve their strategic priorities within their consultation processes.

Q5. 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.

We believe that the measures proposed will enable the PSR to assess whether it is achieving its strategic priorities. We would welcome further clarity concerning the timescales for initiatives and the level of priority of respective initiatives too. In instances where there is conflict between priorities, we would also welcome transparency from the PSR regarding which priorities take precedence. The PSR should take Open Banking into account across its strategic priorities. Open Banking is regulated by the FCA and CMA, and the PSR should seek to ensure that its priorities recognise existing Open Banking regulations.

Q6. What other criteria do you think are central to measuring our effectiveness and should those complement or replace those we propose in this document?

We believe that the PSR should continue to monitor its cost, size and responsibilities alongside its effectiveness. We believe that the PSR should make use of existing data collections and, when designing a data collection, commit to the request that is first stated. Multiple versions of the same data request reduces capacity of employees while elongating regulatory requirements.

We would welcome further clarity concerning how the PSR will determine whether the industry is not "developing solutions to meet all user needs." It is not clear how the PSR would define the criteria that would cause the need for regulatory intervention to promote the development of new solutions. For instance, consumer behaviour or underutilisation of alternative methods is not due to industry inaction and we would encourage the PSR to consider the wider market and activities (or lack of) to influence and change consumer behaviour and preferences. A focus on the end-consumer, utilising metrics such as Net Promoter Scores, would place a greater emphasis on the needs of consumers.

We would recommend that the PSR utilises information produced by Open Banking. This is low in volume, however, it is likely to grow and should be a key element of the PSR's metrics.

Q7. Do you know any existing sources of data we can use to assist our metrics?

UK Finance provides detailed sources of data that could assist the PSR.

[redacted]

British Retail Consortium

BRC response to PSR Strategy consultation (CP21/7)

September 2021

Introduction

0.1 The British Retail Consortium (BRC) is the trade association for the retail industry – the UK's largest employer. Our diverse industry spans large multiples, independents, high street, and out of town retailers, from online to bricks-and-mortar, selling goods across all sectors to increasingly discerning consumers.

0.2 All BRC members have an interest in UK payment systems as one of their chief end-users. Indeed, along with consumers, retailers are the most significant other end-user group, processing more than 50 million transactions per day and almost £400 billion per year for products & services sold in store, online, and over the phone (2019). A high priority for the BRC is therefore to seek an innovative, transparent, and competitive payments market for all retail end-users and their customers.

Summary

KEY POINTS

- The proposed PSR Strategy lacks essential details required for the PSR to hold itself to account, or for others to do so. There is an absence of specific, measurable and time-limited objectives that would make it difficult to assess the PSR's success in achieving good outcomes.

- The Strategy document conflates present day *harms* to consumers and businesses from the card payments system, for which action is overdue, as *risks* to be considered at some point in the future.

- There is a conspicuous absence of any meaningful commitment to address current harms within the card payments system despite of the substantial and increasing evidence of excessive and ever-growing costs to users. No measurable outcome has been defined and no timeframe established within which the PSR will intervene in the coming 5 years if competitive outcomes are not seen.

- Following the UK's departure from the European Union, the UK Government and its regulator have yet to address new opportunities for anti-competitive behaviour and abuse of the card schemes dominant market position in Europe's largest card payments market where card-based transactions constitute at least 80% of retail payments today.

0.3 The proposed PSR Strategy lacks essential details required for the PSR to hold itself to account, or for others to do so. In general, there is an absence of specific, measurable and time-limited objectives within the document. This will make it difficult to assess the PSR's success in achieving the promised good outcomes for end-users of the UK's payments systems within the five-year time period covered.

0.4 In particular, there is a conspicuous absence in the Strategy of any meaningful commitment to addressing current and longstanding harms within the UK card payments system, despite the substantial and increasing evidence of excessive and ever-growing costs to users, including that which the PSR has itself gathered in the process of its ongoing Market Review on the supply of card acquiring services.

0.5 For the coming five years the UK's regulator for payment systems has stated that it will merely "consider the need… to regulate in order to protect consumers and businesses if other measures are not producing the competition outcome we seek", however no measurable competition outcome has been defined and no timeframe established within which to achieve it. There is, therefore, no relevent threshold, milestone or deadline identified by the PSR for when it will commit itself to "intervene robustly" in the card payments market to deliver against its statutory objectives.

0.6 The only measure that the PSR is proposing in order to tackle the lack of effective competition within UK card payments is the development of an altogether different system of interbank payments for retail payment use. Yet the Strategy document itself casts significant doubt on whether it is realistic or attainable for interbank payments to challenge the dominance of card-based transactions in retail payments. As the PSR admits on page 6, "the current commercial incentives do not align with the objective of making greater use of interbank to support competition over the longer term." Again, no criteria have been established in the Strategy for what might constitute a successful competitive outcome from interbank systems in retail payments and no time scale identified for its achievement. The Strategy simply offers a pre-emptive admission of likely failure, namely that "this is not a straightforward task and will take some time to deliver."

Action on card payments is missing and long overdue

0.7 The stated intention of the PSR is to "shift our focus to promoting competition between payment systems" (p13), suggesting that the PSR has hitherto focussed on competition within the card payments system and adequately addressed the anti-competitive practices therein. The BRC has observed only limited evidence of this and the PSR's proposals for the card payments industry need to go much further.

0.8 The PSR Market Review on the supply of card acquiring services involved a thorough study that confirmed the BRC's own findings that the benefits of legislation to reduce card fees have not been passed on to most retailers (and therefore consumers), and that the fees levied by the card schemes have been increasing aggressively for several years. Yet the Market Review has lacked the scope needed to address the most harmful anti-competitive behaviours within the card payments system and so, in turn, the very modest remedies proposed in the PSR's interim report fail to adequately address these existing and growing harms. Indeed, the remedies are not sufficient or suitable to tackle the problems identified in the PSR's own findings.

0.9 The Strategy document appears to conflate present day *harms* to consumers and businesses from the card payments system, for which action is overdue, as *risks* to be considered at some point in the future: "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." (5.64) These harms, as opposed to risks, are not only current but long-standing. The BRC first formally complained to the European Commission in 1992 that Visa and Mastercard interchange fees unlawfully restrict competition and the annual BRC Payments Survey (formerly Costs of Collection Survey) began spotlighting excessive card costs in 1999.

0.10 The Interchange Fee Regulation (IFR), introduced across the EU in 2015 after a generation of pressure from UK & European business, promised to "cut the cost of payments substantially for merchants, especially SMEs and that in turn should lead to a fall in consumer prices". In practice, it only regulates some interchange fees and no card scheme fees. The PSR have themselves recorded that card scheme fees have "more than doubled over the period from 2014 to 2018, with most of this increase occurring between 2016 and 2018, after the IFR caps came into force" (PSR, 2020).

0.11 The cumulative cost to UK merchants of scheme fee increases since the introduction of the IFR reached £2.3 billion this year (CMSPI estimates, 2021) with an annual cost to UK merchants of successive scheme fees increases since IFR of £500 million per year.

0.12 Following the UK's departure from the European Union, the UK Government and its regulator have yet to address new opportunities for anti-competitive behaviour and abuse of the card schemes dominant market position. The impact on UK merchants of the latest scheme fee and interchange fee increases announced since 1st January this year adds a further £60 million in costs which ultimately add to the price of goods and services paid by consumers. Average UK Merchant Service Charges, as a proportion of card turnover, are now higher in 2021 than 2014, prior to the IFR coming into effect.

0.13 Last year a UK Supreme Court ruling confirmed that Visa & Mastercard interchange fees are unlawful, creating a considerable anomaly that the PSR continue to allow such fees and have not directly addressed the pressing matter of anti-competitive card fees in its future Strategy.

0.14 In October 2020, a number of major British business bodies including the BRC, UK Hospitality, British Independent Retailers Association (Bira), Association of Convenience Stores (ACS), and Federation of Small Business (FSB) all called for action from the PSR to defend British businesses and consumers from excessive card costs.

0.15 This year too around 40 Parliamentarians have supported cross-party action calling for robust regulatory measures on card fees in the PSR Strategy, including the regulation of payment card schemes fees and the abolition of interchange fees.

0.16 As it stands the PSR Strategy must go much further to address the extant harms within the card payments system. Whilst the BRC fully supports the PSR objective to develop interbank payment systems as fully as possible, this does not remove the obligation on the PSR to take urgent and specific measures to fulfil its statutory objectives in Europe's largest card payments market where card-based transactions constitute at least 80% of retail payments today.

0.17 The time for action on card payment system is already long overdue. As the PSR itself notes, "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." (4.51)

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.

Card Payments System

1.1 The 2020 BRC Annual Payments Survey showed that cards were used to pay for approximately £309 billion worth of goods in 2019 – accounting for almost 80% of retail spending even before the pandemic. The share of card payments has grown substantially in 2020, further increasing the reliance of British businesses and consumers on card payments – particularly contactless payments – and with it the cost of payment acceptance.

1.2 The cost to the retail industry of processing card transactions remains very high, accounting for 61% of retail transactions, but 83% of retailers' cost of acceptance. Debit cards are around four times as expensive as cash to process, whilst credit cards are more than three times as expensive to process than debit cards, on a like-for-like basis.

1.3 Costs are only increasing further for end users. The Interchange Fee Regulation (IFR), introduced across the EU in 2015 after a generation of pressure from UK & European business, promised to "cut the cost of payments substantially for merchants, especially SMEs and that in turn should lead to a fall in consumer prices". In practice, it only regulates some interchange fees and no card scheme fees. The PSR have themselves recorded that card scheme fees have "more than doubled over the period from 2014 to 2018, with most of this increase occurring between 2016 and 2018, after the IFR caps came into force" (PSR, 2020).

1.4 The cumulative cost to UK merchants of scheme fees increases since the introduction of the IFR reached £2.3 billion this year (CMSPI estimates, 2021) with an annual cost to UK merchants of successive scheme fees increases since IFR of £500 million per year. Evidence from annual BRC Payment Surveys shows that card scheme fees rose 39% in 2017 and 56% in 2018, measured as a percentage of retailers' turnover.

1.5 Following the UK's departure from the European Union, the impact on UK merchants of the latest Brexit-related increases announced since 1st January this year adds a further £60 million in costs which ultimately add to the price of goods and services paid by consumers. Average UK Merchant Service Charges, as a proportion of card turnover, are now higher in 2021 than 2014, prior to the IFR coming into effect.

1.6 Merchants providing services online must now also pay new Secure Customer Authentication (SCA)-related fees levied on e-commerce transactions, even if the transaction is declined.

1.7 As the PSR itself recognises within the Strategy document, "the bulk of (card) 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."

1.8 The Strategy document appears to conflate these present day harms to consumers and businesses from the card payments system, for which action is overdue, as risks to be considered at some point in the future. These harms, as opposed to risks, are not only current but long-standing. The BRC first formally complained to the European Commission in 1992 that Visa and Mastercard interchange fees unlawfully restrict competition and the annual BRC Payments Survey (formerly Costs of Collection Survey) began spotlighting excessive card costs in 1999.

1.9 Given this increasing dependency and increasing cost of card acceptance on top of already excessive charges, it has never been so important that the PSR take decisive action to protect consumers and businesses from the adverse impacts of failures in Europe's largest card market. Card fees are a key cost of doing business for all merchants, with the costs of these services ultimately reflected in consumer prices.

Interbank Payments System

1.10 The PSR Strategy appears to be entirely dependent on interbank payments to tackle current and future anticompetitive in the card payments system.

1.11 The previous PSR Strategy proposed significant changes for interbank payments with plans to create a New Payments Architecture (NPA) overseen by Pay.UK, and action to improve competition targeted at appropriate layers of its stratified model. Much has also been done by the Open Banking Implementation Entity (OBIE) in recent years to enhance functionality of open banking. The BRC has worked with the PSR, Pay.UK, OBIE and relevant providers to develop interbank payment propositions for UK retailers and customers.

1.12 Whilst there are high hopes for the future of open banking and the NPA, today interbank channels are negligible in retail payments. The Open Banking Implementation Entity (OBIE) has celebrated 1 million open banking transactions per month but even this milestone is a drop in the ocean against 20 billion retail industry transactions per year. The 2020 BRC Payments Survey showed that cards and cash account for 97.5% of sales, with much of the remaining 2.5% (1.3% by value) made up by solutions like PayPal that also have no relationship to the NPA.

1.13 The PSR Strategy document itself casts doubt on whether it is realistic or attainable for interbank payments to challenge the dominance of card-based transactions in retail payments. As the PSR admits on page 6, "the current commercial incentives do not align with the objective of making greater use of interbank to support competition over the longer term." And on page 26, "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." (3.12)

1.14 No criteria have been established in the Strategy for what would constitute a successful competitive outcome from interbank systems in retail payments and no time scale identified for its achievement. The Strategy simply offers that "this is not a straightforward task and will take some time to deliver."

Cash Payments System

1.15 In 2019, 23% of all transactions made in the UK were made using cash. The BRC shares the PSR view on the importance of cash for some groups of users and the need to protect their interest, and so we also share the PSR's concerns that "as cash use declines, it is likely to become more costly to maintain the current cash infrastructure." (3.49)

1.16 Almost all major bricks-and-mortar retailers accept both cash and card, but with the long-term trend of diminishing use, cash is likely to become less attractive and cost effective to the retail industry as cash handling costs are spread over a lower and lower volume of cash transactions.

1.17 Industry concerns have been raised as some retailers have reported finding it increasingly difficult to secure basic cash services – such as store collections, while the cost of these services levied by banks and other providers has begun to climb, even as the number of cash transactions have fallen. This, in turn, can leave merchants with more cash kept on the premises than covered by their insurers, and potentially puts staff at risk.

1.18 Retailers fear that the decline in the use of cash may lead to operators leaving the sector, narrowing the choice of cash processors and cash-in-transit (CIT) companies, and further increasing the cost of processing cash. Ultimately there are concerns for what these trends could mean for the UK's cash infrastructure, and competition in that sector.

1.19 Given the strategic importance of the national cash infrastructure and distribution network, the PSR should work with the Government and the FCA to consider what interventions must be taken to maintain operation of competitive commercial cash supply services across the UK, and to safeguard cash-dependent consumers. If falling cash volumes adversely impact the viability of cash operators, or if corporate strategies result in harmful outcomes for business and consumer end users, then subsidies may be required to maintain minimum service levels.

1.20 Action should also be considered to prevent banks, building societies and other payment firms from leaving the LINK network to address the risk to cash access identified by the PSR in 3.48 of the Strategy document, similar to recent FCA proposals to stop bank closures.

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.

2.1 We agree with the four outcomes that the PSR want to focus on:

- 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 systems to that they can 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

2.2 Unfortunately the rest of the Strategy document provides little or no assurance that the PSR will achieve these outcomes in a way that benefits all the businesses and consumers that make payments in the UK. In particular, there is an absence of specific, measurable and time-limited detail within the document that would make it difficult to assess the PSR's success in achieving these outcomes within the five-year time period covered.

2.3 On 29th July 2020, the PSR announced that its target outcome for its future Strategy was "effective competition at all levels of the supply chain… with detailed economic regulation acting where competition is not enough." The PSR identifies in the Strategy document that Visa and Mastercard account for 99% of all card transactions and that card payments are "…a highly concentrated market with limited opportunities to improve competition between the cards systems" (3.28), yet the Strategy lacks even a roadmap to deliver the promised detailed economic regulation.

2.4 There are numerous providers of card-acquiring and value-added merchant services in the UK, where enhanced competition could play a major role in driving better outcomes for merchant end users and, in turn, consumer welfare. Other layers of the card payments system lack effective competition, or even the market forces to drive down costs, where a different approach must be taken.

2.5 Perverse incentives continue in the card-issuing level of the supply chain as card schemes use kickbacks to win over card-issuing banks, creating a similar impact on the costs borne by end users as regulated fees in contravention of the IFR – for which the PSR is responsible for enforcing.

2.6 At the network level of the supply chain, the card schemes levy hundreds of fees on transactions across countless variables making it impossible for even the largest merchant to accurately forecast card costs, and consumers ultimately pay the bill in the form of higher prices. Complex billing structures have further become a powerful tool to bamboozle political, regulatory or legal attempts to rein in increasing abuses of the schemes' dominant market positions, which has seen scheme fees billed to merchants double since implementation of the IFR. The evident lack of competition among cards schemes – or even a market mechanism to exert a downward pressure of costs – demands a measure of public intervention as exists for telecoms, energy, and water services to correct the failure in the market.

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.

3.1 We do not consider that as they currently stand the strategic priorities provide the needed levels of coverage, focus and flexibility. In 2020, more than 80% of all retail sales in the UK were made using a debit or credit card. There is a conspicuous absence of any meaningful commitment to addressing current harms within the card payments system in spite of the substantial and increasing evidence of anti-competitive behaviour, including that which the PSR has itself gathered in the process of its Market Review on the supply of card acquiring services. This Strategy therefore sets up the PSR to fail to achieve half of its outcomes:

- All users have access to payment services that meet their needs in terms of functions, quality, cost and other relevant factors
- Payment systems are operated to enable effective competition in the provision of payment services

3.2 The PSR's Market Review on the supply of card acquiring services marks the continuation of 30 years of UK and EU regulatory and competition law investigation into payment cards, first raised in BRC complaints to the EU in 1992. The retail industry welcomes some of the individual remedies set out in the interim report however the package of remedies does not go far enough to tackle the problems identified in the PSR's own findings. Indeed, the alarming increases in scheme fees – which are captured only in part by the Interim Report, given the limited window of data collection – are not addressed in the PSR remedies whatsoever.

3.3 The BRC fully anticipates that – absent regulatory action – scheme fees will continue to rise rapidly. This expectation is based on combination of Mastercard and Visa statements (chiefly aimed to their shareholders), and on evidence of Mastercard and Visa scheme fees in other markets, especially the US. We therefore do not consider that the PSR's proposed measures, which focus exclusively on card acquirers and hopes for distant competition from interbank payments, will have any material impact on the concerns that merchants have consistently raised and which the PSR Market Review Interim Report now confirms.

3.4 The BRC has proposed several additional remedies to complement the PSR's own remedies. Primarily, this involves reform of the IFR – as it now applies in the UK (the "UK IFR") – to ensure effective regulation of all wholesale payment card fees (interchange fees and scheme fees). We also proposed a "portable accreditation" scheme for merchants to support ease of switching.

3.5 In particular, two chief reforms of the UK IFR are now needed and as part of its future Strategy the PSR should now use its existing powers to:

- **Abolish Interchange Fees:** This would bring regulation into line with the decisions of UK courts, in particular the 2020 Supreme Court judgment that Mastercard and Visa interchange fees are unlawful.

- **Regulate Scheme Fees:** Bringing scheme fees within scope of the UK IFR. The level of scheme fees must be subject to "utility-style" economic regulation. This is what the PSR was set up to do.

3.6 The BRC considers that abolition interchange fees and bringing scheme fees within scope of the UK IFR are fully within scope of the PSR's powers (and duties), without need for new legislation. This reflects that the PSR was primarily established as a "utility-style" economic regulator, namely, with powers and duties to regulate wholesale access prices to payment systems, such as interchange fees and scheme fees, in a similar way as the other main UK economic regulators, namely, Ofcom (electronic communications), Ofgem (energy), and Ofwat (water and sewerage services).

3.7 Additionally, we call on the PSR to refer the supply of services provided by card scheme operators to the Competition and Markets Authority ("the CMA") for market investigation under the Enterprise Act 2002 – given the clear evidence in the Interim Report of features of the market that adversely impact competition – an option that the PSR outlined in its Terms of Reference for the current Market Review.

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.

4.1 No. For the forthcoming five years the PSR proposes merely to "consider the need… to regulate in order to protect consumers and businesses if other measures are not producing the competition outcome we seek", however no measurable competition outcome has been defined and no time frame established within which to achieve it. There is, therefore, no anti-competitive threshold, milestone or deadline identified by the PSR for when it would be required to "intervene robustly" in the card payments system to deliver against its statutory objectives.

4.2 On 29th July 2020, the PSR announced that its target outcome for its future Strategy was "effective competition at all levels of the supply chain… with detailed economic regulation acting where competition is not enough." The PSR identifies in the Strategy document that Visa and Mastercard account for 99% of all card transactions and that card payments are "…a highly concentrated market with limited opportunities to improve competition between the cards systems" (3.28), yet the Strategy lacks even a roadmap to deliver the promised detailed economic regulation.

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.

5.1 No. As outlined above, the proposed PSR Strategy lacks essential details required for the PSR to hold itself to account, or for others to do so. In general, there is an absence of specific, measurable and time-limited objectives within the document that would make it difficult to assess the PSR's success in achieving good outcomes for end-users of the UK's payments systems within the five-year time period covered.

5.2 The Strategy says the PSR will "consider the need… to regulate in order to protect consumers and businesses if other measures are not producing the competition outcome we seek", however no measurable competition outcome has been defined and no time frame established within which to achieve it. There is, therefore, no anti-competitive threshold, milestone or deadline identified by the PSR for when it would be required to "intervene robustly" in the card payments system to deliver against its statutory objectives.

5.3 The only measure that the PSR is proposing in order to tackle anti-competitive behaviour within the card payments system is the development of an altogether different system for interbank payments. Yet no criteria have been established in the Strategy for what would constitute a successful competitive outcome from interbank systems in retail payments and no time scale identified for its achievement. The Strategy simply offers that "this is not a straightforward task and will take some time to deliver."

5.4 In fact, the Strategy document includes many phrases that obfuscate the need for the PSR action or measure its success:
- "the impact of our work may be indirect and difficult to measure"
- "it may sometimes be difficult to interpret what the data we collect is telling us"
- "we do not have all the data and information we would like… we will develop our ability to measure over the coming years"

5.5 Even where a measure has been identified the Strategy does not commit the PSR to taking action at any given threshold: "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." (6.20) However the document goes on to say that "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." (6.23)

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?

6.1 As payment systems designated to the PSR, the Regulator should be notified when Visa and Mastercard make changes to their fees and track the full range of fees that the card schemes levy across all forms of payment cards and card-based transactions.

6.2 It should be a mandatory requirement for all schemes to brief the PSR prior to annoucing any changes in fees, rates, etc. to enable the PSR to investigate the vality and cpmpetitiveness of these changes for both consumers and merchants. This should also include changes in commissions and charges to acquirers and issuers.

For further information

[redacted]

Citigroup

27/08/2021

Response to Payment Systems Regulator: Consultation on a Five-Year Strategy

Citi is pleased to contribute to the Payment Systems Regulator's (PSR) consultation (CP21/7) on a proposed five-year strategy, launched on 10 June 2021.

We were the first foreign bank to join the UK clearing in 1984 and we continue to be one of the largest foreign banks operating in the market today. Citi is present in 96 countries, does business in 160, transacts in more than 140 currencies and is a direct member of over 200 clearing systems. We are also keen observers, consumers and promoters of financial technology and innovation. At a global and more localised level, we see opportunities for further improvement and an appetite at an industry level to drive further enhancements.

Our active involvement in the UK payments market, and support for our clients as they adapt to an increasingly digital world, has informed our response.

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.

The PSR has provided a useful overview of the UK's payment systems. Drawing on our experience as a global payment service provider (PSP) with a long history of operating in the UK, we have set out below our assessment of what we see as the UK payment environment's strengths as well as emerging market trends. We have also highlighted some potential issues to consider. Comments relating to the de-scoping of certain topics from the PSR's planned five-year strategy are set out in our response to question 4.

Strengths and issues relating to the UK's payment systems

Payments Infrastructure: As one of the largest international players operating in the UK market, with experience of over 200 clearing systems worldwide, we consider the UK payments systems to be stable, reliable, and generally efficient by international standards, being a trailblazer in the development of Faster Payments. We are seeing the emergence of Instant Payment schemes globally with additional features such as bill presentment, payment by proxy-ID, integrated Request to Pay, etc., as well as widespread adoption of ISO 20022 XML standards. This drive towards the use of common standards, pre-validation, dynamic interaction through APIs and orchestration, will further support the delivery of frictionless real time payments. By comparison, the existing schemes in the UK are beginning to look aged. It is therefore positive to see plans to revamp the UK's retail payments systems through development of the New Payments Architecture, including adoption of ISO 20022 in the core clearing and settlement layer. However, delays in setting out a clear plan and implementation timetable risk placing the UK at a disadvantage. Firms need certainty – in terms of specific schemas and dates - to support their investment spend.

Competition: In our view the current UK market for payment solutions is healthy, with strong competition among banks and fintechs. BigTech players are also beginning to bring solutions to market. The Bank of England's Victoria Cleland stated, in a June 2021 speech[1], that *"payment businesses currently make up 17% of the UK's c2500 FinTech companies"*. She also observed that *"competitive pressures are pushing existing market participants to invest and think more intensively about what the future world of payments should look like"*. Feedback from our start-up and fintech clients indicates that the UK is recognised as an attractive environment in which to do business, with London seen as the global centre for financial services. That said, we have seen several of our payment institution and e-money institution clients establishing their safeguarding arrangements on the continent - expanding their presence - so, in today's post-Brexit environment, there is some risk that some international firms will focus increased attention on the EU market (due to scale benefits) and view the UK as a smaller, domestic market, leaving it side-lined. It is therefore important that the UK authorities do all they can to ensure the UK market remains vibrant, competitive, and outward-looking, facilitating global and European alignment and interoperability where possible.

Operational resilience + interoperability + contingency: We note that *"reliability"* is one element of the PSR's vision for UK payment systems. The growing regulatory and supervisory focus on operational resilience brings with it a need to build in early problem detection and business monitoring tools as well as clear, prompt communication from payment system operators to PSPs and vice versa. Interoperability becomes increasingly important in order to maintain business and service continuity.

In the previously-mentioned June 2021 Bank of England speech, Victoria Cleland said: *"Further down the line the CHAPS implementation of ISO 20022 will align with the UK's forthcoming new retail payment system – the New Payments Architecture (NPA) for retail payments. The implementation of a common messaging approach – through the UK's ISO 20022 Common Credit Message (CCM) – will deliver wider interoperability between payment types and makes it easier to switch between payment systems should the need arise."*

According to the published[2] *"Summary of industry feedback to CHAPS as a Retail Alternative (CARA) stock-take survey"* undertaken in April-May 2020, in July 2020 the RTGS/CHAPS Board and RTGS Renewal Committee (RRC) *"agreed to pause much of the CARA work in order to wait for more certainty regarding certain key external considerations, mostly related to NPA design and operational resilience"*. The Summary indicates that the Bank is to review whether to resume the work *"around mid-2021"*.

[1] https://www.bankofengland.co.uk/speech/2021/june/victoria-cleland-keynote-address-at-the-city-week-021-a-new-dawn-for-payments
[2] https://www.bankofengland.co.uk/-/media/boe/files/payments/rtgs-renewal-programme/summary-of-industry-feedback-to-chaps-as-a-retail-alternative-stock-take-survey.pdf?la=en&hash=B1BFD46604858D98A49D2E1A0935CA0DD65BC0B1

Moving the retail and high value payment systems to the same core, messaging standard (ISO 20022) is undoubtedly a step in the right direction. However, we would suggest that alternative routing relies on more than just interoperable messages. Use of a common standard does not mean that payments can automatically be switched between systems (e.g., between CHAPS and Faster Payments) and we would encourage consideration of other dependencies. For example, if Faster Payments were to offer reciprocal contingency for (a subset of) CHAPS transactions, a temporary increase in the Faster Payments transaction limit would be required.

Market Trends

Payment trends + client expectations: The industry is continually evolving, with new players emerging, customers' expectations changing or firms finding new ways of delivering value added services. We agree with the statement (in 3.6) that *"digital payments are becoming more convenient and new business models are creating new payments products and services"*. We see evidence that the COVID-19 pandemic has accelerated the already rapid pace of digital innovation in financial services, a point the PSR recognises (in 3.13).

The consultation document usefully highlights volume trends across different payment types (cash, card, Bacs, Faster Payments etc.) but, in developing a strategy, we would strongly recommend that the PSR takes account of developments at a more granular level and considers the broad spectrum of payment service users, not just consumers.

From our global perspective (which includes the UK market), it is evident that client expectations are changing as part of the shift towards digital payments and the data economy. Significant economic activity is moving onto e-commerce platforms, with mobile phones used for "on-the-go" shopping and banking experiences. Growth in consumer-to-business (C2B) transactions is resulting in increased payment volumes and the miniaturisation of payments. More corporate clients are looking to move to a direct selling model, which will increase the focus on C2B transactions and associated service solutions.

We are observing the emergence of real time Request-to-Pay (RTP) collections from bank accounts while payments for gig economy workers are moving from weekly to daily to instant payments. Clients are increasingly looking for 'always on' and volume-insensitive capabilities combined with access to real-time information. In the corporate/wholesale market, we are seeing growth in client expectations for speed throughout the network and end-to-end transparency of transaction flows, reflected in the growing digitisation of Treasury functions[3]) and we may well see a trend towards more conditional payments.

We would agree with the PSR's forecast (in 3.29) that the UK payments landscape is *"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"*.

Finally, with the level of regulatory focus (in the UK and elsewhere) on central bank digital currencies and other types of digital currency, interlinkages with the more traditional payment systems should not be overlooked.

[3] https://www.citi.com/tts/sa/flippingbook/2020/Treasury-Digitization-Market-Perspectives/

Regulation of Payments in the UK

Regulatory coordination: We are supportive of the PSR's statement (in 3.37) that it *"would expect to take a consistent approach"* to regulation of any new systems which may emerge, where these present *"the same risks to end users".*

Early clarification of scope: Clear requirements and a realistic implementation timetable are key to ensuring successful delivery of service and system enhancements. We strongly recommend that the authorities discuss the scope of any changes with stakeholders and make it clear at an early stage in the planning or proposal phase. For instance, it was not entirely clear in the recent (February-April 2021) PSR Call for Views of APP scams[4] if the scope of application is intended to apply in the context of consumers only and therefore to PSPs serving those consumers rather than to all PSPs.

Avoid a 'one-size-fits-all' approach: Operational complexity should be a consideration and, in certain circumstances, a waiver from implementation should be made available. Taking a European level example, the original draft regulatory technical standards on strong customer authentication (RTS on SCA) under the revised Payment Services Directive (EU) 2015/2366 (PSD2) made no allowance for the complex authentication protocols that apply to non-consumer transactions. It was only after advocacy by industry that the European authorities acknowledged the need for a corporate payments exemption. Another example, again arising from the RTS on SCA, is the 'time-out' requirement that applies[5]. While this time-out' makes sense from a consumer protection perspective, it is difficult from an operational perspective in the corporate world, where online banking solutions operate as a business tool.

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.

The PSR has articulated, at a high level, a logical set of key outcomes but we have flagged some additional, more granular considerations we think the PSR should bear in mind.

Outcome 1: All users have access to payment services that meet their needs in terms of functions, quality, cost and other relevant factors

Consideration of end users' needs beyond consumers: When regulators and governments refer to end users in a payment context, the focus is often on the needs of consumers[6]. This is understandable but there are opportunities for greater recognition that payments networks also serve the business and public sector who may have very different needs and more complex or sophisticated payment access and service delivery solutions.

[4] https://www.psr.org.uk/publications/consultations/cp21-3-authorised-push-payment-scams-call-for-views/
[5] As explained in the FCA's Approach Document: *"…a payment service user, after successfully authenticating to access their payment account, should no longer have access…after no longer than 5 minutes of inactivity has elapsed"*.
[6] In contrast, when it comes to innovation and competitiveness, the focus swings the other way, towards corporates.

We are therefore pleased to see acknowledgment (in 4.3) that: *"Payment system users are a diverse group of people and organisations, who make and receive payments for many reasons"* and (in 4.5) that the PSR *"would like to see the needs of all groups catered for"*. As noted in our response to Question 1, it is vital to have early clarification of the scope of any changes or interventions and also to avoid a one-size-fits-all approach. Changes to payment systems and services can often require business users (e.g., merchants) to take some action, as well as their payment service providers. This needs to be factored into any cost-benefit analysis or impact assessment.

Outcome 2: Users' interests are adequately protected when using payment services so that they use systems and services with confidence

Choice of payment options: In paragraph 4.19, the PSR suggests 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…"* and seems to imply that this is something PSPs can always control. In practice, users comprise of payers or payees who both can also dictate or shape the options available to their counterpart in a payment transaction. For example, some merchants may accept all payment types, others may prefer to limit the choice to certain instruments or payment services that fit with their specific business model.

Information and cost transparency: Paragraph 4.17 cross-refers to the Payment Services Regulations 2017 (PSRs) information requirements. We agree that payment users should receive information about services and associated costs or fees but would note that the PSRs also permit use of the so-called 'corporate opt-out', which allows disapplication of certain provisions where the payment service user is not a consumer, micro-enterprise or a charity. This provides flexibility to accommodate more complex arrangements where clients may derive benefit from monthly billing and volume discounts for example. We also observe that the direction of travel across the wider payments market is towards improvements in information provision. For example, at a global level the industry is working towards increasing upfront validations in cross-border payments, through the development of SWIFT's Transaction Management Platform[7] (TMP), including increasing the transparency on cost associated with execution of cross-border payments.

Outcome 3: Payment systems are designed and operated to enable effective competition in the provision of payment services

Competition versus choice: We question the degree of emphasis given in the consultation to competition between the retail interbank payments infrastructure and the cards network. HM Treasury's 2020 Call for Evidence on its Payments Landscape Review similarly focused on the idea of Faster Payments 'competing' with card payments in the person-to-business space. It should not be about different payment types competing but rather providing choice to both payers and payees. For example, a merchant may see it as a competitive advantage to be able to offer their customers a selection of ways to pay for their goods or services. We think payment systems should be viewed as enablers and the foundation for competition and innovation between PSPs in the provision of payment and value-added services. As we

[7] https://www.swift.com/news-events/press-releases/swift-announces-new-strategy-instant-frictionless-payments-and-securities-processing

noted in our response to Question 1, in our view there is strong competition between PSPs within the UK market.

<u>Outcome 4: Payment systems are efficient and commercially sustainable</u>

Review the operating cost model: We note the PSR's expressed interest (in 4.17) *"in costs imposed by payment system operators or technical infrastructure providers on their participants".* In 4.53, the PSR observes that: *"Payment system operators and their technical service providers typically face high costs when establishing the system but relatively low ongoing ('marginal') costs while operating…"*

We would agree that, for example, the development of Faster Payments in the UK required massive investments from the financial sector. Open Banking has also reportedly incurred significant costs to PSPs to adapt core systems. Integration costs required for any new services (e.g., the Bank of England's proposals around a potential new retail CBDC infrastructure) should also be considered.

From our perspective, as a global payment service provider connecting into multiple local payment markets, we find the cost of participating in the UK clearing schemes noticeably higher than elsewhere from a unit cost perspective, based on the methodology of fully loading new initiatives and scheme overheads in the transaction fees. We would be happy to provide further detail on this point on a bilateral basis if required. We believe the UK authorities should review how costs are apportioned to ensure the UK remains commercially attractive to providers.

Investment + Participation: In 4.54 the PSR rightly recognises that: *"Cost recovery arrangements will affect how firms that participate in more than one payment system are incentivised to invest in change and development"*. To this we would add that it is important for the PSR to understand that for international players, such as Citi, investment and participation decisions must be considered on a global, strategic basis that takes account of developments happening across multiple markets, each moving at a different pace.

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.

We set out below comments on the PSR's priorities and regarding some of the actions the PSR is proposing.

<u>Priority 1: Ensure users have continued access to the payment services they rely upon and support effective choice of alternative payment options.</u>

Support development of new services that meet user needs: We agree with the points made (in 5.11 and 5.13) that choice supports competition, which in turn helps to promote innovation. However, (in 5.16) there seems to be a disproportionate emphasis on the payer's choice, without acknowledging that payees should also have a choice as to which payment methods they are willing and able to accept.

Promote a range of options for PSPs to access payment systems: We are pleased that the PSR not only recognises (in 5.31) the importance of PSPs having the ability *"to choose the form of access that suits them best"* but also appreciates that direct participation in a payment system may not be the ideal solution for all PSPs. We note (in 5.104), the PSR's intention to continue *"work to open up access to payment systems"*.

For over a decade, the UK has sought to take an expansive approach to expanding access to payment systems to 'non-bank payment service providers' (e.g., consulting in 2010[8] on bringing e-money institutions within scope of the Settlement Finality regulations). Further actions taken have seen the number of direct participants increase considerably. We recognise the work done by the PSR[9] and at an industry level[10] to promote greater transparency on the part of sponsor banks (such as Citi[11]) to make it easier for indirect participants to compare service offerings. We support the PSR's intention (in 5.31) to *"continue to promote a range of access options, including direct and indirect access to payment systems"*.

We agree that access to payment systems, including any new ones which may emerge, should be *"on a fair, open and transparent basis"* (5.31). We would add that it is important to combine the competition and innovation benefits of widening system access with suitable prudential controls and oversight arrangements. We believe this requires a careful configuration of access criteria to mitigate any potential financial, operational and reputational risks to other direct participants and to protect users' trust in payments. Participation by different types of PSP should be on a par (e.g., all participants at a minimum should have to abide by the highest cyber and financial crime standards) to avoid placing an increased or disproportionate risk on other firms. In the UK we have seen the first non-bank payment service provider (PSP) given access to CHAPS, enter administration a year later[12]. We note points made in the Committee on Payments and Market Infrastructures (CPMI) report on enhancing cross-border payments[13] under building block 10 ('Improving (direct) access to payment systems by banks, non-banks and payment infrastructures') which highlight the importance of having appropriate levels of oversight and supervision as well as the need to address any underlying legal obstacles.

Ensure that regulatory approaches are aligned, and the division of responsibilities are clear: Coordination between regulators and government is essential, especially where roles and responsibilities between the different authorities overlap or converge. The payments industry necessarily is highly regulated, but this can also bring its own pressures and constraints when faced with multiple, potentially competing or conflicting, regulatory expectations and deadlines. The Financial Services Regulatory Initiatives Forum's Regulatory Initiatives Grid[14] - setting out the regulatory pipeline of initiatives for the next 24 months – is a helpful planning tool and positive step in ensuring a more transparent and joined up approach.

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[8] https://www.gov.uk/government/consultations/implementation-of-eu-directive-200944ec-on-settlement-finality-and-financial-collateral-arrangements
[9] https://www.psr.org.uk/psr-focus/access
[10] https://www.accesstopaymentsystems.co.uk/
[11] https://www.citi.com/tts/solutions/payments/clearing-services/
[12] https://www.fstech.co.uk/fst/Ipagoo_FinTech_Enters_Adminstation.php
[13] https://www.bis.org/cpmi/publ/d193.htm
[14] https://www.fca.org.uk/publications/corporate-documents/regulatory-initiatives-grid

Priority 2: Ensure users are sufficiently protected when using the UK's payment systems, now and in the future

Develop governance of interbank rules + a proposed stronger role for Pay.UK: In 5.52, the PSR states that it *"will consider how best to develop Pay.UK's governance of the interbank rules"* and wants *"to give Pay.UK a stronger role to lead the development of protections (and other conduct rules)"*. The PSR rightly points out that *"there may be a greater need for coordination around conduct rules"*.

At the time of its launch in 2008, the Faster Payments scheme operated as a standard 'push' payment based on a typical 'four-corner model' involving the payer and their PSP sending funds to the payee via their PSP. There was a good understanding of the roles and responsibilities underlying such a model. In our view, taking account of our experience with instant payment schemes elsewhere, the Faster Payments scheme is effective in this context and works well in terms of managing the risks.

The advent of open banking including payment initiation services (PIS) introduced an additional layer of complexity. Now you have a situation where the 'push' can come from a Payment Initiation Service Provider (PISP), acting on behalf of the payer yet whose primary relationship may be with the payee (e.g., a merchant) and the PISP may also be relying on a technical service provider.

From a regulatory perspective, PSD2 is only partially successful in addressing the topics of liability and dispute resolution. It makes the payer's PSP (the account servicing PSP) the first port of call, with the responsibility to provide a refund and then seek recompense from the PISP who must prove they were not at fault. Similarly, use of PIS to initiate a Faster Payment may also bring with it an interplay between voluntary use of the dispute resolution mechanism[15] developed by the Open Banking Implementation Entity versus the Pay.UK-managed Faster Payment scheme rules.

We strongly support an approach that looks to foster clarity at a scheme level and beyond regarding roles, responsibilities, liabilities and dispute resolution around which we can put in place appropriate systems and processes to serve our clients. This makes it easier for all concerned to do business and promotes confidence amongst end users. While rules should be customer-driven, they also need to be fair, proportionate and based around a sound economic model.

We think consideration of solutions should be done in a collaborative and holistic way that extends beyond any potentially enhanced governance of Pay.UK. Not all issues, such as those mentioned above, can easily and effectively be tackled within the confines of Pay.UK. We see merit in relevant parties (e.g., trade bodies, PSPs, consumer representatives, regulators) working together, taking the time to understand and analyse the issues, identify where there may be gaps and then consider how best to address them. This process should think through the new models that are now emerging in the market, consider the existing legislative framework and the various parties involved (different types of payment service users, PSPs, payment systems operators, regulators etc.) as well as

[15] https://www.openbanking.org.uk/providers/dispute-management-system/

scheme rules, industry-led voluntary codes, developments such as Confirmation of Payee and OBIE's Dispute Resolution Mechanism system.

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

Competition between payment systems: The PSR states (in 5.68) that in future it wants to focus resources on promoting competition between payment systems, arguing that *"greater competition between systems will lead to better and more affordable services for system participants and for system users"*. As mentioned in our response to Question 2, we feel that there is too much focus in the consultation on the concept of competition between the retail interbank payments infrastructure and the cards network.

The payments landscape is complex, with payment methods at different levels of maturity. As the PSR notes, cheque and cash usage are both in decline. Yet Bacs Direct Debit and Direct Credit continue to maintain an established position in the market. Like Bacs, the card environment has evolved over decades. Visa and Mastercard have adapted their scheme rules to reflect legislative changes (such as PSD and PSD2) and wider market and technological developments (e.g., the growth in online sales and the introduction of contactless payments). In contrast, Faster Payments was only launched in 2008 and open banking payment initiation has only begun to take hold since 2018.

We provide services to a range of corporates, governments, public sector organisations, financial institutions and fintechs. Most of our more traditional corporate clients are happy to use the bulk debit and credit services through Bacs (and in any case, Faster Payments does not accommodate bulk transactions). Often, there is close integration of these services within firms' own back-office processes. They meet the underlying requirement (e.g., payment of salaries) and have done so for many years, have clear rules and work reliably and well. Cost is also a factor, as ACH payments tend to be the cheapest way to pay. However, we are seeing some major international companies choosing to move certain types of transaction (e.g., dividend payments) to Faster Payments.

Among our 'Digital Native' clients, the picture is a little different. The nature of their businesses, focused online, lends itself more towards leveraging the use of Faster Payments. In the gig economy, it also suits payment on demand. However, within the last year, we have seen a large technology company - which currently relies on collection of recurring subscriptions through merchant-initiated card payments – looking to switch to use of Direct Debit. The attraction is that once the mandate is in place it is 'evergreen' (whereas cards are subject to an expiry date), the costs are lower, and PSD2 strong customer authentication requirements do not apply.

We think the PSR's focus should be on supporting payment system enhancements and on ensuring that the necessary foundations are in place upon which innovative solutions and overlay services can be developed. Delays in delivery of the New Payments Architecture have hampered progress.

<u>Priority 4: Ensure the renewal and future governance of the UK's interbank payment systems supports innovation and competition in payments</u>

Pay.UK's governance: In 4.61 the PSR observed that: *"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."* We agree with the point in 5.73 that *"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"*. In 5.95 the PSR makes the point that Pay.UK is expected *"to act in the interests of all stakeholders"*. We suggest one area for improvement would be in relation to how Pay.UK engages and communicates with stakeholders including PSPs, especially those who are not directly involved in the Strategic Participant Group.

Information on the Pay.UK website is very limited and at times appears to be out of date - making it difficult, for example, to track progress on development of the New Payments Architecture (NPA). We are aware that in early August 2021 Pay.UK sent a letter to UK Finance, which acknowledged the need for change for the next stage of the NPA programme. Mention was made of involving the Pay.UK Non-Executive Directors and the possibility of an *"additional suite of industry groups"*. At this stage it is unclear how any such changes will be communicated to the wider market, but we are very interested to understand what is planned.

Funding model: In 5.97 the PSR states the *"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".* We agree that any funding model needs to be (commercially) sustainable. It would be helpful to understand at an early stage what changes are planned, how costs will be apportioned and any associated impact on scheme participants/PSPs in order to factor any potential additional costs into budgetary cycles. We would also emphasise the importance of managing costs effectively and ensuring transparency regarding the allocation of funds and delivery against clear objectives and timelines.

Assessing new APIs and functionality + Pay.UK's enforcement capabilities: The PSR has placed significant attention on Pay.UK in the consultation and this has meant that it is at times difficult to understand the delineation of roles and responsibilities between the PSR (and potentially other regulators) and Pay.UK, as payment system operator. A case in point is in 5.98 where the PSR indicates: "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".* The consultation then says that *"Pay.UK will probably need to decide between requests from different stakeholders for new capabilities in the NPA…"* In 5.100 the PSR further states its support for "*developments to Pay.UK's governance of the interbank rules so it has greater ability to enforce compliance".* The PSR notes that Pay.UK already has the power to exclude participants from the payment system. It would be beneficial to have greater clarity regarding the additional enforcement capabilities under consideration.

We support the PSR's comments (in 5.101 and 5.102) about the importance of interoperability and the need for there to be *"a process in place to develop the technical* *standards"* to provide for *"interoperability of the basic functions in the NPA core infrastructure (via APIs)"*. We agree that it will be challenging but it will be essential to coordinate *"many different stakeholders and consider the interests of potential entrants"* as part of this process. Doing so effectively will be key to successful delivery and implementation.

In terms of the development of APIs, we support the delivery of a common API Standard. We deem that preferable to being obliged to adopt multiple API standards, on a country-by-country basis. We would rather be able to present a single standard to our clients (many of whom also operate on a cross-border basis) and their service providers, which they can use for their interactions with us irrespective of geography. We note that this is something recognised in the 2020 CPMI Report on enhancing cross-border payments[16]. One of the nineteen identified building blocks (#15: 'Harmonising API protocols for data exchange') states: "*To maximise the potential of APIs, it is essential to develop common standard protocols which can be implemented in payment systems across jurisdictions."* For example, it is helpful to have a single Open Banking Standard in the UK, which compares favourably to our experience elsewhere in Europe where the approach is more fragmented and lacking in harmonisation.

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.

Pay.UK governance: In 5.84, the PSR references the change that took place in 2018, which saw the operations of Bacs, Cheque & Credit Clearing and Faster Payments consolidated, *"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"* and to deliver the New Payments Architecture (NPA). As the PSR acknowledges in 5.93, *"governance and development of the interbank system has evolved in a very different way from other payment systems"*. In the consultation, in terms of Pay.UK's future governance, the PSR appears to focus on the organisation's funding model and enforcement capabilities.

As highlighted elsewhere in our response, we think there are other aspects of Pay.UK's governance which deserve attention, namely the importance of:

- Considering the needs of payment service users of all types (consumers and non-consumers, payees, and payers).
- Providing clear delineation of roles, responsibilities, and liabilities in the context of scheme rules and vis-à-vis different stakeholders.
- Enhancing direct engagement and communication with PSPs/scheme participants, particularly in connection with discussing any scheme enhancements, developing technical standards and managing the NPA implementation.
- Reviewing the operating cost model and ensuring timely and transparent setting of budgets and cost allocation against clearly defined deliverables.
- Continuing to balance expansion of payment system access with appropriate risk mitigations and controls.

[16] https://www.bis.org/cpmi/publ/d193.htm

De-scoped items: In paragraph 1.16, the PSR mentions some of the topics it has decided not to include within the five-year strategy. Both the *"use of data in payments"* (5.111-5.118) and *"efficiency of cross-border payments"* (5.119-5.122) are mentioned in more detail in chapter 5 but we would still question the rationale for the decision to leave them out of the strategic scope.

We expect to see more focus on the data associated with payments, resulting in internal integration with related systems and data assets and a much greater use APIs. At the same time, external integration with client systems may facilitate payment initiation and authorisation, enable better communication and transparency and support the provision of insights, recommendations and automation (e.g., through use of artificial intelligence (AI) and machine learning (ML)). Data and intelligence sharing between firms is also likely to increase, which could lead to development of central utilities. An example of this sort of collaboration is the establishment of 'Transaction Monitoring Netherlands' *"to identify unusual patterns in payments traffic that individual banks cannot identify"*[17].

In 5.120, the PSR states: *"The systems designated to us do not process cross-border correspondent banking or remittance payments"*. However, we note that in October 2020 a pilot *"to integrate SWIFT gpi instant…into the UK Faster Payments Service" took place"*[18]. SWIFT's new platform strategy[19], which is reimagining how institutions interact across the SWIFT network, is expected to deliver further improvements and has the potential to be a radical advance in cross-border payments.

We therefore believe that the cross-border dimension of payment chains will become increasingly important within the next five years. As noted in the Technical Report[20] to the CPMI Report on Enhancing Cross-border payments, *"the increased international mobility of goods and services, capital and people has contributed to the growing economic importance of cross-border payments. Factors that have been intensifying over recent years, and that have supported the growth in cross-border payments, include manufacturers expanding their supply chains across borders; cross-border asset management and global investment flows; international trade and e-commerce; and migrants sending money via international remittances."*

The PSR will be aware that on 31 May 2021 the Financial Stability Board (FSB) issued a consultation[21] on *"Targets for Addressing the Four Challenges of Cross-Border Payments".* While still to be finalised, the current expectation is that most of those targets should be met by the end of 2027 or sooner. Accordingly, it would seem sensible for the PSR to factor this into its priorities.

[17] https://www.finextra.com/newsarticle/36177/dutch-banks-to-create-aml-transaction-monitoring-utility?utm_medium=dailynewsletter&utm_source=2020-7-10&member=117348
[18] https://www.swift.com/news-events/news/uk-cross-border-instant-payments-pilot-sees-payments-credited-seconds
[19] https://www.swift.com/news-events/press-releases/swift-announces-new-strategy-instant-frictionless-payments-and-securities-processing
[20] https://www.bis.org/cpmi/publ/d194.htm
[21] https://www.fsb.org/2021/05/targets-for-addressing-the-four-challenges-of-cross-border-payments-consultative-document/

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.

We note the PSR's intention to support its work with good information without making *"data collation and analysis the PSR's primary focus"* (6.3). We therefore welcome the subsequent statement in 6.3 that the PSR is keen *"to ensure that our information and data requests are proportionate and do not constitute an excessive burden on the firms that we regulate".*

While understandable to a degree, we would observe that the measures proposed against priority 1 appear almost entirely focused on consumers. We recommend that the PSR takes an approach that considers all users of payments.

We note that the measures proposed under priority 2 are focused on consumer protection and we would just reiterate our earlier comments about the importance of ensuring there is clarity regarding the scope of any interventions or information requests which the PSR may decide to implement.

In relation to priority 3, as we have mentioned elsewhere in our response, we think competition between payment systems should not be a key focus. The emphasis given to competition between the retail payments infrastructure and the cards network does not appear to consider the full range of payments infrastructure (e.g., CHAPS and cheques). It is important to understand underlying reasons that might explain usage trends that go beyond the subject of competition (for example, broader cultural and behavioural factors, levels of system or scheme maturity). We are pleased to see the PSR recognise (in 6.23) that *"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"*.

In 6.24, the PSR proposes *"to identify a number of pricing indicators which we will measure to help us to consider trends over time"*. It is unclear how the PSR intends to do this in a way that considers all payment users and to accommodate the fact that pricing approaches may be based on a variety of factors, especially in the business/corporate market, making any comparisons of questionable validity.

In 6.29, the PSR suggests that a way *"to gain insight into how responsive Pay.UK's governance arrangements are"* would be to *"measure how, and how often, the operating rules governing Pay.UK's systems change"*. We are not convinced this is an effective measure of governance as: (i) it doesn't address issues such as effective stakeholder engagement and communication with scheme participants; and (ii) rules may be revised for a variety of reasons, for example to comply with legislative changes.

In 3.2 the PSR explained that seven payment systems have been designated to it to regulate. However, the measures set out under priority 4 appear to be focused entirely on those systems operated by Pay.UK.

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?

We would suggest the PSR monitors developments occurring in other markets across the globe and considers the possibility of undertaking some benchmarking exercises. The Bank of England's Future of Finance Report[22] offers an excellent example of such an approach, which resulted in a comprehensive assessment of key emerging dynamics and trends. It benefitted from broad stakeholder engagement on an international basis, something that we believe will be increasingly important in today's post-Brexit world. The PSR should look for opportunities to engage in relevant international fora. A positive example here is the Bank of England's proactive role in the CPMI and the work on enhancing cross-border payments[23].

7. Do you know any existing sources of data we can use to assist our metrics?

We think the PSR could leverage the comprehensive and well-regarded surveys and reports undertaken by UK Finance, for example, the annual Payments Market Report.

Benefit would be obtained from ensuring a close dialogue between all relevant actors at a UK level (trade bodies, scheme managers, infrastructure providers, end user representatives, PSPs, regulators and government) to provide more granular and qualitative information based on practical experience.

[22] https://www.bankofengland.co.uk/report/2019/future-of-finance
[23] https://www.bis.org/cpmi/publ/d193.htm

CMSPI

About CMSPI

CMSPI is a global leader in retail payments consulting. Our expert team works to empower the retail community with insights, expertise, benchmarking, and analysis to drive value in their payments supply chain. This consultation response was constructed by CMSPI's market-leading 'Insights Team', which is made up of economists, data and statistical experts, and experienced payments professionals.

CMSPI Response to the Payment Systems Regulator (PSR)

Introduction

CMSPI welcomes the publication of the Payment Systems Regulator's (PSR) proposed strategy paper for consultation and acknowledges the importance of a forward-looking strategy for regulation with clear outcomes in mind. While CMSPI does not disagree with any of the outcomes proposed by the PSR, the current strategy under consultation fails to provide any measurable outcomes that can be used to hold the PSR to account.

One of the main areas of concern for merchants in the UK relates to the degree of competition within the payment industry and is covered under Outcome 3 in the strategy paper. Overall, merchants will welcome the prospect of greater competition in retail payments, most notably competition between card schemes. Indeed, actions taken by regulators in other jurisdictions - such as in the US through a co-badging mandate - have been successful in introducing much needed competition in their domestic markets for retail payments.

Futhermore, it is our view that Open Banking and the development of a strong interbank payment system alone is not sufficient in ensuring competitive outcomes for merchants or competition between payment systems in the absence of any direct intervention from the PSR. This is due to the ongoing reliance on the card system which won't go away any time soon.

Additionally, the lack of competition between payment systems does not simply pose a risk of harm to users in the future but is a reality today. The PSR states the following in the strategy paper (emphasis added):

"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"*[1]

[1] Our Proposed Strategy, consultation paper, PSR, June 2021, paragraph 5.64

Far from being a potential risk in the future, the UK retail payments market does not, in our view, have sufficient competition (rivalry) *today.* This lack of competition has resulted in ongoing increases to fees which retailers have had no choice but to absorb, as evidenced with the consistent increases to scheme fees. This is not just a result of a lack of competition between the international schemes in the card system, but also a lack of competition within the overall market for retail payments acceptance.

For these reasons, our consultation response focuses on two tangible priorities or outcomes the PSR should include in its strategy:

- Further regulation of card acceptance fees
- A co-badging mandate for four-party card systems

Interchange Fees

The Interchange Fee Regulation (IFR) introduced in Europe did indeed benefit merchants by reducing the most significant component of the fees paid to accept card payments. Estimates produced by Ernst & Young (EY) and Copenhagen Economics suggest interchange fees received by issuers fell by €2,680 million (£2,385 million) on an EU28 basis (including the UK) because of the interchange fee regulation.[2] Furthermore, the PSR estimated the benefit of interchange fee regulation for UK merchants, specifically, to be around £600 million in 2018.[3]

However, the IFR did not apply to all card transactions and, as a result, interchange fees on unregulated card spend has continued to increase.[4] CMSPI believes that interchange fees on commercial cards and international transactions should also be regulated and does not see any reason why these transactions should be treated differently as far as regulating interchange fees are concerned. Indeed, failing to do so will lead to the continued increase in unregulated interchange fees.

Abolishing Interchange Fees

[2] Study on the application of the Interchange Fee Regulation: Final Report, for European Commission, by Ernst & Young and Copenhagen Economics, April 2020, page 93
[3] Market review into the supply of card-acquiring services: Interim report, Payment Systems Regulator, September 2020, page 8
[4] Recent examples include changes to the Mastercard corporate prepaid rate as well as the Visa Intra-Europe EEA and non-EEA commercial interchange rates.

However, CMSPI also believes that a wider debate on whether interchange fees are necessary (or even permitted) is needed given the Supreme Court's judgement[5] finding multilaterally set interchange fees (as is the case under the card schemes present in the UK) to be unlawful under Article 101 of the Treaty on the Functioning of the European Union (which has since been transposed into UK law). Given that the UK's most senior court has deemed these to be unlawful should, in our opinion, trigger a debate on whether ongoing interchange fees should be abolished. The idea of abolishing interchange fees is not novel. In 2018, the Australian Productivity Commission recommended abolishing interchange on the basis that it wasn't necessary in mature card markets.[6] Furthermore, several card networks that do not charge interchange fees exist and are popular in their local markets such as BankAxept in Norway, Dankort in Denmark and Interac in Canada.[7]

Scheme Fees

Although the interchange fee regulation does have its shortcomings as discussed above, it did indeed lead to significant savings for merchants in Europe and the UK specifically. However, estimates suggest that all the benefits accrued from interchange fee regulation have been eliminated because of acquirers failing to pass on the entirety of interchange savings to merchants as well as scheme fee increases (Figure 1).[8]

[5] https://www.supremecourt.uk/cases/docs/uksc-2018-0154-judgment.pdf
[6] https://www.pc.gov.au/inquiries/completed/financial-system/report
[7] BankAxept does not charge interchange fee for transactions at the point of sale and Interac has introduced a small interchange fee for contactless transactions.
[8] CMSPI & Zephyre estimates. Estimates only consider domestic and intra-regional transactions.

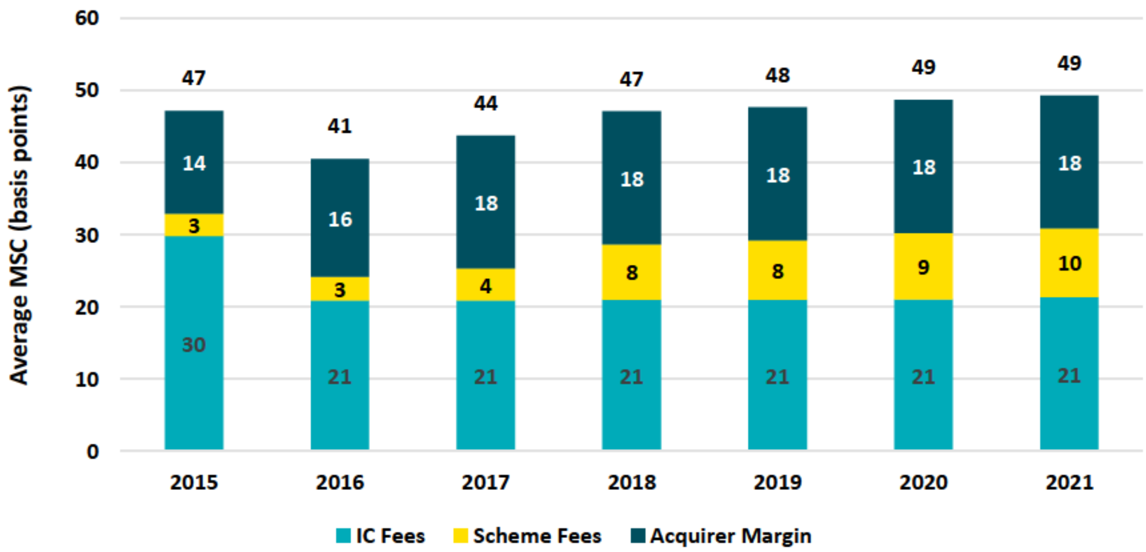

Figure 1: Merchant Service Charge Evolution (EU28)

A real area of frustration for merchants has been the tendency for card scheme fees to increase each year. Our estimates suggest that scheme fee increases have cost UK merchants €590 million (£525 million) on an annual basis. This has not only been true for the UK, but is also consistent with what we've seen in the US and Australia as well as across Europe more broadly (Figure 2).[9]

[9] The estimates for scheme fees differ between Figures 1 and 2 due to the inclusion of inter-regional scheme fees for Europe in Figure 2 as well as the exclusion of local card schemes in Figure 2

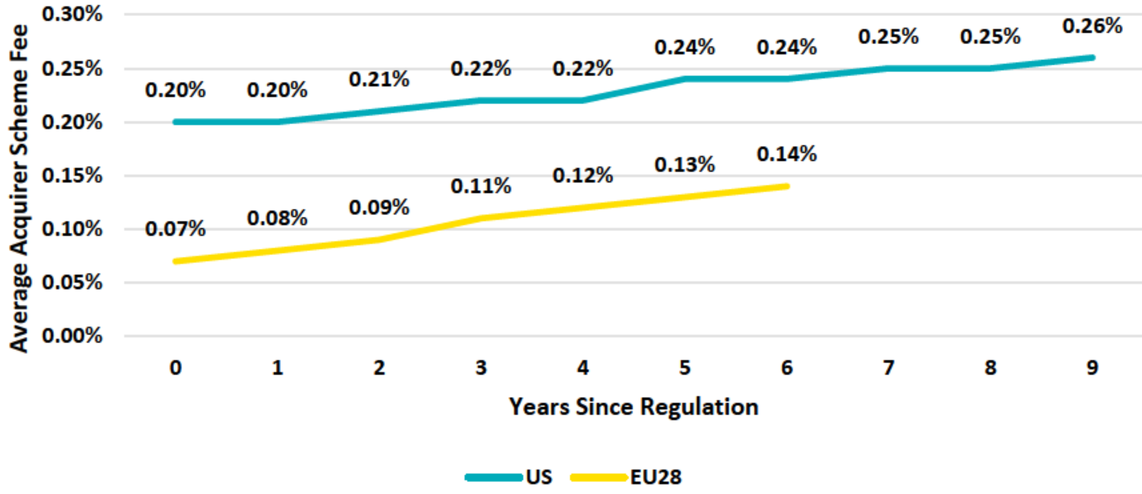

Figure 2: Evolution of Acquirer Scheme Fees Post-Interchange Regulation[10]

Indeed, the PSR's own analysis illustrates that scheme fees paid by acquirers (the burden of which is passed through to merchants) is estimated to have doubled between 2014 and 2018.[11]

While these increases would perhaps be more palatable to merchants if they represented costs incurred as a result of robust innovation, evidence from the US Department of Justice's investigation into Visa suggests that these fees are likely to accrue to scheme profitability (particularly under the Visa system). The investigation cites Visa's own estimates of 88% operating margin from its network fees charged to merchants on debit payments in the US.[12]

<u>Co-badging Mandate</u>

Card payment systems are examples of two-sided markets. One the one hand, there is the issuing side of the market which is responsible for issuing cards to consumers. On the other hand, we have the acquiring side of the market which deals with accepting these cards as means of payment. In order for any value to exist in a payment system, adoption is required on both sides of the market as merchants would see no benefit in accepting cards issued under a payment system if consumers didn't use them. Similarly, consumers

[10] CMSPI estimates.
[11] Market review into the supply of card-acquiring services: Interim report, Payment Systems Regulator, September 2020, page 10.
[12] *United States of America (Plaintiff) v Visa Inc and Plaid Inc (Defendants)*, Complaint, May 2020 [30-31].

would see no benefit in holding cards which would not be accepted as a means of payment by merchants. Furthermore, participants in these markets typically work through an intermediary or scheme which helps coordinate between the two-sides of the market.

One of the main reasons why interchange fees tend to increase in the absence of regulation is due to the fact that the schemes compete solely on the issuing side of the market. On the acquiring side, merchants have no option but to accept the card that consumers present to them due to their ubiquity. In the UK, bank cards are only badged with one network, meaning there is no competition for merchant acceptance. On the issuing side, schemes compete to have banks issue their cards by offering higher levels of interchange. In summary, schemes must compete with one another to enlist banks to issue their cards but do not face the same competition for business on the merchant side (as merchants typically have no choice but to accept these cards), so schemes have a greater incentive to levy the bulk of their fees on the acquiring side of the market. As a result, merchants can expect scheme fees and interchange fees to continue increasing in the absence of regulation capping these fees.

One way of overcoming this is by mandating cobadging on all cards. That is, each card would need to be badged with at least two competing card schemes with merchants given the choice to route the transaction through the scheme of their choice. This would change the competitive dynamics in the card market and force schemes to compete on both the issuing and acquiring sides of the card market as simply having your brand on the card would no longer guarantee acceptance on the merchant side.

Evidence from the US supports this idea as the 2011 Durbin Amendment- which introduced a co-badging mandate on single message debit card transactions - placed downward pressure on card fees by introducing competition. Data provided by the Federal Reserve suggests that while network (scheme) fees increased on dual message debit card transactions (to which the co-badging mandate did not apply), network (scheme) fees on single message transactions remained stable over the same period (Figure 3). In the absence of co-badging, network (scheme) fees on single message card transactions would have likely seen a similar increase.

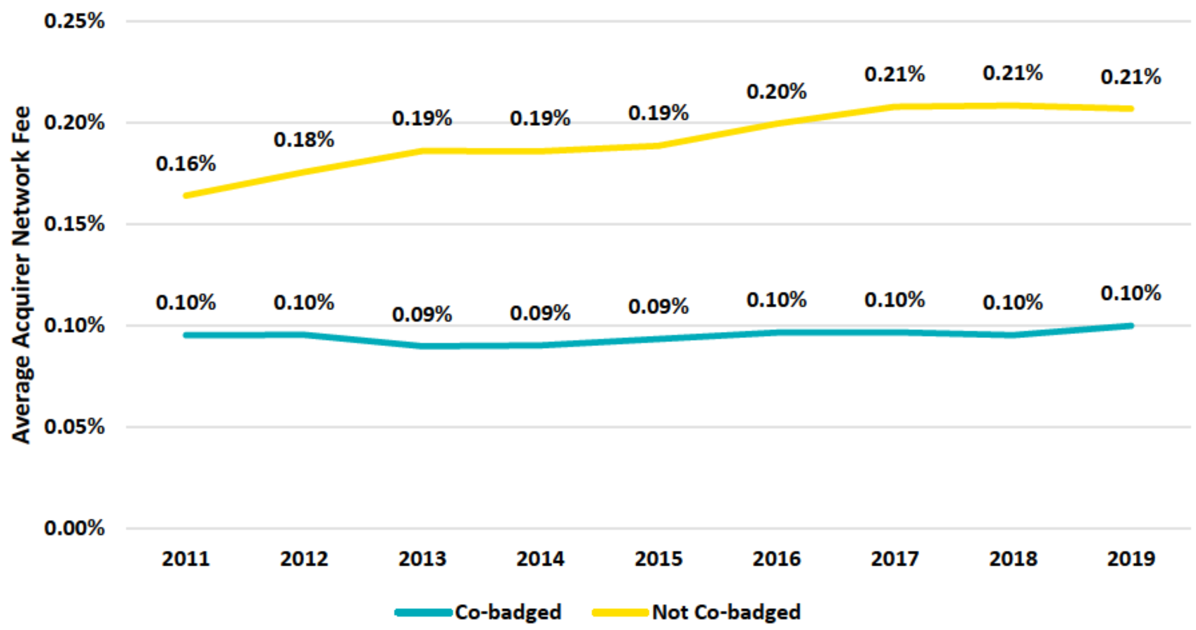

Figure 3: US Evolution of Acquirer Network (Scheme) Fees (Debit Cards)[13]

Although, the UK does not have a local card scheme for payment transactions, simply having both international card schemes badged on the same card with merchant routing choice would be sufficient to introduce competition between the two systems on the acquiring side of the market. Such a co-badging requirement may also encourage local or international schemes present in other countries to enter the UK market and may also create a stronger business case for LINK, the UK's ATM network, to begin offering POS payment functionality and create more competition between payment systems.

Conclusion

CMSPI welcomes the publication of the PSR's strategy paper and agrees with the areas of focus that have been included. We agree with the approach taken by the PSR to focus on competition between payment systems instead of simply working on competition within payment systems. However, the strategy paper critically fails to outline any tangible measures the PSR will take to promote competition between payment systems and

[13] https://www.federalreserve.gov/paymentsystems/regii-data-collections.htm

protect merchants from the harms suffered because of the lack of competition today. CMSPI proposes that the PSR should consider further regulating card scheme fees and interchange fees as well as introducing a co-badging mandate on cards as tangible measures to address these issues.

61 Oxford Street
Oxford Place
Manchester, M1 6EQ
[redacted]

Confederation of British Industry

10 September 2021

Payments System Regulator
12 Endeavour Square
London
E20 1JN

Re. CP21/7 – Our proposed PSR Strategy

In response to the Payment System Regulator's (PSR) Consultation Paper on its proposed PSR Strategy, I am writing to highlight some key aspects raised about the proposals by CBI members.

The CBI welcomes the opportunity to share these views as the economy adjusts to changes in payments behaviour due to Covid-19 and as the UK moves towards an increasing reliance on digital payments. The UK's global competitiveness hinges on a world-leading payments system which is a central part of the economic infrastructure enabling growth across the wider economy. The Covid-19 crisis demonstrated the agility of the UK's payment ecosystem to respond to the needs of its consumers. However, members are clear that they want to ensure the UK remains at the forefront of global payments innovation. The PSR should consider in its strategy the critical role it will play in keeping UK payments ahead of the global pack.

In this response, we highlight:

- The need to balance competition and innovation with user protection
- A greater recognition of businesses as end-users of payments
- Bringing all users on the journey to a digital economy.

Financial services at the CBI

The CBI is the UK's leading business organisation, speaking for some 190,000 businesses that together employ around a third of the private sector workforce. With offices across the UK as well as representation in Brussels, Washington, Beijing, and Delhi the CBI communicates the British business voice around the world.

The CBI's financial services policy work is rooted in two themes, maintaining the competitiveness of the UK as a global hub for financial services that provides vital jobs, investment and taxation revenues and highlighting the sector's role as an enabler of growth across the economy.

The CBI's approach to payments policy is to ensure businesses are supported as end-users of the payments system, that payments policies put customers at the heart of their strategy and that regulatory initiatives do not stifle innovation in the financial services sector.

Balancing competition and innovation with user protection

Members have welcomed the PSR's aim of ensuring payment systems are designed and operated to enable effective competition in the provision of payment services. In particular, members have applauded the PSR in expanding its scope when looking at competition across the payments landscape, including competition between different payment systems. CBI members have welcomed the PSR's future-focused ambition of this strategy though would emphasise the strategy should stay suitably flexible for future developments and innovations within payments.

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Street, London EC4N 6HN

[redacted]

The payment options available to business continue to grow, with an increasing number of players across the payments landscape. However, as this choice increases – such as through greater use of digital payments and emerging technologies – it will be critical that user protection is prioritised and maintained alongside PSR commitment to a level-playing field. An outcome-based approach taken by the PSR will ensure payments works for both providers and their users.

This approach will need to tackle user protection issues such as the current situation where users are subject to different levels of consumer protection apply around different payment services. Although not every payment service will need a uniform level of protection, currently, some payments services and activities fall outside the scope of regulation around user protection.

A push for enhanced competition will also need to have the end-user experience in mind from the outset. For example, whilst industry has welcomed efforts to increase and raise awareness over the benefits of using Open Banking, and the UK has led the way in its use, members have raised concerns over low adoption rates. Low adoption is linked to a lack of trust in Open Banking, confusion over levels of consumer protection (such as the issue of chargebacks) and a general lack of awareness of how Open Banking works, particularly amongst smaller businesses. In the future, to make new payments innovations more mainstream, the PSR should continue to collaborate with industry, regulators, and government on ways to educate and increase trust amongst both consumers and businesses on the payments options available to them and the potential benefits they may bring.

Greater recognition of businesses as end-users of payments

Members have welcomed the breadth of stakeholders the PSR has engaged in the process of drafting its strategy, though the CBI would continue to stress the importance of considering businesses as end-users of payments both in the implementation of this strategy and as the PSR develops future work and priorities.

Increasingly, businesses are looking to payments as a means of making their business more competitive, cost-effective, and are considering how the flow of payments can aid their risk management processes. As the UK emerges from the Covid-19 crisis, this risk management process will be integral to the survival and growth of many UK businesses.

Whilst the PSR has made good progress in considering the end-consumer in its work, greater references could be made within the strategy as to how the PSR intends to embed and consider businesses themselves as end-users of payments as well as how changes in business practices may impact the usage of certain payment systems. As the New Payments Architecture (NPA) is completed, which is critical to the UK economy, the end-user will likewise need to be considered. This will ensure the PSR's strategy can meet the needs of all consumer and business segmentation groupings and can ensure better outcomes for all users across the payments ecosystem.

Bringing all users on the journey to a digital economy

Economies are becoming increasingly digital, and so too are their payment systems. There is an increasing comfort with digital payments amongst UK consumers and businesses, with the Covid-19 pandemic accelerating this trend. The need to bring all customers on this journey to a more digital economy is well accepted and supported by industry, as evidenced, for example, in the policy debates surrounding access to cash. The successful transition towards the greater use of digital payments in the UK requires a dual approach to education which, on the one hand, ensures businesses are fully aware of the opportunities that digital payments can bring, and on the other, ensures individual customers are not left behind as the digital payments landscape evolves. The PSR has shown commitment to this transition as demonstrated in the recently launched PSR digital payments initiative. Members look forward to seeing more detail on how the PSR envisages its role in this transition as the PSR implements its five-year strategy and how this might interact with the digital payments initiative.

More broadly, the UK's global competitiveness in relation to payments will hinge on the successful transition to a more digital economy. In a period of significant progress globally – from China's exploration of digital currency to Sweden's switch from cash to digital – the UK needs to ensure its payment systems remain world-class. This will include ensuring first-rate infrastructure across all payment systems, ambition, and open-mindedness in the adoption of new technologies (such as digital currencies) and a continued commitment to high levels of user protection, especially against the threat of fraud. In this spirit, the CBI welcomes the PSR priority of protecting all users of UK payment systems, both now and in the future.

Looking at the future, the next 5-10 years will be characterised by a renewed focus on ensuring payments works for all – financial institutions, fintechs, SMEs, large corporates and consumers. To ensure this is possible, the PSR will need to focus on an outcomes-based approach that can enable choice, protect vulnerable users, encourage innovation in the market and support growth in the UK economy. The CBI looks forward to our continued relationship with the PSR as we work together to deliver this.

[redacted]

[redacted]

[redacted]

Cross-Government

This response has been compiled by Government Banking with input from its key customers including HMRC, DWP, NS&I, Ministry of Justice and UKSBS

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.

Yes, we agree the trends identified capture the most important UK payments systems changes over the next 5 years. The introduction of ISO20022 to provide standard messages and interoperability across payment schemes, the development of the New Payment Architecture (NPA) and Open Banking are the elements that are expected to be the most significant for government.

The payment trends identified reflect the agreed strategy and priority order of preferred payment methods of many key government departments. Faster Payments is the most used method of payment by consumers and businesses to pay to government in terms of volume whilst CHAPS remain the highest by value. We believe customers use these methods because it gives them control over when to make payments and certainty as to when the payment will be received. We would expect to see an increase in Faster Payments over the next 5 years through greater use of Open Banking and the potential for additional options for Faster Payments from the NPA including the ability for use in retail outlets.

Direct Debit and Direct Credit are favoured by government as they provide the greatest certainty and allow more accurate forecasting of incoming receipts and outgoing payments for HM Treasury. Card payments are an expensive option, so are not actively promoted but with the increased use of digital wallets for online payments we are seeing an increase rather than a reduction in the use of cards at present.

Within the last 12 months HMRC have taken advantage of Open Banking to introduce a Payment Initiation Service, which is being increasingly used by customers to make Faster Payments via their bank without leaving the HMRC online journey. As the details are pre-populated when the payment reaches HMRC it contains all the necessary information needed to update the customer record reducing the need for manual intervention. We expect further uptake of Open Banking services across government over the next 5 years which we hope will improve efficiency and reduce the reliance on card payments.

Government customers are seeing a significant move to more digital methods of payment and agree the pandemic has accelerated a lot of traction on digital options resulting in the decline in the volume of cash and cheque payments. We do have concerns that this could make the cost of handling cash more expensive, result in a further decline in the number of ATMs provided and see the loss of channels used by vulnerable citizens. The loss of free to use ATMs is an example of where this is already happening. We would like to see alternative solutions that adequately meet the needs of this group developed.

Other trends we are seeing emerge are:

- Digitally deferred payments. With the introduction of request to pay and services such as Klarna in the retail sector, customers who are credit card averse are using these tools to help them budget better.
- Adoption of machine learning and AI. This has been initially slow to be adopted but is now accelerating given the increasing sophistication of financial crime and the growing concerns of consumers about becoming victims of fraud.

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.

Yes, we believe that finding the right balance between competition and innovation for the benefit of all businesses and consumers in the UK is the right way forward. We support the PSR's focus on consumer protection and considering the needs of underserved customers whilst acknowledging constraints such as cost / benefit for participants. The outcomes appear balanced with an adequate level of understanding to recognise where conflicts may exist, or barriers to entry, which may affect the success of outcomes.

Government organisations face the same challenges as a large corporate but must also factor in the needs of UK citizens and businesses who require access to services such as benefits and pensions, the courts, taxes etc. It is therefore good to see that the focus for the key outcomes is on end users. We would like to see this focus extended so end user solutions are designed by default to accommodate the needs of vulnerable and digital excluded customers.

For all parties, robust infrastructure that ensures payments are not disrupted is vital. Where payment option choice is available clear awareness of the risks as well as clarity on roles, responsibilities and where liability resides is essential. Cost is also key for government both in terms of the transactional costs and integration to the payment infrastructure (whether that be existing or new payment methods). These key factors look to be covered by the outcomes PSR is planning to focus on.

We consider that cost effective, quick, safe and simple to use systems and services, that are of tangible benefit to the end user, will drive effective competition by suppliers. Maintaining and supporting legacy payment methods will also be key in supporting business needs e.g. Direct Debit and Direct Credit offerings for managing cashflow and forecasting.

In order to increase consumer confidence and increase usage of Faster Payments there needs to be consistent protection for consumers in a similar way to the protection offered for card payments.

Government organisations are always looking for cost and efficiency savings so we would support your approach of promoting competition and innovation to drive down the cost of banking services and transactions. HMRC have indicated that they would also be interested in a robust high value same day payment mechanism service that could easily be used as an alternative to CHAPS to provide greater resilience in safeguarding payment flows.

Competition in delivering the new schemes will benefit government organisations e.g. getting the right outcomes in the NPA design should pave the way for new services at scheme and product level which will reduce fraud, lower costs and provide more data to support decision making. All these will lead to an improved service for citizens.

Government is keen to continue to work with the PSR and those developing the new payment offerings so our requirements can be met. Some of the larger departments are looking to lessen their dependence on suppliers and remove monopolies in the market for the services to reduce risk and costs.

High-performing payment infrastructure is needed to accommodate the shifts in payment volume and changes in the fraud environment that manifested throughout 2020. The desired priorities will be dependent on bringing the banks onboard, how well organisations can move away from the legacy systems and having the funding available to invest in changes that bring the desired benefits to organisations. Whilst payment systems continue to work in siloes, they will not provide an integrated and seamless experience the customer desires.

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.

We agree that the priorities shown provide the coverage needed to achieve the outcomes required and acknowledge that flexibility is needed to effectively address any unknown changes throughout the journey. The dynamic nature of the payments industry seems to have been recognised and the PSR has made allowance in its priorities to allow the organisations to respond.

The next five years will provide an opportunity to build on the structural changes introduced over the last decade. Balancing the priorities of maintaining end user access to existing systems e.g. the Government Grade Bacs functionality, whilst implementing the new infrastructure on the ISO20022 messaging standard is essential to government users.

If seeking to innovate we need to ensure the payment options do not become too numerous as this could lead to niche services used by the few and consequently not sustainable. We agree the development of new services must meet users' needs.

We would like to see the PSR more active and directive on consumer education. We consider ensuring consumers fully understand the risks associated with each payment option and the introduction of additional consumer protections at a time when wider use of interbank payments is expected should be prioritised. These steps will build confidence and encourage the use of more cost-effective methods of payment. We would strongly support any competition between payment systems that make payment methods cheaper and easier to use whilst remaining secure and robust.

Payment data that enables the transaction to be automatically allocated to a customer account is essential and enhancing services to ensure correct payment references and other data is contained within transactions would deliver a big benefit.

We are aware that the work on the strategic priorities will be extensive and consider that it will be important to manage and monitor developments so success in the focus areas can be measured. We are interested to know how the PSR can provide the assurance that they have the capacity and capability to complete the necessary work on their priorities and to do so effectively in such a rapidly changing landscape.

Although not being considered at present we would like PSR to look at the possibility of aligning the NPA proposals with the work being led by the Bank of England to remove some of the pain points in making and receiving cross border-payments. This would ensure that the NPA was part of an effective international system of payments as well as an effective national one. We do, however, recognise that regulating cross-border payments is likely to require an extension of the PSR's remit and would not want this to happen at the expense of the priorities proposed by the PSR. With so many challenges ahead both nationally and internationally, we would be keen to know if the PSR has the resources it needs to deliver on their priorities and provide the necessary input to other key initiatives that will arise over the next 5 years.

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.

Yes, the consultation provides clarity on why each priority exists, the aim of each priority, what work has taken place so far and when intervention will occur if needed. From the actions undertaken so far it is clear that healthy competition, sustainability and a choice for all users will continue to be the focus in the coming 5 years.

The insight provided into the constraints which PSR works under as well as clarity about the responsibilities of the various organisations managing the different parts of the payments industry has helped understanding of the choices made in the document. What is unclear is the level and impact expected from the PSR's interventions. Having this information will help us assess if the constraints are justified and whether alternative actions could achieve more.

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.

Yes, we agree with these measures. Research into how and more importantly why people transact and make payments the way they currently do is needed to understand the barriers to customers using alternative payment methods and to ensure adequate choice remains in place for users. It may be that factors outside of the actions taken by PSR may impact the outcomes, but the data obtained will give insight into consumer behaviour including those who are dependent on cash which can be used to support the work with vulnerable and unbanked customers.

We are aware that measuring the success of actions taken to protect users may be difficult but believe the proposals are reasonable. It is important to continue to monitor APP scams and to have a consistent process for recovering funds needs across PSPs with the same levels of protection in place for all payment methods.

Fees attached to all payment methods will be monitored under the measures proposed which will help promote competition and value for money.

We believe, going forward, increased AI, machine learning and enhanced data through the ISO 20022 standard will contribute towards measuring the success of these strategic priorities.

The key will be how the information is used and how quickly changes are implemented. It is important that PSR can be sufficiently agile and able to work at pace so they can capitalise on the data and information received in time to respond rather than looking at what happened after the fact.

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?

When measuring the effectiveness of the proposals in this document the differences between sectors, services and demographics should also be considered as one size does not fit all. Consumer habits can change quickly, out of necessity, or sometimes, when the right incentive is put in front of people (e.g. the ability to receive and access funds immediately).

The paper is focused on consumer protection. Many of those that government organisations such as DWP and MoJ serve are financially excluded and so are not supported by the level of protection the card companies provide. Many DWP customers such as benefit dependent households may sit outside the target audience, however with initiatives running alongside PSR, including Confirmation of Payee, Mastercard's – Better Lives and LINK's ATM initiatives, collectively there would be a benefit to the whole of society. What is not clear is how all potential consumers feedback can be sought and shared. What plans do PSR have in place to ensure all consumers are represented?

7. Do you know any existing sources of data we can use to assist our metrics?

We are not aware of any other sources of data that could be utilised.

The following details have been provided by Government Banking or its customers but do not relate to a specific question:

- This was a very lengthy document which may have impacted the quantity and quality of the responses provided, Shorter documents and/or the use of other technology such as the videos that PSR have published on You Tube to explain your proposals are a welcome alternative and will overcome this issue.

- We have observed that it takes a considerable amount of time following the submission of consultation responses before any outcomes are published and new guidance or directions issued. The industry is moving at a rapid pace which raises concerns that your interventions may not land at the right time and will have less impact.

DWP are keen to influence dependable and viable central infrastructure for the UK's payments, which are in everyone's interests

DWP have 2 views; customer impact and cost controls.

- Customer impact includes individual customer harm and DWP's legal responsibility to support that individual financially. Scaled up at a macro level this becomes our economic responsibility based on the £190bn we are currently putting into circulation per annum.
- Cost controls are DWP's obligation to the taxpayer – a central infrastructure that is not soundly financially viable will see untenable cost rises for the consumers of those services. Ultimately the NPA is paid for by the service users – and Government's voice should be significant in that space.

Emerging Payments Association

Consultation Paper 21/7 – Our Proposed PSR Strategy

Payment Systems Regulator

September 2021

Response from the Emerging Payments Association

Introduction

The Emerging Payments Association (EPA) welcomes the opportunity to contribute to the PSR "*Consultation Paper 21/7 - Our Proposed PSR Strategy".*

The community's response contained in this paper reflects views expressed by our members and industry experts recommended by them who have been interviewed and who are referenced below. As the EPA's membership includes a wide range of companies from across the payments value chain, and diverse viewpoints across all job roles, this response cannot and does not claim to fully represent the views of all members.

We are grateful to the contributors to this response, which has been drafted by [redacted] our Senior Policy Manager. We would also like to express our thanks to the PSR for their continuing openness in these discussions. We hope it advances our collective efforts to ensure that the UK's payments industry continues to be progressive, world-leading and secure, and effective at serving the needs of everyone who pays and gets paid.

Tony Craddock
Director General
Emerging Payments Association

High level comment

The Emerging Payments Association (EPA) welcomes the PSR consultation on the future strategy.

We have decided to provide the PSR with a general high-level comment instead of responding question by question. We have had the benefit of seeing Northey Point's submission in response to the PSR consultation and we broadly agree with the principles behind it.

However, we are set to produce a White Paper later in November, to widely contribute to the debate on this subject and highlight our community's approach to the payments system architecture and its future developments.

About the EPA

The Emerging Payments Association (EPA), established in 2008, sets out to make payments work for everyone. To achieve this, it runs a comprehensive programme of activities for members with guidance from an independent Advisory Board of 16 payments CEOs.

These activities include a programme of digital and (when possible) face-to-face events including an online annual conference and broadcast awards dinner, numerous briefings and webinars, CEO Round Tables, and networking and training activities. The EPA also runs six stakeholder working groups. More than 100 volunteers collaborate on the important challenges facing our industry today, such as financial inclusion, recovering from Covid-19, financial crime, regulation, access to banking and promoting the UK globally. The EPA also produces research papers and reports to shed light on the big issues of the day and works closely with industry stakeholders such as the Bank of England, the FCA, HM Treasury, the Payment Systems Regulator, Pay.UK, UK Finance and Innovate Finance.

The EPA has over 150 members that employ over 300,000 staff and process more than £7tn annually. Its members come from across the payments value chain including payments schemes, banks and issuers, merchant acquirers, PSPs, retailers, TPPs and more. These companies have come together to join our community, collaborate, and speak with a unified voice.

The EPA collaborates with its licensees at EPA EU and EPA Asia to create an interconnected global network of people passionate about making payments work for all.

See www.emergingpayments.org for more information. [redacted]

FCA Financial Services Consumer Panel

Financial Services Consumer Panel
AN INDEPENDENT VOICE FOR CONSUMERS OF FINANCIAL SERVICES

[redacted]

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

2 September 2021

By email: [redacted]

Dear Sir / Madam,

The Financial Services Consumer Panel is an independent statutory body. We represent the interests of individual and small business consumers in the development of policy and regulation of financial services in the UK.

The Panel welcomes the PSR making their consultation more accessible through providing it in a range of formats.

The Panel is supportive of the outcomes and priorities set out in the PSR's proposed strategy and is encouraged to see success measures listed in the consultation. It is essential that the PSR's work proceeds at pace. The timelines and sequencing of the delivery of the strategy should be made clearer. Through setting minimum standards, regulation can support competition. The lack of consumer protections for interbank payments and the harm to consumers from Authorised Push Payment fraud presents a clear and immediate risk to the strategy delivering on its outcomes.

We would like to stress that the use of payments data should be kept under review and that disclosures around the use of data should be closely followed. The PSR should also continue to conduct and publish consumer research to understand challenges consumer face around payments as well as reporting on key indicators such as reimbursement rates to victims of APP scams, and access to cash coverage.

Reflecting on the overall strategy, there are three key considerations for consumers making payments:

- Protections;
- Cost; and
- The ease with which a payment can be made.

Given that consumers currently benefit from no pricing differential between payment methods, competition for consumers rests on ease and accessibility on the one hand and protections on the other. If the PSR really intends to stimulate competition by encouraging use of interbank payments as an alternative to card payments, the focus should first and foremost be on consumer protections. Ease of use and access should be a secondary priority. Finally, any attempt to stimulate competition by allowing differential pricing for different payment methods should be carefully considered to ensure it does not disadvantage those dependent on cash.

We would stress here that competition and innovation must not come at the expense of consumer protection. Consumer awareness of the payment methods they are using, and their varying levels of protection, is low. All consumers of all ages, including the most vulnerable, use all types of payment methods – it is therefore vitally important that:

- A consistent and robust level of consumer protection across payment methods is provided.
- Firms should communicate transparently, using terminology that is easy to understand
- Authorities must ensure their messages are consistent and coordinated. A long-term investment in consumer education and guidance with other bodies (such as the Money Advice and Pensions Service), needs to be made.

The Panel would like to reiterate the following key principles, which were included in its response to the HMT Payments Landscape Review:[1]

- **Accessibility** - All UK consumers must be able to pay and be paid. The system must be accessible to all.
- **Fairness and affordability** - The cost of making payments should not exclude particular consumers, businesses or transaction types. It should not cost more for the poorest to pay.
- **Reliability** - Individual payment systems must be robust and reliable with appropriate redundancy measures in place to ensure continuity of service in case of need.
- **Sustainability** – The Payment System should be operated on an economically sustainable basis. The failure of individual payment systems should not result in consumer losses.
- **Safety, security and consumer protection** – Individual payment systems must be safe and secure. The Payment System should offer at least a minimum level of protection to consumers, including against fraud and losses as a result of firm failure.
- **Transparency** – Individual payment systems' costs and protections must be clear and easily understandable. Individual payment systems should offer full transparency about how end users' data is used, by whom and to what end.

The Panel has provided further detail below covering:
1. Use of payments data.
2. Protection of data.
3. Credit provision and payments.
4. The role of Pay.UK.

(1) Use of payments data

The PSR has chosen not to include exploring the use of payments data as a priority. The Panel considers consumer protections around the use of payment data an urgent issue, given the:

- Sensitivity of the data to consumers;
- Value of the data, including to third parties; and
- Volume of consumers making digital payments.

Innovation is also resulting in payments data passing through more market participants and different layers of infrastructure (including cloud and other providers). The resulting complexity reduces consumer's ability to provide 'informed' consent over the use of their data. It is therefore essential that this area is kept under close review. Regulators (such as the FCA, PSR and ICO) must co-ordinate effectively, given their different remits and potential gaps that may emerge.

This has additional urgency given the current competitive landscape. The intense competition between payment providers, combined with increased non-cash payment volumes, the low interest rate environment, and evident constraints on payment pricing, would seem to indicate that some business models will only be sustainable through the

[1] https://www.fs-cp.org.uk/sites/default/files/final_fscp_response_hmt_payments_landscape_review.pdf

commercial use of consumers' payment data (or the ongoing provision of credit facilities – see 3 below). Where providers use or intend to use consumer data, consumers should be made fully aware and give their informed consent.

(2) Protection of data

Beyond the privacy issues raised in (1) above, there are security issues around payments data which need to be kept under close scrutiny. Consumers should not be put at risk through data breaches whether at merchants, payment providers, or third parties supporting either group. Given the growing trend toward cloud storage and outsourcing, we would stress the importance of ensuring that:

- Data is kept securely;
- Investments are made in cyber defences on an ongoing basis;
- Consumer communication is prioritised in case of any incidents; and
- Consumers are protected (both financially and otherwise) in case of such incidents.

(3) Credit provision and payments

The provision of payment services has long been subsidised (among others) by the provision of credit. We would encourage the PSR to collaborate with other regulators to better understand emerging business models of those active in and entering the payments arena. Such credit must be provided on a sustainable basis (for consumers), and – given consumers' dependence on their payment providers – the business models themselves must also be sustainable.

(4) The role of Pay.UK

The PSR's proposed strategy involves *developing the governance of interbank payments, with a view to giving Pay.UK a stronger role to lead the development of protections*. Governance of payments is key. It is therefore essential that:

- Pay.UK is appropriately supervised and that its responsibilities are clear. The PSR should learn from past experiences where delegated regulation has been ineffective and ensure this is not repeated.
- Consumers are properly represented in the governance and operations of Pay.UK. Consumers should not be an afterthought. They should be given at least equal representation at Board level to providers and merchants. Pay.UK and the End User Advisory Council (EUAC) must also establish a close working relationship. The Panel notes that in the EUAC's 2019 – 2020 Annual Report, concerns about the relationship between the EUAC and Pay.UK, were raised[2]. While we recognise that the 2020 - 2021 annual report was perhaps more encouraging, we would stress the importance of such concerns being taken seriously and swiftly resolved.
- Rules cover the full spectrum of interbank payments, independently of where and how they have been initiated. For instance, consumer protections should cover Open Banking-initiated payments.
- Pay.UK has the ability to enforce compliance with its rules.

Yours faithfully,

Wanda Goldwag
Chair, Financial Services Consumer Panel

[2] *…There is no doubt that Pay.UK listens carefully to what we say and takes our views into account in relation to the specific issues under discussion. However, we would like the advice we offer to have an impact more widely across all of the organisation's work, so that end user thinking is increasingly in the organisation's 'bloodstream'…* (https://www.wearepay.uk/wp-content/uploads/PD651_Pay.UK_EndUserCouncilReport_LR.pdf)

FDATA

10 September 2021

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

To: [redacted]

Cc: [redacted]

FDATA Response to PSR Consultation paper on PSR Proposed Strategy June 2021

Dear PSR Strategy Team,

We appreciate the opportunity to feedback on the PSR proposed five-year strategy plan, which is detailed below.

Yours faithfully,

Ghela Boskovich
Regional Director, Head of Europe
Financial Data & Technology Association

FDATA Feedback:

The principles of competition, security, reliability, fair access, innovation, and regulatory alignment that comprise the strategy are principles we strongly support. The four priorities, as outlined in the strategy document, FDATA and its members also strongly support.

Our feedback specifically addresses how this looks like in practice; we would like to remind the PSR of the principle of proportionality, as well as preserving space for the industry to creatively and innovatively respond with solutions, in developing consumer protections associated with interbank – or open banking – payments.

The TPP community has every incentive to ensure consumers' payments are protected, and that their experience in using interbank payments is smooth, safe, and secure. PISPs are in position to serve both retail end consumers and merchants/SMEs, and are the first port of call in the open banking payment customer journey. PSD2 also provides clear and explicit guidance on who makes the customer whole when a payment goes wrong. Purchase protection liability has also been clearly detailed in the Consumer Right Act of 2015: the merchant is liable if the good or service is faulty.

The PSR and OBIE work on consumer protections acknowledges this; however, the discussion has expanded to include purchase protection, and what liability a TPP assumes for a bad purchase. The discussion has evolved to conflate payment protection with purchase protection, and we urge the PSR to tread cautiously here, as a balance needs to be struck that allows open banking payments to properly compete with cards, but not incur the same operational costs or purchase protection features (such as chargebacks) associated with the care schemes.

Interbank/open banking payments are meant to be a competitive alternative to cards; as such, they are not the same thing as a card payment, they should not identically match as they are fundamentally a different type of payment, processed on a different system, with a different operational flow, differing set of counterparties, and a different set of risks.

The hypothesis that purchase protection needs to happen now, before the starting pistol has even been fired, is a fragile one. This question actually requires more data, more consultation, more direct PISP feedback, and more use case review.

Purchase risk has always existed; it is simply the process associated with deciding on handing over money for a good or service. Cash, for example, has zero purchase protection. Irrespective of how one chooses to pay, there is always a purchase risk: cash, cheque, direct debit, credit card, and now open banking payments. Each payment instrument has a different level of purchase risk. It is crucial to remember the rationale for why the protections were adopted before assuming that purchase protection pre-baked into the payment instrument is necessary. Section 75 of the Consumer Credit Act 1974 was introduced to protect people against the risk of opening a line of credit. Card chargeback was introduced to manage the extremely high levels of fraud in the card schemes. Chargebacks were designed to protect the *effective operations of the schemes*, not consumers. Any consumer purchase protection is a positive externality not included in the original intent.

Not all payments need to have the exact same purchase protection.

By contrast, PISP for purchases are not vulnerable to scams or fraud, because the PISP has a contract with the merchant, and the payment instruction is initiated at the point of sale. The discussion of Authorised Push Payment fraud scams in relation to open banking payments is limited to peer-to-peer, where the consumer is populating the instruction. By contrast, the merchant's PIS provider is populating the bank details, at the point of a genuine transaction. There is no chance of scam in a merchant-initiated payment scenario. This is a key conflation that continues to negatively shade the discussion on appropriate levels of consumer protection.

Moreover, APP fraud warnings are meaningless in a purchase scenario. Since the PISP has a contract with the merchant, there is no need to ask the customer if they're sure they want to pay the merchant. The customer knows they are paying the merchant, and there is no way the customer can pay anyone else, since the PISP populates the payee details. Payee account data is provided by the merchant, so there is no risk of incorrect data being entered.

For the vast majority of open banking payments – outside of the peer-to-peer or me-to-me use cases – merchants will be the primary initiators. And the merchant is already liable for purchase protection. There are also mitigants that reduce the risk of merchants as bad actors.

PISPS have every incentive for good customer outcomes, and much of that revolves around pre-emptive actions *before* a payment is even initiated. And since open banking providers have more control of who they serve, and can take additional steps to prevent the likelihood of purchase disputes as well as assist when things go wrong:

- Rigorous onboarding of merchants – ensuring that merchants who offer open banking payments have a track record of processing refunds and dealing with purchase disputes; no PISP wants to work with a disreputable merchant
- Contractual agreements with merchants – setting out the expectations and process of customer purchase dispute resolution
- Process to handle customer queries – PISPs and merchants' customer care teams can work together to quickly deal with purchase issues

In an open banking payment purchase, there are just three actors, who all have relationships with each other, so purchase issue resolution can be rapid, in contrast to card schemes, which have lots of counterparties. It is the counterparty complexity that makes chargeback resolution very slow and very expensive.

Since these mitigants already exist, it begs the question of whether or not some of the specific purchase protection risks are real or hypothetical, and whether or not these efforts are aimed at solving an actual problem or a hypothetical one.

While interbank payments may be new to the UK market, other markets – especially Europe – have two decades of experience. The experience and evidence point to the fact that both fraud and purchase risk are minimal compared to cards and can be handled without any card-style chargeback mechanism. Any attempt to create chargeback purchase protection parity for interbank payments dismisses the technological improvements in security, design, and operational efficiencies by introducing unnecessary overhead and cost, thus rendering them a less attractive alternative to cards. This negates, erases even, the principle of competition in payments.

Even in the case of high value transactions, the market is already pushing for direct bank payments, especially outside of the UK, without additional purchase protections being mandated by other EU state regulators. In some cases, purchase *insurance* is offered, but it is not integrated into the features of the electronic payment itself.

Instead, refund functionality would have a more positive impact on making open banking payments more competitive with cards. At the moment only a few ASPSPs in the market provide that functionality; to fulfill its strategy, the PSR would be better served to encourage refund capability across the market.

Again, we point to the fact that not all payments need to have the exact same level of protection.

The PSR's five year strategy is solid, and reflects an evolutionary approach to the changing nature of how payments in the UK will be delivered. FDATA sees the merit and strength of such an approach. We also recognise that the current conversation around appropriate consumer protections requires an evolution: conflation of two different objectives and the liability assigned to actors in the value chain needs resolution, as does the assumption of the validity of the hypothesis require further examination, and the hypothesis itself requires iteration.

FDATA urges caution when handling the exam question of purchase protection in open banking payments. Mishandling of this issue will kill open banking payments, failing to deliver a viable competitive alternative to card payments, at the significant tangible economic cost to merchants and small businesses across the UK, and at a significant opportunity cost to all those actors in the value chain from retail consumers to ecommerce firms to PISPs and banks alike.

HSBC

HSBC UK BANK PLC

PROPOSED PSR STRATEGY FOR NEXT FIVE YEARS – CONSULTATION ON PROPOSED OUTCOMES

RESPONSE TO CONSULTATION JUNE 2021

10 SEPTEMBER 2021

COVER SUBMISSION

HSBC UK Bank plc (‘**HSBC UK’**) welcomes the opportunity to see the proposed PSR Strategy for the next five years and to provide our feedback on the themes, outcomes and measures planned.

It is clear that this refreshed strategy represents a pivot in the PSR’s focus. Whilst we can see that work on the PSR’s current annual plan is reflected in the themes and outcomes that are sought, we also recognise that there is a new focus and emphasis on the key pillars of future work around competition between firms that operate on different systems, competition in retail payments, and changing the rules and governance of payment systems to better support the PSR’s objectives and the outcomes it wants to achieve.

In broad terms, HSBC UK supports this wider focus. However, we note the following points:

- We are disappointed that there is a lack of clarity on the strategy proposed to implement fair and consistent outcomes for the prevention and reimbursement of Authorised Push Payment (‘**APP**’) scams. HSBC UK has consistently advocated the need for a legal and regulatory framework that covers all industry participants and is clear on the obligations of all participants in the payment chain, including customers, to prevent APP Scams.

- The strategy shows a clear determination to create changes in the retail payments market to support an increase in the use of interbank payments, as an alternative to card based payment transactions. Whilst we support the principle of market competition, our view is that this must be led by innovation and customer demand. The proposed strategy creates a number of potential implications which could be significant for the payments market overall, and the functions that different systems fulfil for customers today – such as the low-cost, high-volume features of Bacs Direct Credits and Faster Payments. The market implications of, and case for, driving change needs to be well understood and proactively managed to avoid unintended consequences. The New Payments Architecture (‘**NPA**’) provides an excellent opportunity to assess and consider building in features to the UK interbank system which could be adopted alongside increasing innovation and consumer adoption for retail payments, in a way that could limit such unintended consequences. We encourage the PSR to focus on the NPA as a driver for change, rather than adapting the existing Faster Payments or Bacs systems.

- The Strategy challenges whether the governance of the scheme rules is sufficiently flexible to keep pace with the changing demands placed on the systems. Whilst HSBC UK supports the principle of further improvements to the existing strong and proven governance frameworks of the UK payment schemes, we caution that scheme rule changes are no substitute for proper and careful regulation, when the purpose of the change is to seek different market outcomes. Such changes must be properly assessed, subjected to detailed due diligence, impact assessment and widely consulted on in order to determine such a course of action is appropriate. If the PSR determines that Pay.UK's powers need to evolve, enabling Pay.UK to require participants to introduce fundamental policy or strategic changes as part of the scheme rules, then there is a need to consider how Pay.UK's role as system operator can be successfully combined with such powers.

- More broadly, HSBC UK expects that the future payments ecosystem will depend heavily on payment service overlays. We have seen how this operates in relation to Confirmation of Payee, which is underpinned by a tripartite services arrangement between Pay.UK, the Open Banking Implementation Entity and participants. Our experience has been that this model lacks transparency for participants, particularly regarding accountability for service delivery and on costs and charges. Pay.UK are increasingly operating on the basis of setting standards and acting as a governing body which does not include any oversight of interparty liability.

- The role of, and opportunity for, Open Banking in the UK payments market is only briefly mentioned in the proposed strategy. HSBC UK expects Open Banking payments and services to grow in volume and significance over the next five years and we expect Open Finance to have a material impact on the market (although the timeframe is unclear). HSBC UK's view is that the PSR should work with the CMA to ensure effective regulatory oversight and governance of organisations overseeing the Open Banking framework and making sure this is appropriate and fair, and supports the PSR's objectives. This market is relatively new, and is likely to play a pivotal role in future NPA overlay services meaning governance and oversight will be key.

- The proposed strategy does not acknowledge that the UK payments industry is operating during a period of unprecedented demand for transformational change and is still focused on deploying of the Open Banking Roadmap. This is an important context in relation to the UK market and its capacity for further change in the next five years. For example, the delivery of the NPA needs to be carefully sequenced and overlaid against the complexity of wider ISO 20022 required changes across the payments landscape (including for RTGS2, SWIFT, Target2 and Fedwire/CHIPS); and the expertise and executive attention available to support and direct this effectively and safely. The table below is restricted to key ISO 20022 developments and does not include changes to SEPA payments or the G20 initiative on cross border payments, nor wider industry and regulatory change, which all has to be delivered over the same period.

[redacted]

Chapter 3: Payments and Payment Systems in the UK

Q1: Do you think the key trends we have identified adequately capture the most important system-level changes that 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

1.1 The analysis in the strategy document sets out most of the important system-level changes that payments and UK payment systems are likely to experience over the next five years.

1.2 Five years is a relatively short period of time in payments, given the current pace of change and volume of transformation programmes that are currently underway which will take time to deliver and bed-in. HSBC UK expects that Open Banking, the renewal of the RTGS system, the NPA, the introduction of ISO 20022 messaging standards, the planned legislation on access to cash and the growth of digital currencies will have a material impact on the payments landscape in the UK during the next five years. HSBC UK advocates a strategic approach that considers the objectives over the medium- and longer term beyond the focus in the next five years, to ensure any regulatory intervention is aligned to the expected outcomes of the change already underway.

1.3 There is limited focus in the paper on the potential for disruptive change in the current payments market from technology firms. Over recent years, non-bank firms – including firms such as Apple and Google as well as small players - have entered the payment chain and provided transformational change in the payment ecosystem. HSBC UK recognises that new service providers and payment chains are realising value for customers in a wide range of use cases. Whilst on the one hand the value is in the diversity of offering to customers, this multiplicity of solutions and disintermediation of the payment chain can create risk. These risks are principally in relation to stability and resilience, data security and a lack of protections where activities fall outside regulation or existing frameworks of protection.

1.4 Likewise, cross border payments are likely to see significant change in the next five years, given the focus of the G20 discussions on making payments flow more quickly and easily across borders, and the need to avoid fragmentation in our payments market after Brexit. As a globally connected institution with customers undertaking substantial cross-border trading flows, HSBC UK sees it as critical that the UK remains at the forefront of payment innovation and system developments that enable the frictionless interoperability with international payment systems. Our view is that this is an area we expect to have a material impact on the UK payments market and future plans for regulation of payment systems and services. The PSR is well positioned to influence and advocate change and should be keeping cross border payments under close review.

1.5 HSBC UK recognises the distinction drawn between payment systems as services and as platforms, including the distinction between the card-based systems and interbank systems described. We agree that interbank payment systems are changing and that the NPA provides the opportunity for this system to evolve, improve and future proof for the future demands and requirements of customers and the ecosystem.

1.6 The focus in the consultation paper is principally on personal customers, and the level of competition in the payment markets and how that serves their needs. We note that there may be other issues pertinent to the business payments market, both for SMEs and large corporates, whose needs and behaviours will differ; and may be impacted in different ways when changes to the payments market, systems of services are made.

1.7 As set out in the executive summary, the proposed strategy does not acknowledge that the UK payments industry is operating during a period of unprecedented change, which is an important context to the UK market over the next five years and the capacity for further change for end users, direct and indirect participants. The strategy is ambitious and adds significantly to the existing change agenda.

1.8 Although the paper calls out the changing shape of the payments market towards digital, the payments market does and must continue to consider all customer requirements and evolve to better support the transition to digital. We welcome the announcement at the end of July 2021 that the PSR panel will conduct a digital payments review and see this as an important cornerstone of future work to evolve payment systems and services.

1.9 Linked to this, and to further enhance the strategy, HSBC UK suggests more focus is needed on the introduction and impact of digital and crypto currencies, and the potential for greater uptake of stablecoins. The PSR should be ready to respond to these change market dynamics, including the proposed introduction of a Central Bank Digital Currency by the Bank of England.

Chapter 4: Outcomes we'd like to see in payments

Q2: 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.

2.1 In broad terms, HSBC UK supports the four key outcomes the PSR want to focus on in the next five years. The outcomes represent a continuation of the PSR's focus to-date which, linked to the PSR's statutory objectives, ensures that payment systems are operated and developed in a way that considers and promotes the interests of all the businesses and consumers that use them; promotes effective competition in the markets for payment systems and services; and promotes the development of and innovation in payment systems, in particular the infrastructure used to operate those systems. These outcomes align to current work underway on APP Scams, the NPA and access to cash, as well as the proposed work set out in the Strategy paper.

2.2 We suggest that first and foremost, innovation should be customer and market driven. Care is needed to allow firms the capacity to focus on commercial innovation, particularly after delivery on mandatory requirements (such as Open Banking) and should have an opportunity to focus on commercial innovation to drive customer adoption prior to further regulation.

2.3 On the first outcome - for payment services to meet needs in terms of functions, quality, cost and other relevant factors - we suggest that the accessibility of payment services for users is a crucial theme. This is front and centre on access to cash, but also relevant in the context of the NPA and in future changes to payment services that may change the way a customer interacts with the payment service.

2.4 Efficiency and commercial sustainability of payments systems continues to be an important focus for HSBC UK, the wider payments industry and are necessary to provide value for money to our customers and retain the UK's competitive profile as a place to do business. In particular, this is crucial for corporate customers, and is linked to the first objective to ensure that payment services meet their needs in terms of cost. Given the pace of change in the payments industry and the transformation demands on firms that is described in the introduction, this outcome is crucial.

2.5 Efficiency and commercial sustainability is also critical in terms of supporting those payment systems and services with declining use – such as cheques and cash. A regulatory approach which considers and takes into account the commercial sustainability and efficiency of payment systems and services is crucial to protecting services for those customers that rely on them.

2.6 Linked to this, we expect payment solutions which support the sustainability agenda to be sought by users as part of efforts towards net zero.

Chapter 5: Our Priorities

Q3: 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.

Q4: 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.

Taking Questions 3 and 4 together:

3.1 As noted in the executive summary, HSBC UK notes that the proposed strategy marks a pivot in the PSR's focus over the next five years.

3.2 The priorities emphasise a clear determination to improve competition in the retail payments market, including through comparable consumer protections on interbank payments, so that they present a viable alternative to card payments to accept greater volumes of retail payments. Whilst we support this objective from a principle of market competition, this creates a number of potential implications for the payments market overall, and for the functions that the different systems fulfil for customers today – such as the low-cost, high-volume features of Bacs Direct Credits and Faster Payments. Our view is that a market driven model is needed so there is merchant demand for retail payment solutions that are not card based.

3.3 As set out in our response to the Call for Views on Consumer Protections earlier in the year, the case for the change and the market implications of driving such change need to be well understood and proactively managed to avoid unintended consequences on the functions of the low-cost, high volume interbank systems that are valued and meeting customers' needs today. The NPA provides an excellent opportunity to build in features to the UK interbank system that can create a viable option for retail payments, in a way that limits such unintended consequences, and remains cognisant of the outcome to ensure 'payment systems are efficient and commercially sustainable.' We encourage the PSR to focus on the NPA to achieve this, rather than changes to Faster Payments or Bacs today.

3.4 However, we note (paragraphs 5.51 - 5.52), that the approach to developing such protections will be given to Pay.UK rather than determined by the PSR. It is important to note that an approach led by changes to interbank rules, will not achieve system-wide standards of service unless there is a model for how indirect participants are included in the requirements of any such change; and the enforcement of any rule changes on indirect access services and the firms that use them. This also risks protracted industry discussions on the best way to achieve a consumer protections framework given the potential for different models to create different outcomes for different types of participants. HSBC UK's strong view is that any efforts to introduce a consumer protections model for interbank payments must be delivered across the full breadth of the market, with a sustainable commercial framework, and following proper consultation and analysis to avoid certain market distortions.

3.5 This point is also relevant in relation to the priority 4: *Ensure the renewal and future governance of the UK's interbank payment systems supports innovation and competition in payments.* HSBC UK agrees that it is important to think about the governance of the interbank payment systems and the extent to which it is sufficiently flexible to keep pace with the changing demands placed on the systems. The mechanisms of scheme rule compliance have not evolved significantly in recent years, despite the advent of the consolidated payment system operator and the role, remit and governance of that body. It is reasonable to explore further improvements that could be made to the process.

3.6 Whilst HSBC UK supports the principle of further improvements to the existing strong and proven governance frameworks of the UK payment schemes, we caution that scheme rule changes are no substitute for proper, careful and timely regulation, when it is a market outcome that is being sought, with the due diligence, consultation and impact analysis required to determine that such a course of action is appropriate. There is ambiguity in the strategy's intention regarding what type of rule changes might be made, but such a change suggests an evolution of the payment system operator to take on a role more akin that of a regulator rather than a governing body, that will determine and require change on participants. This would create a considerable legal, operational and cost burden on Pay.UK.

3.7 For Pay.UK to be successful and effective, it is crucial that it is able to work as a trusted partner with the industry, in a way that balances fairly the competing needs of different firms. Our concern is that Pay.UK will be in a difficult position to make decisions on the best way forward, given the different commercial, market and customer drivers of different participants; without a clear regulatory framework to guide its actions. There may be an impact on the attractiveness of the scheme for direct participation and the potential for participants (direct and indirect) to exit the market if scheme rules and requirements are felt to be disproportionate, unpredictable or unfairly pursued.

3.8 If the PSR determines that Pay.UK's powers need to evolve, enabling Pay.UK to require participants to introduce fundamental policy or strategic changes as part of the scheme rules, then there is a need to consider how Pay.UK's role as system operator can be successfully combined with such powers. Consultation on any changes would need to take place, with Pay.UK taking industry views into account before determining the right outcome.

3.9 As noted above, we are disappointed that there is a lack of clarity on the strategy proposed to implement fair and consistent outcomes for the prevention and reimbursement of Authorised Push Payment ('**APP**') scams. HSBC UK has consistently advocated the need for a legal and regulatory framework that covers all industry participants and is clear on the obligations of all participants in the payment chain, including customers, to prevent APP Scams.

3.10 HSBC UK expects Open Banking to grow in volume and significance over the next five years. HSBC UK's view is that the PSR should work with the CMA to ensure effective regulatory oversight and governance of organisations overseeing the Open Banking framework and making sure this is appropriate and fair, and supports the PSR's objectives. This market is relatively new, and is likely to play a pivotal role in future NPA overlay services meaning governance and oversight will be key.

Chapter 6: How we will measure whether we are achieving our strategic priorities

Q5: 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.

Q6: What other criteria do you think are central to measuring our effectiveness and should those complement or replace those we propose in this document?

Q7: Do you know any existing sources of data we can use to assist our metrics?

Taking questions 5, 6 and 7 together:

6.1 Measurement of success is important and we understand that this will mean HSBC UK is sometimes required to provide data and information to support that work. We welcome and note that the PSR wants to ensure that information and data requests are proportionate and do not constitute an excessive burden on firms. In our experience consideration of the following points significantly helps to allow us to provide data in an accurate and timely way:

- advance notice of requests and reasonable time frame for response;
- guidance notes on the completion of the data fields;
- advance checking on the availability of data and the feasibility of the data request;
- avoiding peak holiday periods, and
- consistency of information required over regular requests.

6.2 In terms of the specific planned measures, we have previously provided our views to the PSR on the merits of assessing the rate of reimbursement under the CRM Code and the publication of this data. As we have indicated it is not possible to accurately measure the volume of fraudulent transactions prevented as a result of fraud warnings. A payment journey can be abandoned by a customer for a variety of reasons.

6.3 In relation to the proposal to undertake research to build the PSR's knowledge of how people transact and make payments in the UK and what characteristics influence their choice of payment option, we note that there is already well documented research available (for example, through the annual UK Finance National Payments Survey), particularly for consumers. The key gap in the research available on this topic pertains principally to the business payment market rather than consumers, and we suggest this would be a better investment of resource.

6.4 Whilst we broadly accept the other measures proposed, it is the criteria that sit alongside, and the indicators set to determine the success that will ultimately assess whether the outcomes have been achieved.

Icon Solutions

Purpose of Document

This paper is Icon Solutions' (Icon) submission in response to the Payment Systems Regulator's (PSR) consultation on 'Our proposed PSR Strategy' dated June 2021.

Introduction to Icon

Icon is an award-winning payments fintech and specialist consultancy, focussed on providing innovative and pragmatic solutions to our clients as they strive to embrace and deliver technology transformation.

We power payments innovation through our ground-breaking Payment platform, IPF, which leverages cutting edge technology to enable a low-risk, low-cost approach to accelerate payments transformation and meet the challenge of delivering payments in a world of increasing regulatory change and innovation.

Through our consultancy services, we accelerate banking transformation. Our expert Technology Strategy, Architecture and Deliverable services enable Banks and other Financial Services clients to navigate the optimum path to realise end-to-end Digital Transformation, leveraging data and new technologies to comply and compete in a disrupted marketplace.

Opening Comments

Icon welcomes the opportunity to respond to the Payment Systems Regulator's (PSR) consultation on its strategy over the next five years.

Although we have attempted to respond to all questions, given the breadth and scope of the strategy we have concentrated in particular on the following key areas: -

- Competition between payment systems, and between payment services
- Payment protections and fraud mitigations, and why this is important for competition
- The importance of considering the needs of all end-users, not just consumers but also businesses (corporates and SMEs), and in particular merchants, utilities and other high-volume payment recipients
- Payment service innovation and the factors that will support this

Icon Responses to the Consultation

1. Questions related to Payments and Payment Systems in the UK

PSR Question 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.

We agree with the trends that have been identified at a high level, but there are many factors at play which will influence the relative importance, impact and growth of these trends which we will discuss in the rest of this document in more detail.

We appreciate the need to set a longer-term strategy over 5 years to provide a framework for the future of the PSR, but propose that enough flexibility is built in to allow for a swift change of direction at points in the future. In the current climate we are seeing unprecedent rates of change across the financial and technology sectors; it would take a brave person to predict today all the issues facing the payments world in 2025 and 2026.

1.1. Increasing competition between payment systems

We agree that the API landscape through Open Banking and common messaging standards has increased opportunities for interoperability, but we are still in the early stages. Many of the banks are still in the middle of their transformation journey so the full potential is yet to be realised.

Developing opportunities for interoperability and bridges between systems need not be constrained to just the domestic market. Worldwide we are seeing new initiatives supported and driven by both regulators and market forces to increase the ease of cross-border payments to support retail, trade and commerce between countries, such as P27 in the Nordics and Buna in the Middle East. We will need to continue to build relationships with the rest of Europe and beyond in the post-Brexit, post-pandemic world. There are also many opportunities to learn from other countries and their regulatory bodies.

Global trends, particularly in the Asia-Pacific region and the Nordics, support the PSR's view that the future will be characterised by a small number of payment systems supporting a wider range of payment services. Instant payment rails are being used in an increasing number of scenarios in retail and business banking, and in cross-border payments. It is not that we need new systems, but new use-cases and services utilising existing payment rails.

Therefore, we predict that the biggest trend will not be between inter-bank systems, but between the providers of services on existing systems. There has been no evidence provided to date that competition between payments systems is necessary or useful. Competition should be in the infrastructure supply, so that price and innovation can prosper, driving more choice for end-users be those in the consumer or business space.

However, inter-system competition will be required if we are to challenge the card giant duopoly in the UK. There is currently a lack of choice at point of sale, both in store and online. Increasing competitive offering here is very much dependent on how interbank payments can offer merchants and consumers the necessary checks and protections – we will be discussing this in more detail later.

In addition, we would challenge the view that all innovation and competition require co-ordinated change across the industry. This has been a long-held view in the UK, and even in Europe (as with EPI) but in other countries many of the innovative offers arise in the commercial space.

Clarity on how this outcome will be measured is required, and how the benefits be calculated, so as to avoid requiring payment-system competition for no tangible reason.

1.2. New systems and impact on users

The PSR makes an important point in stating that new system users are not recruited by the platforms themselves but by the platform members. The needs of all end users (businesses, consumers, charities, government) must be at the forefront of new offerings. Platform members will need to be incentivised to offer new services and this may not always be driven by consumer needs but by cost and efficiency benefits to the providers.

Innovation in overlay services such as Request to Pay on existing systems is likely to be the biggest trend. Having said that, there is a possibility that new systems may arise from social media platforms and new technologies e.g. Distributed Ledger Technology. We have yet to see if the UK market and its consumers have an appetite to embrace these new ways of paying. We fully support the PSR adopting the "same risk, same regulation" approach adopted by the Bank of England if the government designates the regulation of these new systems to the PSR.

Our view is that the change in habits accelerated by the pandemic is indeed longstanding. Digital payments had already been embraced by the tech savvy generation, and the pandemic has extended this trend cross-generationally. We can see no reason why many users would revert to non-digital journeys. It is therefore likely that end users will be more open than ever to adopting new payment methods if the benefits are there.

1.3. Changing role of interbank payment systems

We agree that the role of interbank systems is changing to expand beyond salaries, government payments, bill payments and person to person payments, driven for example by merchant experimentation, and by open banking (albeit somewhat slower than expected). Take up of previous alternative offerings has been very poor (e.g., Paym, Pay By Bank) and we are still waiting to see any real innovation in Open Banking use cases that achieves market scale. There has been no significant substitution between Debit Cards and Faster Payments. We can see several reasons for this.

So far, no new service has offered anything significantly different and beneficial to the end user to entice them to use the service. Contactless cards, whether used directly or in mobile or e-wallets, are the height of convenience for most customers. They are widely accepted, and the user journey is a simple frictionless tap and go. Current alternative online services offer nothing beyond the simplicity of Pay Pal and Shopify in e-commerce.

The industry has not collectively thought about Faster Payments as a mechanism for retail payments, and an as such the necessary provisions for fraud protection and purchase protection are not there. If Faster Payments are used to make a payment to a retailer there are no assurances that the payment is received by the merchant before the goods are released or that the customer can dispute the payment to receive a refund or compensation.

The banking industry has been pre-occupied with other priorities in recent years; PSD2, ISO 20022, Brexit, the pandemic, but we would hope that it is now in a better position to start building on the open banking foundations which are now in place, for example broadening into 'Open Finance' data sharing. We should be mindful however that Payment Initiation services are a challenging area for TPPs as there is little opportunity to profit from basic offerings. This is why currently the number of true PISPs is so low.

Open Banking principles are now being extended to a greater range of financial products through Open Finance under the OBIE's new remit. The is causing some buzz in the industry, and there will be challenges ahead for the regulators as there will be wider range of finance service providers entering this space who are not necessarily as highly regulated as banking service providers and PISPs.

1.4. Decline in the use of the UK's ATM network

We believe it is inevitable that the banks will reduce their ATM footprint as the cost of maintaining it in the face of declining use is no longer viable, and that it is right that the PSR is mindful of the impact this will have on financial inclusion.

However, just as much emphasis by the PSR, arguably more, should be on promoting and encouraging access to and understanding of digital services. Alongside its oft-quoted benefits, the cash system is hugely costly and enables significant types of criminality within society. According to the PSR's own statistics, digital payments make up 88% of all transactions and there needs to be proper agenda for driving digital services further into the remaining areas of cash usage.

Research needs to be undertaken to understand why people remain reliant on or show a preference for cash. The UK population is highly banked with high mobile usage so there are likely to be many factors at play. Some of these factors could include: -

- A lack of confidence in digital transactions due to rising fraud.
- A belief that sharing data and financial details is unsafe
- A lack of access to digital methods at point of sale; some merchants may not be able to support or afford physical or mobile POS devices, or cover the fees that processing cards entail
- Many customers may feel better able to control their spending and budget with cash, particularly as most e-commerce transactions now include promoting and encouraging BNPL services
- Banking apps that are not user friendly with poor support
- On the negative side: an inclination towards tax evasion by some small businesses; or a preference for cash when selling illicit goods.

2. Questions related to Outcomes we'd like to see in payments

PSR Question 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.

In general, we note that although part of the PSR's core role (referred to in the Foreword) is to promote innovation, the term 'innovation' does not appear in any of the high-level outcome statements proposed in section 4, so we would suggest its inclusion.

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

We agree that most users have access to the payment methods that meet their basic needs; although there is lack of choice at point of sale, this is more an issue for merchants than consumers (due to the level of costs incurred by card processing).

We support the PSR in being mindful that the needs of users will vary greatly (e.g., your average consumer vs. those who financial vulnerable, a small business or sole trader vs. a multi-national corporate, a charity, a government department). There is no one size that fits all, and the PSR plays an important role in ensuring that all end users are considered when services are developed, or new systems are introduced.

As discussed earlier, we see the principal focus being on delivering greater benefits for end users through new or enhanced services, enabled by innovation and competition; and that developing new payment systems, or improving existing systems, needs to be fully aligned with this target outcome.

Over 2.9 billion payments were processed in 2020 via Faster Payments, and this is usually the default payment type initiated from a banking app or website for payments from a personal current account. Yet few users have full understanding that Faster Payments do not offer the same consumer protections when used at point of sale as those offered by other methods such as cards.

The current direct debit system offers little flexibility for those on low or variable incomes (which is becoming an increasing proportion of the population due the number of workers on zero-hours contracts or in the gig economy) – it is here that we see a real potential for Request to Pay to improve choice and control. The infrastructure to support Request to Pay has gone live, but there are currently few service offerings. UK regulators could take a greater role in education and promotion of its potential benefits to all end-users.

Most retail transactions are made by card, with the cost incurred by the merchant, with the main alternative being cash if physically present. There is little to no competition in e-commerce.

Reasons have been suggested for why new services may not be adopted in the face of a legitimate need. We agree that the costs of implementing new technology and changing legacy systems may be an inhibitor, and that payments services providers need to consider their commercial interests. One way of mitigating this is to increase access to the central infrastructure and encourage partnerships in the ecosystem where new services can be delivered by the Fintechs in partnership with the banks.

The PSR raises the concern that services may be made available and dropped if they do not meet user needs. This highlights the importance of designing truly customer focussed products based on market research so as to avoid costly mistakes and developing products that excite product owners but do not offer anything to the end user.

At present, even where there is choice, there is little access to information about the relative costs, benefits and drawbacks of different payment services. We agree that this is particularly true for smaller businesses who don't have the information they need to assess the impact on their bottom line and customer service when choosing between providers.

We agree that information on costs, level of service and obligations should be easily accessible to all end-users, and that is something that could be enforced by regulators.

2.2. Users' interests are adequately protected so that systems and services can be used with confidence

We believe there are serious issues surrounding the adequate protection of end-users, particularly with payment services running over Faster Payments, and that addressing these should be the most immediate priority for all UK regulators.

Payments protections span four discrete areas as set out in the recent UK Finance report and the strategy to address protection should cover all of these.

- Protection from fraud
- Protection from payment processing errors
- Protection from non-receipt of goods / services or sub-standard quality
- Protection from company insolvencies

We acknowledge that the PSR has made some steps to support consumers who have fallen victim to APP scams, and that there should be some responsibility on the consumer – but this approach does not take into account the highly sophisticated social engineering that takes place to try to bypass the concerns of even those who are aware and cautious in their online dealings.

There is so much more the banks can do to address to prevent fraud, for example: -

- Improved KYC processes (e.g. most APP scam payments are sent to a UK bank account, which clearly is being used for criminal purposes)
- Identifying patterns such as mule account behaviour
- Taking swift action on customer concerns and complaints
- Sharing their knowledge about potential fraudsters with other FIs
- Being transparent about what actions they take to tackle fraud and what their reimbursement policy is, so that customers can make informed choices

However, there is little incentive for banks to introduce new measures where they are not liable for reimbursement nor penalised for imperfect KYC practices. There is also no requirement to be fully transparent in what they doing to address the problem and the incidents of fraud that take place through their systems and accounts.

There is also a responsibility on social media platforms and search engines to not promote or advertise fraudulent services and companies.

The industry has introduced some new measures to mitigate fraud but arguably these are not widely implemented and don't go far enough. Confirmation of Payee has been introduced, by many but not all banks, to both to address intentional fraud (paying someone who is trying to steal your money) and user error (accidentally paying the wrong person). However, a recent study showed that, since CoP is not mandated beyond the CMA 9, fraudsters are deliberately moving to those banks that don't yet offer it.
Similarly in relation to card-payment fraud or account takeover, Strong Customer Authentication is not offered by all payment initiators and there are concerns around the friction introduced into the payment journey by the early use cases.

To offer the same recourse to refunds that is offered by the chargeback system with cards, the liability model needs to be established. There are many people in the industry who see the fact that we have a blank canvas here as an opportunity to improve on current processes and create a new infrastructure that protects all end-users; not just consumers, but the merchants who currently suffer losses through "friendly" fraud and double dipping through current card protection schemes.

A UK Digital Identity that can be used for payments, beyond the current government scope, will be an important step not only in increasing protection against fraud, but also as a key enabler in fostering wider and safer use of digital payments. In Sweden, their digital id has been a key part in Swish becoming the digital payment method of choice, and a viable alternative for many transactions that used to be made in cash.

Effective competition between payment services will require a more standard approach to payment protections across the board. Consumers should not need to read or recall pages of term and conditions whenever they are at a checkout choosing how to pay.

2.3. Systems are designed and operated to enable effective competition in the provision of payment services

Access to payment systems should be relatively simple for new participants. Compared to other countries, it remains challenging for non-banks to become direct participants to UK schemes and there are a limited number of established banks that offer affordable agency services.

The NPA has been cited as a trigger for more innovation and increased competition, particularly in retail. We would agree, but even before its implementation there are many opportunities to develop new products on the back of overlay services, Open Banking and partnerships between larger providers and smaller more agile Fintechs.

What we have seen in our consultancy work with clients, many of whom are in the CMA 9, is that banks are struggling to uncover the client focussed use cases that will delight their customers and bring in new revenue streams with existing systems. And this is probably because this is not the space where real innovation is going to happen; it will be in the channels, the platforms, and the merchants / businesses that interact directly with customers. Hence why we are suggesting that this segment has more focus in the PSR's strategy.

2.4. Payment systems are efficient and commercially sustainable

We feel there is still much to be done on finding a more sustainable access model, building on the progress by Faster Payments in the last 7 years. We can learn by looking at best practice in other markets globally, to determine how Fintechs can more easily access the Central Infrastructure safely and securely.

Commercial sustainability is impacted by a number of factors. In the current governance and funding model, there are conflicting incentives for larger banks (as CI users) for upgrading central infrastructures, since they will likely bear the brunt of the cost while also opening the market to more service competition.

Environmental sustainability is becoming a key issue for both businesses and consumers. It is an area in which there is still much to be done and this may even become a competitive differentiator for service providers as end-users increasingly make choices based on their personal and social values and want to work with companies that support these values.

3. Questions related to Our Priorities

PSR Question 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?
PSR Question 4: Do these strategic priorities provide clarity on the choices we make, and especially on why and when we choose to intervene?

We agree with the importance of taking a flexible approach to priorities given the fast-changing payments landscape in the UK. In general, we feel that too much emphasis has been placed on the retail landscape without explicit reference to the corporate/business sector, including high volume payment receiver/processors such as government departments, retailers, utilities. transport ticketing.

Innovation here has the potential to trickle down to benefit the retail sector. Every payment has two sides and therefore two end-users, and both need to be covered.

3.1. Access and choice for users

As we have discussed, choice is very much dependent on the right consumer protections being in place – there is little incentive or benefit for consumer to make use of services based on faster payment overlays when these payments are not secure and protected. The issue is not the choice but enhancing the consumer protections within FP, or payments services that run over FP, so that it can be used in a wider range of scenarios.

We feel there should be a clear strategy on the regulator's role in Request to Pay and how this can be a complement to competitive innovation in services. Further provisions need to be in place so it can be used effectively, such as looking at mandates and the liability model.

There should be more focus on choice and access for businesses / merchants. The wider usage of smartphones at point of sale - for example tapping the phone or specialist apps for sole traders - are introducing payment methods that are more convenient than cash and are well positioned to allow merchants to accept alternative methods of payments without costly physical POS upgrades / replacements.

The PSR raises an interesting point on barriers that providers may put in place for new systems, such as access being dependent on consent to broad use of transaction data, or on ownership of a certain device and operating system. The latter is being addressed by the CMA investigation into Apple and Google. iPhone currently limits access to NFC making it difficult for app providers to gain traction in the heavily dominated Apple market in the UK. We agree that the regulator's role should extend to these areas.

We note the priority to make sure arrangements are in place to the support transparent access conditions and appropriate governance, but more clarity is required on how this will be achieved. At the moment only the four main sponsor banks are required to publish access related information, but this should be extended to a wider group of providers.

3.2. Protections for users

This is the most important priority and will have a huge impact on new systems being safe and fair for end users. If safety cannot be guaranteed, new systems will fail to take-off as expected and the end users will be poorer for this.

If early and popular use-cases based on request-to-pay or Open Banking are exploited by fraudsters, and this is highlighted in the media, it will be difficult to regain trust going forward and this could stifle innovation.

Focus should be placed on what is necessary to make interbank payments work better for retail use cases, so that they can provide a credible alternative to cards. Card schemes have a number of protections, but interbank real-time payments were not developed with these in mind. Banks and merchants potentially have different interests, so strong alignment across the industry will be required, possibly with the PSR 'facilitating'.

As well as increasing choice through improving protections, education will be required. Few people fully understand the non-repudiable nature of faster payments, and these are now being used in many scenarios they weren't originally designed for, especially as the limits have increased so vastly.

3.3. Competition within and between payment systems

We note the near-monopoly that Visa has had in the UK with regard to debit card provision, but with recent movement to Mastercard by some banks, and more expected. But we do not see that this will have much impact on competition. These two US companies are dominating the UK cards market, with little to differentiate between them, and they have worked together to challenge or slow down attempts to reduce interchange fees. We see this as a potential geo-political risk. Regulators in the EU are attempting to address this with the European Payments Initiative, and there is potential for the NPA to achieve the same thing.

In the meantime, we would support the view that the PSR increases their regulator role to regulate pricing if other measures are not promoting competition. The merchant/ retailer community is a key protagonist in looking to reduce dependence on card payments. There is potential for the PSR to include any available statistics from the CMA if these are available.

3.4. Renewal and governance of interbank payment systems

The PSR states "***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*"**.

This is a very important point, and the current funding model would benefit from review as a priority. Renewal of interbank systems benefits all in the ecosystem, and yet it is a small number of banks who are responsible for paying the bill. In addition, we are asking the banks to pay for initiatives that may support their competitors and ultimately impact their bottom line. We have already seen the impact this has had on slow movement on the NPA, and this could continue to be a barrier to future innovation and competition.

4. Questions related to how we will measure whether we are achieving our strategic priorities

- Measuring that:
  - Users have continued access to the payment service they rely upon and support effective choice of alternative payment options
  - Users are sufficiently protected when using the UK's payment systems
  - Competition is promoted in markets and users are protected where competition is not sufficient
  - The renewal and future governance of the UK's interbank payment systems support innovation and competition in payments

PSR Question 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.

PSR Question 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?

PSR Question 7: Do you know any existing sources of data we can use to assist our metrics?

We fully support the PSR's plan to improve measures of achievement as the most effective decisions and actions should be based on both qualitative and quantitative evidence. The establishment of a new Strategy and Analysis department will be a key in achieving this.

We particularly agree with the areas of discussion that have been highlighted as important by initial stakeholder feedback, namely on challenges around the acquisition by larger firms of smaller firms entering the market for payments services, and on reviewing the PSR's role in convening the industry to work on joint solutions for innovation. As we have suggested, the PSR could look at data from the CMA to address measuring the former issue.

We appreciate that consumers' needs are a priority, but all critical user groups should be considered (e.g. corporates, SMEs, merchants, charities and clubs, the government as a user). Balance across these groups should be demonstrated. We have already seen a costly mistake occur when the implementation of Strong Customer Authentication needed to be delayed in order to gather the requirements from a wider group of users, the merchants in particular.

We would welcome more clarity on how innovation can be measured and what will be considered a success. Importantly, the benefits of new systems and services will need to be considered from the point of view of all end-users, not just consumers.

Summary and Conclusion

Icon has welcomed the opportunity to provide inputs to the PSR's process for developing its 5-year strategy. The areas and challenges addressed by the PSR here are wide-ranging, and 5 years is a long period in the development of payment systems. There are many variables in how the payments industry could develop by 2026, and the PSR's priorities and decisions are vital in achieving fair outcomes for industry participants and ultimately the right outcomes for payments users.

When discussing competition, the principal outcome is to enable competition at the service level, offering meaningful choice for all end-users for any given payments scenario. Set against this, the requirements for competition between payment systems is more nuanced; the imperative is for payment systems infrastructure to be an enabler of meaningful service competition, while also being resilient, secure, and cost-efficient.

A critical area of competition that the PSR should address is between card-based payments and alternative payments (e.g. running over the Faster Payments real-time infrastructure) to consumers at the point of sale, both in store and online. Open banking and request-to-pay are two examples of initiatives that enable compelling new payment services running over the real-time payments infrastructure, and the right market conditions need to be in place for these to challenge card payments. The strategic value or constraints of underlying infrastructures, for example Faster Payments and proprietary card-scheme infrastructures, will be an important consideration.

Consumer protection is a second priority for the UK industry now and through this strategy period, where protections include fraud protection, payment-error-protection, and purchase protection. The industry needs to work towards a level playing field for these consumer protections across different payment types, and not require consumers to refer to and understand detailed terms and conditions each time they make a payments choice. Fraud protection continues to be a concern; the industry has led consumers along the path of adopting digital payment services, and as a consequence has revealed new types of fraud which can have life-changing impacts for victims.

The next five years will see ongoing growth in the proportion of payments that are digital, and an ongoing decline in the use of cash. This trend has been in place for many years and has been accelerated during the period of the pandemic. The regulator and industry should continue a strategy to drive innovation and take up in digital payments, which should include targeting education and adoption of digital payments by those sections of society who are still inclined to use cash. In parallel, protection of the interests of cash users, often lower income or vulnerable people, is vital during this strategic journey to widespread digital payments. One particular enabler of more widespread digital payments would be to encourage the industry to pursue a standardised digital identity approach, enabling simple and trusted digital identity services to be deployed at scale.

Finally, the PSR needs to ensure its strategy reflects fully the interests of the different user groups; of course consumers need to be front and centre, but other user groups are also critical. For example, high-volume payment recipients (such as retailers, utilities, subscription services providers, transport providers) have specific requirements, currently bear significant payment costs, and should be leading advocates for more choice and competition in payment services. Small and medium sized retailers for example are challenged by the level of fees for accepting card payments. Add to this the interests of charities, clubs and societies, all businesses, and government departments.

Icon would be pleased to engage in further discussions or industry initiatives with the regulator and other parties to take forward the strategic priorities and programmes that you identify from this consultation.

Innovate Finance

Payment Systems Regulator
12 Endeavour Square
London
E20 1JN

14 September 2021

Dear Sir / Madam

PSR proposed strategy - feedback from Innovate Finance

I am writing in response to the call for feedback within the PSR consultation paper on its proposed strategy, published June 2021.

As the UK industry body for FinTech and financial services innovation, Innovate Finance is grateful for the opportunity to provide comments to the PSR.

The FinTech sector has considerable interest in the PSR's direction of travel over the coming years. Payments is a hugely important area of FinTech innovation, with the potential to provide a raft of new and improved services for consumers and businesses.

A large number of Innovate Finance member firms, spanning seed stage startups to established high growth companies, are providing consumer payments services, innovating payments processing, and developing payments products based on Open Banking. According to data compiled for the *Kalifa Review of UK FinTech*, payments businesses make up 17% of UK FinTech companies.

I would like to take this opportunity to make a few overarching comments on the PSR's strategy and areas of focus.

Adjustments to payments regulation to boost the UK's competitiveness

The *Kalifa Review of UK FinTech*, published in February 2021, for which Innovate Finance served as the co-secretariat, highlighted a few issues within the current regulatory framework for payments.

An overarching comment from the *Kalifa Review* was that the move towards principles-based regulation in payments services (sitting with the prescriptive rules) has been welcome since it will enable the regulation to adapt to change. However, contributors to the *Kalifa Review* voiced concerns about existing rules. The Review said some rules, in particular relating to Strong Customer Authentication, acquiring, and capital and liquidity.

Contributors to the *Kalifa Review* said that these issues are impeding innovation and detering new entrants, resulting in a less competitive environment, to the detriment of consumers.

The *Kalifa Review* further stated that “the Bank of England’s Financial Policy Committee (FPC) shares our view that the current regulatory framework for payments will need adjustment in order to accommodate innovation in this sector. In the view of the FPC, this should reflect the financial stability risk of payments activities and whether they are part of one or more systemic payment chains.”

I would ask the PSR to bear these points in mind as it refines its strategy. We would be glad to facilitate further discussion on the issues raised in the *Kalifa Review.*

Open Banking and Open Finance

As highlighted in the consultation document, Open Banking has the potential to act as a catalyst for payments innovation and market competition. Innovate Finance continues to strongly support the roll out of Open Banking, and is closely following the development of Open Finance by the FCA. Innovate Finance sees Open Finance as a critical piece of infrastructure to help FinTech reach a new level of growth and to maintain the UK’s position as a leading centre for innovation in financial services. Open Finance will be an important tool to help meet societal needs, create value for citizens, and to raise the productivity and growth of our economy.

Innovate Finance will be glad to support the PSR and other regulators in its work to create an appropriate regulatory framework for open banking-initiated payments. We hope to see this work in concert with the innovation aims of other regulators, especially the FCA, and maintain the UK’s excellent reputation for having a proportionate and supportive regulatory regime for FinTech. We and our members share the PSR’s aims to build consumer trust and confidence in open banking-initiated payments.

Authorised Push Payment (APP) scams

I want to reiterate some points made by Innovate Finance members in relation to the PSR’s consultation of February 2021 on APP scams. This area is an ongoing concern for FinTech companies, given the upcoming passage of the Online Safety Bill.

The overarching concern is that some of the PSR’s proposals will inevitably impact smaller FinTech firms disproportionately, unless action is taken to spread responsibility for APP scams more broadly.

Social media is a significant source of APP scams, which as a rule impact the customers of FinTech companies more than other financial services providers, since FinTech customers are typically of a younger demographic. FinTech banks and electronic money institutions (EMIs) have developed sophisticated technology to identify the vast majority of attempted APP frauds and alert customers with full-screen warnings and transaction blocks. However, it has proved difficult to get customers to heed these warnings or interventions, and to stop their payment pathway.

It will be a challenge for smaller FinTech companies to manage the costs associated with the PSR's proposals for reimbursement. FinTech companies argue that tech platforms need to take significant steps to prevent the initial exposure to social media driven purchase scams. Unless and until there is sufficient incentivisation for global social media companies to remove content that leads to scam payments, many UK FinTech companies will be left to foot the bill for fraud.

The upcoming Online Safety Bill could address this. However, the scope of the measures on financial fraud within the Online Safety Bill are yet to be determined. As a result, our members would like to see the PSR exclude these purchase scams from the scope of their proposals. In the spirit of prevention being better than cure, a preferable solution would be to reduce consumer exposure to these scams in the first place, then consider what reimbursement model needs to be implemented.

A coalition of financial services providers, across FinTech and 'incumbent' providers and banks, industry bodies and consumer groups, including Which? and Money Saving Expert, is calling for the scope of the Online Safety Bill to be expanded to include fraud carried out via online advertising. The FCA, Bank of England, City of London Police, Work and Pensions Committee, and Treasury Committee have all commented that the Bill should include this provision. We would encourage the PSR to back these proposals, which aim to significantly reduce payment fraud.

We look forward to hearing the PSR's response to this request for feedback, and we welcome the opportunity to discuss these matters further.

Sincerely,

[redacted]

Janine Hirt
Chief Executive Officer
Innovate Finance
[redacted]

Keep Me Posted

KEEP ME POSTED
THE CONSUMER'S RIGHT TO CHOOSE

Keep Me Posted
185 Farringdon Road
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PSR Strategy
Payment Systems Regulator
12 Endeavour Square
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9th September 2021

Dear Sir/ Madam

Proposed PSR Strategy

Thank you for providing the opportunity to input and comment on the proposed PSR strategy. As outlined within your strategy unlocking UK payment systems provides opportunities to help solve problems facing society, supporting the UK economy and improving how we live our daily lives.

At Keep Me Posted, a partnership of over 125 leading charities, consumer organisations, trade unions and businesses, from across the UK we focus specifically at protecting the interests of vulnerable consumers in the UK. Our simple aim is to ensure service providers including utility companies, financial institutions, government bodies and local authorities offer consumers the choice of how they receive essential financial information without penalty.

Through our programmes we have successfully engaged with a number of service providers, who offer consumers the choice, without penalty, of receiving a paper version of a bill or statement. To date the campaign has awarded over 80 service providers with one of the campaign's Marks of Distinction. All of these services providers, which include some of the UK's leading banks, water companies, mail order companies and telecoms providers are offering their customers the choice of how they receive bills and statements.

Our campaign is not anti-digital. It is pro-consumer choice.

We therefore note with interest clause 5.27, within your consultation in regard to *"Understanding and taking account of the perspective of vulnerable customer groups towards new ways of paying and the choices available to them."*

We would suggest that in addition to ensuring vulnerable consumers understand the choice of payment methods and the different level of cover offered, they also need to have access to appropriate record keeping mechanisms – specifically paper bills and statements should they choose to receive information in this way.

Failure to ensure such safeguards by organisations could result in vulnerable individuals being aware of the various technical options available but remaining unsure as to whether a payment was processed successfully. We believe this is a simple but significant step in protecting vulnerable audiences.

While digital innovation has been welcomed by many people who want to incorporate the advantages of modern technology into their day-to-day life, there are still large numbers of UK consumers who are unable to or do not wish to manage their personal records online.

There are approximately four million people[1] in the UK who have never used the internet. This number is disproportionately made up of vulnerable groups, including the elderly, disabled and those living in poverty or in rural areas of the UK – 20% of disabled adults for example have never used the internet.

Moving payment records online is not always the way forward. Not everyone has access to the internet to view important financial information and even if they do, they would like the choice how they receive this information.

The recent pandemic shows there a large number of consumers who have been without up to date access to financial information relating to their bank accounts, utility accounts for several months. This could quite easily have resulted in severe consumer detriment. Something they may not be aware of until it is too late. Even if they had the internet, some groups may not have averted the situation.

The study *Managing Money Online – Working As Well As We Think?* (Feb, 2015) commissioned by Keep Me Posted and conducted by London Economics and YouGov, compared the behaviour of those who received paper statements and those who received electronic versions. It showed that people were more likely to understand, respond and make better financial decisions when receiving paper statements.

Of those who received paper correspondence, 82 per cent of respondents correctly recalled their bank balance from a paper statement compared with just 32 per cent of those who received electronic statements.

Further information on the campaign can be found on www.keepmeposted.org.uk

We are keen to work with you to ensure that such an approach is adopted as part of the PSR strategy and if there are any points that you would like to discuss here, please do not hesitate to contact me [redacted]

Yours sincerely

Judith Donovan CBE
Chair, Keep Me Posted

[1] ONS 2019

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LINK

PSR Strategy: Call for Evidence

LINK's response PSR Consultation paper - Our proposed PSR Strategy - June 2021 - CP21/7

10th September 2021
Contact: John Howells, CEO
e-mail: [redacted]
Mobile: [redacted]
Web: www.link.co.uk

Classification: Public and available on www.link.co.uk

Introduction

1. Link Scheme Holdings Ltd (LINK) manages the UK's main cash dispenser (ATM) network and is central to the operation of the UK's cash infrastructure.
2. LINK's network connects the vast majority of ATMs (both free and charging) in the country and allows customers of banks and building societies (card issuers) that are LINK Members to make cash withdrawals and balance enquiries with their payment card at almost all ATMs. All major card issuers and ATM operators currently choose to become Members of LINK. This helps to ensure that consumers in the UK have the choice of using cash should they wish to.
3. The LINK network is based on a highly resilient real-time high-volume infrastructure, currently supplied by Vocalink. LINK is the operator of the network and the systemic risk manager.
4. LINK is regulated by the Payment Systems Regulator (PSR) and by the Bank of England as a systemically important payment system. LINK is therefore especially interested in the PSR's strategy.
5. Cash is in long term decline in the UK. Since the Government announced in March 2020 its intention to legislate to protect access to cash, that trend has accelerated as a result of COVID-19. Until legislation is introduced, there are no requirements that give consumers the right to access cash (free or otherwise). LINK has therefore chosen to set itself the objective of ensuring that communities throughout the UK have satisfactory free access to cash while policymakers consider a longer-term strategy.
6. LINK works closely with the members of the Joint Authorities Cash Strategy (JACS) Group which is the Government's vehicle for developing a longer-term strategy. This includes the PSR.
7. LINK is also working with the industry Access to Cash Action Group (CAG) to develop industry-led solutions while legislation is pending.
8. Part of LINK's objective is to support the orderly transition of the UK from cash to digital payments. Hence, LINK is active in supporting digital transition and has a broad interest in the successful development of an inclusive digital payments approach while ensuring access to cash remains available for consumers who remain reliant on cash. Therefore, the PSR's approach to the development of digital payment systems is relevant to LINK's work.

Executive Summary

9. LINK welcomes the PSR's proposed Strategy and is generally in agreement with the contents. In particular, we think that the document sets out a much broader and strategic perspective of how to develop the UK's payments market than previous PSR Strategies. This is helpful and appropriate given the major changes that are underway as a result of how society is embracing technology (accelerated by the coronavirus crisis) and the vital role that a well-functioning payments sector has to the economy. LINK looks forward to assisting the PSR as it works on these important matters.

10. In our responses to the specific questions, we have highlighted a number of areas of potential development that we hope that the PSR will find useful.

11. LINK also notes that other areas of Government and regulators are developing areas of work that the PSR's Strategy is heavily dependent on. We recommend that strong engagement mechanisms and ways of coordination are put in place by the PSR to maintain alignment across all of this work. In particular, the Treasury's Payments Landscape Review, the Bank of England's work on Operational Resilience and the Treasury's work on Access to Cash have strong interdependencies with the PSR's Strategy. LINK's analysis of these other areas is not repeated here but our responses to the relevant consultations can be found at: https://www.link.co.uk/publications/link-consultation-responses/.

12. In addition, LINK does question the PSR's current thinking with respect to the tenders of FPS and BACS infrastructures. In broad terms, LINK sees the need for the much faster development of digital infrastructure in the UK than is currently underway. This is to enable the inclusive migration from cash to digital payments, much needed better management of digital fraud, and consumer-focused innovation in areas such as Central Bank Digital Currencies (CBDCs). LINK's response to the PSR's consultation on tenders and the New Payments Architecture can be found at: https://www.link.co.uk/media/1719/new-payments-architecture-link-response-final.pdf.

Questions related to Chapter 3: 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.*

   The PSR's analysis rightly highlights the rapid migration from cash to digital that is underway as a key trend. There is a need to maintain inclusive access and choice for all consumers across cash and digital payments systems to support this migration and the PSR helpfully prioritises both of these.

   There is also a valuable analysis on the benefits of encouraging competition *between* payment systems rather than the previous focus on competition at the level of infrastructure provision which LINK considers was incorrect.

   LINK thinks that the current pace of development of digital systems in the UK is too slow and it is possible that the opportunities and market forces will change the current mix of suppliers and schemes within the timeframe of the PSR's Strategy before existing providers are able to develop their own solutions. However, the PSR appears focused on a fairly narrow set of existing providers fixed in their current roles. It would be useful if sufficient flexibility is built in to be able to consider changes to this.

In addition, technology and consumer behaviour continue to evolve and develop at an accelerating pace and is not within the control of Government and regulators, for example digital currencies. It may be helpful to build a broader view of these developments and the ability to flex to changes driven by them into the approach.

Finally, LINK thinks that the growth of digital payment fraud is a serious concern that will specifically need addressing withing the timescale of the Strategy if the inclusive migration to digital is not to be undermined. We are glad to see that this is considered in the PSR's work and are keen to see it as a high priority.

Questions related to Chapter 4: 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.*

   The PSR's analysis rightly prioritises consumer protection, choice and inclusion and LINK agrees that these are vital for a healthy payments market.

   LINK is also in general agreement with the PSR's analysis that competition is a key driver to achieving good outcomes for consumers. Independence of the various payments systems in terms of governance from their participants is correctly confirmed as an important part of that. LINK itself has made great strides in putting in place such governance arrangements over the last ten years and this has led to a strengthened outcome for consumers and participants in areas such as financial inclusion and effective systemic risk management.

   However, there are some elements of the payment systems, such as central clearing and settlement, that do not lend themselves well to competition. In particular, the enormous costs of setting up the extensive networks involved, and the systemic risk of making changes, limits competition in this space. As set out in LINK's response to the PSR's approach to mandated tenders (referenced in the Executive Summary), LINK is not convinced that this is an area where competition is the best driver of change. A consumer-focused central regulation of a utility structure is probably more appropriate. LINK would like to see this issue more strongly identified for exploration in the PSR's Strategy. Similar intervention and structures may also be needed to sustain declining areas such as wholesale cash infrastructure and a stronger consideration of this would be helpful.

   LINK also considers that other enablers such as strengthening the approach to increase diversity and inclusion and to sustainability issues such as ESG, should be included in the PSR's Strategy.

Questions related to Chapter 5: 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.*

   The four outcomes (broadly access/choice, safe use, effective competition, and innovation) are clearly very sensible, and LINK agrees with them. Within these, LINK suggests a stronger focus on the themes of:

- Inclusive migration from cash to digital.
- Digital fraud control.
- Balanced consideration of the benefits of competition, with recognition of those parts of the system which are more “utility” in nature.

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.*

   LINK’s general view is that strategic interventions, such as encouraging transparency and good governance, increasing access and inclusion, and strengthening resilience are helpful and there are numerous examples of this in the PSR’s Strategy.

   There are also a number of quite detailed interventions which seem to have the PSR acting more as an operator than a regulator. Examples include the very direct oversight of specific initiatives in areas such as digital fraud (such as the code of conduct approach to authorised push payments fraud) and involvement in the detail of LINK’s Financial Inclusion Programme through Specific Direction 8 (on this last point, please refer to LINK’s separate response to the PSR’s review of Specific Direction 8, which can be found at: https://www.link.co.uk/publications/link-consultation-responses/).

   LINK believes that the strategic interventions should be prioritised over more tactical work and that operational interventions should be avoided.

   LINK also notes the watching brief in areas such as sustainability. LINK believes that wide adoption of digital payments on an inclusive basis is a key enabler of a more sustainable society. It therefore recommends an even stronger focus on this in the PSR’s Strategy.

Questions related to Chapter 6: 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.*

   LINK supports the general approach to measuring progress.

   There are a large number of proposed measures and there is merit in prioritising a subset that will remain relevant over the five-year period and give a clear focus on consumer and economic outcomes.

   For example, the access to cash measures include useful and strategic concepts such as the use of cash for payments by consumers. There is not, however, a measure of the changing national cash access footprint (LINK is happy to provide one if desired). There are some proposed measures such as the number of Protected ATMs and ATM uptime which seem very detailed and not appropriate for a national payments strategy. Other areas, such as governance effectiveness, seem focused on one scheme (Pay.UK) which may not reflect the structure of the market in five years’ time.

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?*

LINK has used consumer survey work to gain insights into issues such as consumer behaviour change, consumer confidence and unmet consumer needs. This has proved very useful to support decision making during the coronavirus crisis and more broadly. Use of such a survey over the lifetime of the PSR's Strategy and with a consistent set of relevant measures could provide a valuable single picture of progress. YouGov, for example, can provide such a service and has done so for LINK.

7. *Do you know any existing sources of data we can use to assist our metrics?*

LINK notes that a number of other markets across the globe have well developed payments regulators willing to share learning and data. Examples include Sweden's experience in relation to cash access protection, Canada's and Australia's approach to central infrastructure, and China's approach to digital currencies. The PSR may wish to consider establishing a proactive programme of liaison and information sharing to help ensure that its strategy is well-informed.

Lloyds

LLOYDS BANKING GROUP PLC

Response to PSR Consultation on its Proposed Strategy CP 21/7

Submission Date 10 September 2021

Introductory Comments

Lloyds Banking Group (LBG) is pleased to respond to the Payment Systems Regulator's consultation on its proposed five-year strategy. **As the payments industry and the wider technological landscape continue to evolve, so must the approach of the PSR as one of the sector's key regulators. We welcome the PSR's proposed outcomes-based approach, and the clarity it has provided regarding its strategic priorities, as well as the ways in which it plans to measure progress.**

We're pleased to see many positive developments in payments. These include innovations to support consumers during the pandemic, such as carer cards and the raised contactless limit. The confirmation of payee service gives consumers increased peace of mind that they are paying the recipient they intended to pay. Regarding cash, the collaborative industry commitment to preserve access to for those who need it provides reassurance about its long-term future, and the community access to cash pilots underway are trialling new ways of accessing cash.

Key trends

LBG agrees that the key trends identified by the PSR capture most of the important system-level changes the industry is likely to experience over the next five years, including increasing competition between payment systems, the potential for new payment systems to emerge and the need for interbank payment systems to continue to adapt and evolve their roles. However, we don't agree with how the decline in the UK's ATM network has been positioned, noting that access to cash remains very strong.

We agree that framing payments change in the context of wider change is appropriate, given that developments in payments generally arise from incremental developments in the technology landscape, as well as changing end-user behaviours and preferences. We also agree that identifying how the UK payments landscape differs from those in other jurisdictions can be helpful. The PSR rightly identifies that both payments and payments usage will continue to change and evolve, and that underlying payment systems and the regulatory framework in place must support, enable, and be able to react to, such change.

We've highlighted two further trends; the opportunities and risks presented by enhanced payments data plus the onset of digital currencies.

The PSR's proposed outcomes

We largely support the four proposed outcomes: that all users have access to payment services that meet their needs; users' interests are adequately protected; payment systems enable effective competition in the provision of payment services; and payment systems are efficient and commercially sustainable. However, we note that at times conflicts may occur, giving rise to considerations around trade-offs.

On access, we agree that consumers and businesses need access to payments that meet their needs. We also agree that at present most users, most of the time, have access to payments that meet their needs. **We note the PSR's intentions to support development of new services, protect access to cash and support and protect competition. We support these, whilst noting that any PSR direct interventions must only take place where there is an identified unmet need or detriment, and market solutions have not developed and are very unlikely to develop. Where interventions have occurred (such as with Open Banking), time is needed for services to embed and grow taking account of the requisite network effect.** With respect to cash, we're fully supportive of the need to preserve access, whilst noting that it is important all players in the ecosystem offering cash-like services are held to the same standard for maintaining access. We note the government's July consultation on protecting access to cash through legislation, as well as ongoing industry initiatives.

Turning to the protection of users' interests, **we strongly agree that there is a gap in relation to consumer protections in the Faster Payments Service,** noting the potential for account-to-account payments to grow significantly for buying and selling purposes is an increasingly likely prospect in the years ahead. Additionally, we recognise that a lack of enhanced protections might potentially inhibit growth. **Therefore, enhanced consumer protections, including in relation to APP fraud, which are underpinned by a sustainable commercial model must be developed at pace alongside the New Payments Architecture.**

Additionally, the PSR could consider the potential customer protection implications in the context of payments chains. There could increasingly be circumstances where the actions and remit of service providers give rise to customer risk without them owning the customer relationship. **Lastly, we believe the future strategy for protecting consumers when they make payments, whether this is from APP fraud or problems with goods and services purchased, must include all relevant sectors** such as social media platforms, online marketplaces, telecommunications and online search engines.

With respect to competition, we agree that payment systems must be designed and operated to enable effective competition in the provision of payment services. The model for the NPA of a thin central core that supports competitive overlay services should enable additional flexibility and innovation. We note the PSR's view that there is a significant risk that the UK payments market will move towards a future without sufficient rivalry. Whilst we understand the reasons driving the PSR's concerns, we think the risk is less significant than the PSR supposes, given the current changes afoot – with Open Banking and the development of the NPA, and the potential for new forms of digital money. Additionally, focusing specifically on the cards market gives rise to a narrower view than considering the payments market as a whole. **Lastly, as the PSR notes, effective competition must deliver end-user benefits. Turning this around, in our view the PSR must only consider intervening where it has identified unmet need or detriment, ahead of deciding upon any regulatory intervention, which must be very unlikely to be addressed by the market.**

Regarding efficient and commercially sustainable payment systems, we greatly welcome this proposed outcome. As the PSR notes, the cost of operating UK payments is borne ultimately by consumers and businesses, and therefore payment systems must be run efficiently. We believe Pay.UK must produce an agreed industry plan that sets out economic outcomes in order for the NPA build to proceed. In the context of the NPA, we expect an objective around lowering run costs for participants. Linked to this is the need for fairer cost allocations. Enhanced customer protections must be developed, backed by a sustainable commercial model. We also agree strongly that cost recovery arrangements must be fair and proportionate across the range of payments participants. We welcome the PSR's pledge to 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. Alongside this, Pay.UK must ensure open and transparent consultation with its stakeholders. Lastly, we appreciate the PSR's considerations in relation to the environmental sustainability of payment systems and its pledge to keeping its role under review, whilst wishing to see a more emphatic commitment.

Proposed measures of success

We're supportive of the PSR's usage of specific and targeted measures that effectively assess whether it is achieving its strategic priorities. We welcome the PSR's efforts to set out how it is likely to measure its progress, and we will engage with the PSR as specific initiatives and associated proposed measures unfold in the context of its wider data and monitoring strategy.

We're mindful that some of the proposed measures include the provision of data by payments participants and the scheme operator Pay.UK. **We ask that the PSR holds itself to high standards of internal governance when devising data requests in order to ensure, reflecting its statutory obligations, transparency, efficiency and proportionality. We also ask that the PSR keeps an open mind about what can be measured effectively, and how.** We've appreciated the opportunities provided by the PSR to review and comment on data requests, and we would welcome the continued opportunity to engage at an early stage. Lastly, we note that the matter of data confidentiality and additionally what is and isn't appropriate to publish externally, perhaps because it could give rise to unintended consequences, should be considered by the PSR in relation to every data request with the input of the relevant affected firms.

Response to Consultation Questions

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.**

1.1 LBG agrees that the key trends identified by the PSR capture most of the important system-level changes payments and UK payment systems are likely to experience over the next five years. We've identified two further trends, whilst noting that the PSR has alluded to both in the wider consultation.

1.2 We agree that framing payments change in the context of wider change is appropriate, given that developments in payments generally arise from combinations of incremental developments in the technology landscape more generally, as well as changing end-user behaviours and preferences. We also agree that identifying how the UK payments landscape differs from those in other jurisdictions can be helpful, as it serves as a reminder that potential interventions in UK payments may not produce the same results as they have elsewhere. In particular, we note that in most cases UK consumers are not charged a fee to make or receive payments, which gives rise to different market dynamics when compared with other jurisdictions. We also note current and historic high levels of debit card ownership in the UK. Looking internationally, India for example has a much less mature cards network which has arguably enabled it to move directly from cash-based payments to electronic payments, such as through India's Unified Payment Interface.

1.3 The PSR rightly identifies that both payments and payments usage will continue to change and evolve, and that underlying payment systems must support and enable such change. In LBG's view, it is vital that the New Payments Architecture (NPA) delivers a future-proofed infrastructure that enables ubiquitous instant payments, supports further competition and innovation and facilitates robust customer protections. The NPA must be underpinned by sustainable economic models and align to sustainability objectives.

1.4 We also agree with the PSR's view that there is:

(a) increasing competition between payment systems (we agree interoperability and other advances in technology could give rise to further competition);

(b) the potential for new payment systems to emerge (we concur that new forms of digital money are relevant here); and

(c) the need for interbank payment systems to continue to adapt and evolve their roles given an increased number of participants and services (we agree that customer protections and scheme governance are areas that must be addressed).

We are not in agreement with the way the following has been positioned:

(d) a decline in the UK's ATM network (although some free to use ATMs are being closed, over 98% of the reduction in free ATMs over last five years has taken place in well-served areas, which still have free ATMs within one mile. Note we support exploration of innovative alternatives to cash whilst maintaining access for those who need it).

1.5 Two further trends we want to highlight are 1) the opportunities and risks presented by enhanced payments data, which will be facilitated by compliance with the IS0 20022 standard, and 2) the onset of digital currencies.

1.6 With respect to data, the ISO 20022 standard is expected to enable purpose codes in the NPA, which will allow players in the payments chain to better identify types of payments. This information could be used, for example, to inform the extent of customer protection that is required depending on the nature of the good or service being purchased. It could also be used to identify risky transactions to help protect consumers. More generally, enabling richer payments data could present opportunities for customer-focused innovation, as well as monetisation. There will be risks to manage in terms of potential data loss and data privacy. The PSR could consider its strategic approach to the opportunities and risks presented by enhanced data, learning from the payment systems that are due to implement the ISO 20022 standard imminently.

1.7 Lastly, we note the PSR is mindful of the likelihood that new payment systems will be established in the UK, which could be designated to the PSR for regulation, and that the PSR is considering how its approach might need to change in the light of such developments. We would encourage the PSR to consider the regulation of new forms of digital money in this context, as well as what its role might be if the Bank of England decides to move forward with a Central Bank Digital Currency.

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.

2.1 LBG notes the PSR's proposed outcomes it wishes to focus on in the next five years:

(i) all users have access to payment services that meet their needs in terms of functions, quality, cost and other relevant factors;

(ii) users' interests are adequately protected when using payment services so that they use systems and services with confidence;

(iii) payment systems are designed and operated to enable effective competition in the provision of payment services; and

(iv) payment systems are efficient and commercially sustainable.

2.2 We agree in principle that these four outcomes should strike the right balance between promoting competition and innovation in ways that benefit payments end-users. However, we note that at times conflicts may occur, giving rise to considerations around trade-offs. We would welcome an open dialogue with the PSR in such instances, so industry and the PSR can have confidence in the decisions that are made.

Access

2.3 As a key participant in the UK's domestic payments, LBG is a strong proponent of the importance of payments to UK consumers, businesses and the wider economy. We agree that consumers and businesses need access to payments that meet their needs, as in the absence of this it is challenging to function effectively within wider society.

2.4 We agree with the PSR that at present most users, most of the time, have access to payments that meet their needs. We also agree that there is likely some room for improvement in the market, such as in relation to the provision of regular payment methods that offer greater flexibility to consumers with irregular incomes. However, we believe it is important to explore on a case-by-case basis the underlying reasons why a particular service or functionality has not yet developed in order to inform any proposed solutions or interventions. For example, the business case for a particular service might not be sufficiently strong to justify the required investment, whilst the users who could potentially benefit might already be being served via a reasonable, even if not wholly optimal, solution. We agree with the PSR that developments in technology could help to address some such challenges over time. The statutory principle the PSR is subject to that a burden or restriction which is imposed on a person, or on the carrying on of an activity, should be proportionate to the benefits, considered in general terms, which are expected to result from the imposition of that burden or restriction, is relevant here.

Protection of users' interests

2.5 We agree that, where costs are imposed in relation to payments (whether for participants or end-users), there must be transparency in relation to both the costs and the services being provided in a way that enables a comparison. We note the positive impact here of the Cross-Border Payments Regulation 2. We also agree that some consumers and businesses are not always able to choose their payment method. Additionally, the payments industry should seek to address the barriers for merchants to be able to offer a range of payment methods. Given all the options, merchants are then free to be informed by what their customers want in determining what they offer. We note that businesses constantly assess their customer needs, which help inform which payment methods to offer their customers over time. Lastly, it is also not clear whether the PSR considers the limited choice of payment methods in some circumstances to be a material issue – the consultation doesn't pass comment on this aspect. We would welcome clarification.

2.6 With respect to customer protections, we note the range of protections currently in place, including those prescribed in the Payment Services Regulations, s. 75 of the Consumer Credit Act 1974 for credit cards, the Direct Debit Guarantee and the voluntary chargeback protections for both credit and debit cards. Subscribers to the voluntary Contingent Reimbursement Model (CRM) Code, including LBG, provide protections in specific circumstances where consumers are victims of authorised push payment (APP) fraud and providers such as PayPal offer additional types of protection to their users.

2.7 We support the PSR's assertion that it is unlikely to be optimal and would be inappropriate for overly-comprehensive protections to cover all users in all circumstances, and that trade-offs need to be made. Enhanced payments data could help here, by aligning the extent of any protection with the risks posed by the goods and services being purchased, whilst noting that such an approach would give rise to its own risks that would need to be managed.

2.8 We strongly agree that there is a gap in relation to consumer protections in the Faster Payments Service, noting that the potential for account-to-account payments to grow significantly for buying and selling purposes is an increasingly likely prospect in the years ahead. Additionally, we recognise that a lack of additional protections might potentially inhibit growth of account-to-account payments if it results in decreased confidence amongst payers. Therefore, a robust framework and infrastructure for enhanced consumer protections must be developed at pace alongside the New Payments Architecture. Importantly, enhanced protections must be sustainably funded. LBG is working with other industry participants, via UK Finance, on how enhanced protections could work with the aim of ensuring a robust industry-wide solution to the issue.

2.9 Lastly, preventing APP fraud is a shared responsibility and should not fall solely on payments providers. Most scams start outside of banking and therefore the wider ecosystem needs to play its part. APP frauds are successful because of weaknesses in other sectors, i.e. purchase scams happen via online marketplaces, investment frauds start in social media channels or with an internet search engine, mule recruitment takes place via social media and impersonation scams usually begin with a spoof text or telephone call.

2.10 We believe the future strategy for protecting consumers when they make payments, whether this is from APP fraud or problems with goods and services purchased, must hinge upon a rethink of the Faster Payments Scheme in particular and include all relevant sectors such as social media platforms, online marketplaces, telecommunications and online search engines. We would like to see the PSR engage with regulators in other relevant sectors with the aim of ensuring that those entities that fall within their regulatory scope and which have played a part in facilitating the risks and resulting consumer detriment take their fair share of responsibility for them. We also note the current industry initiatives in train, including collaboration with the payment systems infrastructure provider Vocalink to track and trace fraudulent funds and help in their recovery.

Effective competition

2.11 LBG agrees that payment systems must be designed and operated to enable effective competition in the provision of payment services. As the PSR has noted, the model for the NPA of a thin central core that facilitates ISO 20022 messaging standards and supports competitive overlay services should enable additional flexibility and innovation.

2.12 The payments market has changed significantly over the last ten years, with the onset of Payment Institutions, Electronic Money Institutions and Payment Initiation Service Providers (PISPs). End-users now have access to a wider variety of providers and services, and increasingly there are more opportunities for entities to compete to provide specific elements of payments chains.

2.13 We recognise that the usage of debit cards has increased, with debit card usage overtaking cash usage in 2017. However, we note that this reflects the fact that debit cards offer an easy and convenient method of payment for many consumers and businesses. Users have benefited from innovations such as contactless and mobile payments, which have played a role in driving this increase. As noted, consumers also benefit from the chargeback protections provided by the debit card schemes, which are funded via scheme economic models.

2.14 We believe the payments market will continue to evolve, and we expect to see growth of account-to-account payments in time via Open Banking and the NPA, noting there is also interest from card schemes. However, as noted, account to account payments must provide an appropriate degree of consumer protection and such protections must be sustainably funded. Our strong preference is to pause the NPA programme whilst Pay.UK develops a plan for these and other aspects. If such a pause is not implemented, then we strongly recommend that, as a minimum, the PSR sets a formal gateway for Pay.UK to produce an agreed industry plan that sets out economic outcomes, including but not limited to infrastructure development and customer protections that are underpinned by sustainable commercial models.

2.15 Related to the above point, we agree there are considerations around the extent to which it is possible to achieve consensus to proceed with new developments at scheme level, and we support efforts to improve Pay.UK's governance and decision making whilst ensuring fairness and transparency.

2.16 Lastly, we agree, as a general principle, with the benefits of interoperability in terms of both competition / innovation and market resilience. We suggest that consideration is also be given to new forms of digital money in this context. Aligning to common technical and security standards across different types of money could foster competition. Creating an open environment that can be accessed easily should allow for greater uptake by service providers and drive a greater scale of development and competition. However, interoperability could give rise to further risks, particularly in relation to ease of exchange of money across payment types whilst managing fraud and financial crime threats.

Efficient and commercially sustainable payment systems

2.17 We greatly welcome this proposed outcome, which we believe hasn't been given explicit focus to date. As the PSR notes, the cost of operating UK payments is borne ultimately by consumers and businesses, and therefore payment systems must be run efficiently so they present value for money.

2.18 In the context of the NPA we expect to see an objective around lowering run costs for participants. Linked to this is a point about the need for fairer cost allocations – for example, the costs of FPS payments are currently borne entirely by the sending payment services provider, which could lead to market distortions in an Open Banking environment. We are broadly supportive of the pricing principles the PSR set out in its consultation earlier this year on delivery and regulation of the NPA. Lastly, enhanced customer protections must be developed, backed by a sustainable commercial model.

2.19 We also agree strongly that cost recovery arrangements must be fair and proportionate across the range of payments participants, whilst noting the complexities, and we welcome the PSR's focus on this. We also appreciate the acknowledgement that payment systems will change over time, and so some will reduce in importance, and ultimately cease operation. We expect that over time new lower-cost solutions will be developed that will meet the needs of the residual users of outgoing payment systems.

2.20 Lastly, we appreciate the PSR's considerations in relation to the environmental sustainability of payment systems and its pledge to keeping its role under review, whilst wishing to see a more emphatic and tangible commitment. At LBG we recognise that climate change is one of the biggest issues facing society. We've made a range of ambitious commitments[1], including reducing the carbon emissions we finance by more than 50% by 2030 and becoming a net zero business by 2050. We are keen for the operators of the UK's payment systems to take a comparable approach.

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.

3.1 We note the PSR's four strategic priorities intended to achieve the outcomes it wants to focus on over the next five years:

(i) ensure users have continued access to the payment services they rely upon, and support an effective choice of alternative payment options;

[1] Our sustainability commitments - Lloyds Banking Group plc

(ii) ensure users are sufficiently protected when using the UK's payment systems, now and in the future;

(iii) 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; and

(iv) ensure the renewal and future governance of the UK's interbank payment systems supports innovation and competition in payments.

3.2 We broadly agree with the PSR's strategic priorities, whilst noting the considerations around trade-offs we referenced in response to Q2. We've set out below areas where our views differ somewhat from those of the PSR.

Access

3.3 We note the PSR's intentions to support development of new services that meet user needs, protect access to cash and support and protect competition. We support these, whilst noting that any PSR direct interventions must only take place where unmet needs or customer detriment have been established. Where interventions have occurred (such as with Open Banking), time is needed for services to embed and grow, taking account of the requisite network effect. Additionally, we suggest there are lessons to be learned from the implementation of Confirmation of Payee.

3.4 We agree that the PSR should seek to understand the perspective of vulnerable customer groups towards new ways of paying and the choices available to them. We also support the PSR promoting a range of access options for payment systems, noting that we would welcome a wider range of entities offering indirect access.

3.5 With respect to cash, we're very supportive of the need to preserve access to both cash and access to banking for both personal customers and SMEs. We're committed to ensuring access to banking through our branch network (the largest in the UK) and our mobile branches, as well as our partnership with the Post Office. In relation to access to cash, we are currently running a programme to encourage more merchants to offer cashback. We're also fully involved in the Community Access to Cash pilots including trialling a shared banking hub and other cash services. We are also engaged in the industry Access to Cash Action Group (CAG, chaired by Natalie Ceeney), which is working at pace to agree a target operating model for access to cash, and sustainable solutions, including shared services, to deliver it.

3.6 The government launched a consultation in July this year on protecting access to cash through legislation. The consultation seeks views on establishing geographic requirements for the provision of cash withdrawal and deposit facilities, the designation of firms for meeting these requirements, and the nature and role of the regulator in overseeing cash service provision. It recognises that cash access is currently good.

3.7 At LBG, we're supportive of the sentiment and principles of the government's consultation. In particular, we're pleased to see the recognition that the cash system remains stable and cash provision remains strong, and the government's objective is to ensure that cash continues to be a viable payments option in future. We also welcome that the legislative proposals are based on the recognition that legislation should be flexible, cost-effective, efficient, sustainable and support competition and innovation. However, we believe it is important that all players offering payment services are held to the same standard, and are therefore in-scope of the legislation, not just the larger retail banks and building societies. We also consider that any numerical distance metric must be flexible over time as the landscape involves and therefore would be better set/amended by the regulator and not fixed in law. Lastly, we support the FCA being key regulator and advocate for it to appoint an independent and channel-neutral body to oversee and coordinate cash access provision. We welcome the PSR's ongoing commitment, in working with the FCA and the industry to progress the government's cash access objectives, particularly given its responsibilities for regulating LINK and other payment systems with an ATM network.

3.8 In terms of wholesale infrastructure, which must be sustainable in order to underpin continued cash access, we responded to the BoE's consultation last August. We're involved in the current project exploring a 10 cash centre utility, which is due to conclude in October.

3.9 *Sufficient protection*

3.10 As noted in response to Q2, we strongly support the PSR's planned focus on customer protections for account-to-account payments. We agree that the most effective approach is likely to be if the PSR creates the conditions where Pay.UK and its participants have the incentives and funding to develop the relevant protections, instead of the PSR deciding itself what the relevant protections should be and mandating their implementation. Pay.UK's governance arrangements must be sufficient to facilitate the PSR's preferred approach effectively. Therefore, we welcome the PSR's plan to consider how best to develop Pay.UK's governance of the interbank rules.

3.11 We'd like to add that the PSR could also consider the potential customer protection implications in the context of payments chains. There could increasingly be circumstances where the actions and remit of service providers give rise to customer risk without them owning the customer relationship. We note the FCA's proposed Consumer Duty is intended to apply beyond the specific circumstances where a consumer is a direct customer of the firm, which could be helpful in these circumstances.

3.12 Lastly, as noted in response to Q2, we believe the future strategy for protecting consumers when they make payments, whether this is from APP fraud or problems with goods and services purchased, must include all relevant sectors such as social media platforms, online marketplaces, telecommunications and online search engines.

Promote competition and protect users where competition is not sufficient

3.13 We note the PSR's view that there is a significant risk that the UK payments market will move towards a future without sufficient rivalry. Whilst we understand the reasons driving the PSR's concerns, we think the risk is less significant than the PSR supposes, given the current changes afoot – with Open Banking providing more opportunities and the development of the NPA, and the potential for new forms of digital money. Additionally, focusing specifically on the cards market gives rise to a narrower view than considering the payments market as a whole.

3.14 Whilst we support measures to enhance account-to-account payments, it is important to note that ensuring such payments have sufficient governance arrangements and appropriate customer protections will necessarily give rise to additional costs that aren't incurred when using the Faster Payments Service today. The true comparison isn't Faster Payments as it is today versus debit card payments today.

3.15 Additionally, we note the reasons the PSR suggests for why Open Banking and the PISP model are yet to achieve a large expansion of using interbank systems for retail purchase transactions. It suggests that some data or functionality required for these transactions might not be supported on interbank systems, and it also theorises that banks, who have no commercial interest in encouraging the growth of independent PISPs, lack the incentive to make the customer journey for these services attractive. We disagree with this assessment, and we believe there is a wider picture here. There has been considerable growth in first party payments via PISPs and also via some third parties. Merchants are more likely to adopt the PISP model when there is assurance of customer completion of journey, and customers are more likely to trust it when appropriate customer protections are in place, which is widely recognised as a material issue. Additionally, time is needed for services to embed and grow, taking account of the requisite network effect.

3.16 The PSR raises a further issue – the incentives on participants to support change, noting 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. It suggests that building consensus for system enhancements will be difficult and notes 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.

3.17 In our view, the PSR is oversimplifying here what is a complex issue. There are considerations around how investment costs are recovered, which the PSR recognises is an issue, as well as wider market dynamics that come into play. For example, the growth in mobile payments shows that banks don't control whether non-bank payments innovations succeed or fail. Additionally, banks must continuously adapt their business models and strategic priorities in the light of the ever-changing environment – any bank whose strategy rests on holding back change is highly unlikely to succeed in a competitive market, which is subject to wider technological change. That being said, we agree that building consensus at scheme level can be difficult, and we support Pay.UK having improved powers whilst ensuring that stakeholder views are given a full consideration.

3.18 Lastly, as the PSR notes, effective competition must deliver end-user benefits. Turning this around, in our view the PSR must only consider intervening where it has identified unmet need or detriment, ahead of deciding upon any regulatory intervention, which must be very unlikely to be addressed by the market.

3.19 We note the PSR's acknowledgment of the challenges of such interventions, in particular how it would go about regulating complex pricing arrangements, and how it would regulate in a way that still promotes innovation and high service quality. We also note the challenges we believe have been experienced by the PSR in identifying genuine detriment and designing effective remedies within the card acquiring market as we await the final report. The PSR must continue to engage with stakeholders and relevant experts at an early stage to ensure quality analysis of the underlying issues and design of effective interventions.

Renewal and future governance of the UK's interbank payment systems

3.20 We support the PSR's position that a well-governed payment system can maintain a sustainable business model, innovate and implement a competitive strategy by fostering understanding of user needs, proactively managing risk and ensuring appropriate levels of control and flexibility. We also agree that the NPA should give rise to new functionality and innovation and further enhance competition.

3.21 We strongly welcome the PSR's commitment to ensuring there is a sustainable funding model in place and that funds are allocated in a way that a way that fairly supports and promotes innovation and competition in overlay services. However, we caution that care must be taken in respect of funding decisions for overlay services to mitigate any perverse incentives or unintended consequences.

3.22 Our clear preference is still for Pay.UK to pause the NPA programme until it has carried out the activities we have outlined, including setting economic outcomes and objectives, and developed a plan for addressing the issues and risks we have identified. This process is vital to ensuring the NPA delivers the required outcomes. If the PSR was to implement a pause, then we could envisage the proposed 2026 deadline being extended by at least twelve months enabling full consideration of all the aspects we have suggested.

3.23 If such a pause is not implemented, then we strongly recommend that the PSR makes provision in its reporting requirements for a formal gateway process, requiring Pay.UK to report on progress in setting and delivering economic outcomes. This plan would include, but not be limited to, infrastructure development and customer protections underpinned by sustainable commercial models. The NPA should not progress out of the procurement stage until an agreed industry plan is in place.

3.24 Lastly, we also welcome the PSR's pledge to 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. Alongside this, Pay.UK must ensure open and transparent consultation with its stakeholders, including participants. Lastly, the PSR's acknowledgement of both the opportunities and challenges of interoperability is appreciated.

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.

4.1 LBG considers the PSR's strategic priorities are helpful in throwing light on the choices it will make and when it chooses to intervene, as these serve as a dynamic blueprint for the types of issues and concerns deemed by the PSR to be the most critical in terms of its remit. However, we have some further thoughts as follows.

4.2 Firstly, we recognise that the PSR's priorities will most likely change and evolve during the next five years. To some extent, this will be driven by external factors that are not fully within the PSR's control. With that in mind, we would appreciate the PSR's ongoing transparent dialogue with stakeholders and the rigour provided by the consultation process.

4.3 Next, we continue to appreciate efforts by the PSR and the other relevant financial services regulators such as the FCA and the PRA to allocate and set out responsibilities on topics that fall within the remit of more than one regulator. We would welcome further clarification of how the PSR will work with its fellow regulators in such circumstances to limit duplication and provide clarity to stakeholders.

4.4 Lastly, it is our view that payments are increasingly set in the context of the wider digital environment. Therefore, as we've seen with APP fraud, the challenges and issues that arise are increasingly likely to have a multi-sectoral dimension. We ask that the PSR gives thought to how it will make choices about the responsibilities and culpability of the entities it regulates in this more complex world. Further, it should also consider how it will engage with relevant government departments and regulators beyond those operating within financial services. Following on from this, we ask the PSR to consider how it will approach situations where the regulation in other sectors is less mature or sets a lower bar than within financial services. This is a situation that risks payments providers being required to bear a disproportionate burden, and other types of entities not being held responsible for the risks and detriment they have played a material role in creating.

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.

5.1 LBG is supportive of the PSR's usage of specific and targeted measures that effectively assess whether it is achieving its strategic priorities. We welcome the PSR's efforts to set out how it is likely to measure its progress, in the context of its wider data and monitoring strategy. We don't have detailed comments on the proposed measures, but we will engage with the PSR as specific initiatives and associated proposed measures unfold.

5.2 We're mindful that some of the proposed measures include the provision of data by payments participants and the scheme operator, Pay.UK. Whilst we take engagement with our regulators extremely seriously, we note the resource implications of detailed information requests; particularly those where the types of information requested changes over time, which inhibits the ability to build automated processes, or where extra information is requested without a clear rationale. We ask that the PSR holds itself to high standards of internal governance when devising such requests in order to ensure transparency, efficiency and proportionality.

5.3 We also ask that the PSR keeps an open mind about what can be measured effectively, and how. We've appreciated the opportunities provided by the PSR to review and comment on data requests, and in principle we welcome the continued opportunity to engage at an early stage before the PSR has committed significant resource itself.

5.4 Lastly, we note that the matter of data confidentiality and additionally what is and isn't appropriate to publish externally, perhaps because it could give rise to unintended consequences, should be considered by the PSR in relation to every data request with the input of the relevant affected firms.

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?

6.1 LBG believes that each initiative should be assessed individually to identify the most effective specific measures in the circumstances. Therefore, we don't at this stage have further suggestions for additional criteria, whilst reaffirming our commitment to engaging with the PSR to help shape these on a case-by-case basis.

7. DO YOU KNOW ANY EXISTING SOURCES OF DATA WE CAN USE TO ASSIST OUR METRICS?

7.1 LBG notes that UK Finance collates and publishes various types of payments data, and that Pay.UK also collates various metrics in relation to the payments schemes and participants' usage of them. As a principle, we support the PSR endeavouring to use existing data where possible and actively exploring what data is already collected and available ahead of issuing any draft data request.

7.2 Lastly, we note that the design of the NPA should facilitate the provision of various data sets that can be used to develop new services, and the PSR could consider tasking Pay.UK with an NPA data access initiative.

Mastercard

PROPOSED PSR STRATEGY RESPONSE

Mastercard response to PSR consultation '*Our proposed PSR Strategy*' CP21/7

SEPTEMBER 2021

1. Introduction

Mastercard believes that the PSR Strategy should provide a clear direction and way ahead, setting out well-defined objectives and priorities for the future. This will be of equal value both to stakeholders wanting to understand the regulator's approach to the market and to the PSR itself, enabling it to maintain focus over time, regardless of changes in personnel or short-term challenges which arise.

Of course, it is essential that the PSR Strategy aligns closely with its future Annual Plans and Reports. Whilst the PSR does not explain how they will co-exist, Mastercard expects the annual publications will reflect the outcomes and priorities contained in the Strategy, enabling stakeholders to assess progress on an ongoing basis. Without this connection, the Strategy risks becoming irrelevant or out of date, undermining confidence in the process.

Whilst Mastercard has no objection in principle to any of the PSR's proposed outcomes or priorities, we question whether they are the most appropriate means of delivering upon its statutory objectives and specifically promoting the interests of consumers. In particular, the PSR's binary view of payment systems being either card or interbank is no longer an accurate reflection of the payments landscape and will become increasingly less so over time.

In addition, the promotion of payment system competition for its own sake, risks overlooking what matters most to consumers, which is safe, secure and convenient payments, regardless of payment system. Throughout its proposed strategy the PSR identifies that card payments perform well on all measures. It should not, therefore, put this success at risk by advancing a theoretical approach to competition, which is removed from the real world in which payments are actually made and received.

2. Payments and payment systems in the UK

The PSR correctly acknowledges throughout the proposed strategy that the payments market is changing. In particular, it references the declining use of cash and cheques, the rise in ecommerce and the increasing use of debit cards and contactless. These changes are well understood and important for the PSR to consider as part of its strategy. However, they only represent part of the story and for the 5 year period which the strategy will cover, the PSR also needs to consider the likely significant impact of other more recent trends which the proposed strategy may not yet fully recognise.

The PSR understandably focuses on the designated payment systems which it oversees. It discusses the services which are provided over those payment systems and the potential for substitution between them. However, that approach to assessing the competitiveness of the market and how well it is delivering for end-users, is becoming out of date, because services will increasingly be provided over more than one payment system or a single payment system will provide more than one type of service. The end-user will be unconcerned and unaffected by which or how many payment rails a transaction takes place or whether in fact, multiple transactions have occurred – they will see only one payment made or received. The reality is likely to be significantly more complex but will make competition between payment systems increasingly hard to determine.

Set out below are four themes which Mastercard believes that the proposed strategy has either overlooked or not given sufficient regard, in terms of their likely impact over the next 5 years.

I. The rise of Open Banking

The proposed strategy makes surprisingly limited references to Open Banking and appears slightly dismissive of its impact on the payments market. Yet it represents by far the greatest regulatory intervention in (European) payments and the principal means for maximising competition. Both European and UK regulators have focussed on Open Banking as the most effective way to create an alternative retail payment mechanism and particularly a competitor to cards. The existence of FPS in the UK is providing a firm basis on which it can develop.

Mastercard believes that the PSR significantly understates the importance of Open Banking and the impact which it is likely to have over the next 5 years. We believe that it will become a core feature of payments and it is a key element of our global strategy, albeit different countries may develop in different ways and at different speeds. The sharply increasing values of many Open Banking businesses (e.g. Plaid $13.4 billion[1], Tink $2 billion[2]) is the clearest indication of the huge potential of the business model and the benefits which it will deliver.

Through the work of the OBIE, the UK is the clear leader in European Open Banking. In its most recent report[3] it describes 2020 as *"a transformational year for open banking"*, stating

> *"Today, over three million UK citizens and small businesses are active users of open banking-enabled products. The ecosystem is thriving: 301 firms are active in the market, with another 450 in the pipeline."*

It also refers to considerable growth in payment/PIS activity, which it expects will increase significantly as dispute resolution mechanisms become embedded.

For Mastercard (as for every other business operating in payments), it is imperative to have an Open Banking strategy, which considers what role we may play within the ecosystem. But past performance is no guarantee of future success and a long-held position in card payments gives no particular advantage when entering a new market in which barriers to entry are extremely low and competitors are numerous. Mastercard must compete hard to demonstrate the value that it can bring to other Open Banking participants and the competition which it faces in doing so is intense and unlimited, often from dynamic businesses specialised in this area.

So whilst Mastercard believes that Open Banking has huge potential, ultimately its success will be dictated by the extent to which the participants identify and serve end-user needs. Many players are likely to be successful by offering a variety of services at different levels in the Open Banking value chain, although inevitably some others will fail. Either way, it will be the market, rather than regulators, which will determine the extent to which it becomes an effective retail payment mechanism. Regulation has established the framework and the OBIE continues to play a critical role in implementation and optimisation.

Therefore, whilst Open Banking should be a critical component and consideration in the PSR's strategy, it must also recognise the limits to which it is appropriate for it to intervene and the risks of distorting a market in which so many participants have a key role. In truth, it must also recognise the limits of what it can realistically expect to achieve,

[1] Financial Times 7 April 2021
[2] Financial Times – 24 June 2021
[3] OBIE Annual Report 2020

bearing in mind that no Open Banking businesses will be confined to the UK any many will have global ambitions. Indeed, most current participants in the UK Open Banking market are also active in other European markets and so any view of the geographical scope of the market must be at least regional. A truly global market may perhaps be further away, as Open Banking market conditions in different parts of the world currently differ.

II. The emergence of Buy Now Pay Later (BNPL)

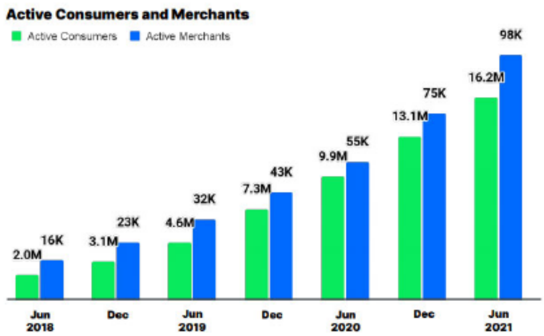
Although in some sectors e.g. furniture or electrical goods, a traditional/regulated form of BNPL has existed for many years, its unregulated extension by fintechs across all parts of the retail sector represents perhaps the most significant recent innovation in payments. This will have a considerable impact on the market and its participants, during the life of the PSR's strategy.

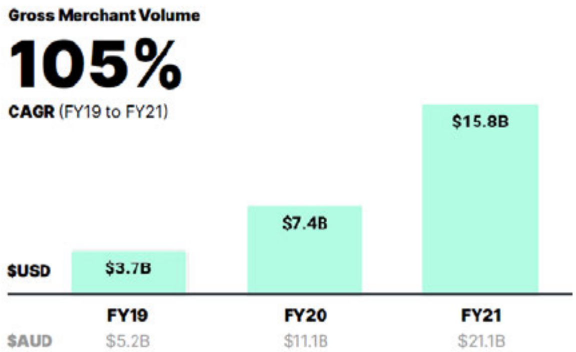
- From the consumers' perspective, it represents an entirely new way to pay, which is different from cash, cards, wallets such as PayPal or existing FPS/open banking models. It is particularly appealing to younger consumers who increasingly prefer BNPL over traditional payment methods of which they may be wary or simply regard as outdated and unsuited to their generation.
- From the merchants' perspective, it represents a new way to be paid, but more importantly a new way to acquire customers and drive increased spend. There are different models, but BNPL typically (and uniquely) acts as both a form of retailer marketing (for which they are willing to pay) as well as a payment method.
- From the existing payment system participants' (primarily banks) perspective it is significant competitive threat to traditional consumer lending models, but the model also signposts a potential opportunity of new ways in which they may either partner with BNPL providers or adopt elements of the model to serve their own customers.
- From the payment system operators' perspective, it is also a significant competitive threat because it disrupts their traditional role, both by potentially operating across payment systems and by providing services over the top, which effectively compete with services offered by the payment system operators themselves, thereby potentially disintermediating them.

All of these features are likely to be viewed positively by the PSR, as they deliver on all three of its statutory objectives. But there are two additional factors which it is particularly important for the PSR to bear in mind, when considering the significance of BNPL to its strategy:-

- BNPL providers have achieved this level of success and competition with existing payment system operators, without having had to establish a new payment system themselves. They have done so by disrupting their traditional role and their relationship with their participant customers and the balance between debit, credit and FPS transactions. As we outline, elsewhere in this response, BNPL effectively demonstrates why the PSR's focus on competition between payment systems (whilst not objectional in principle) may be misplaced and increasingly out of date.
- BNPL providers have achieved this level of success and market penetration at remarkable speed and far more quickly than could ever have been possible by the creation of a new payment system. The data below was released by Square and Afterpay when their acquisition/merger was announced. It very effectively demonstrates the growth which has occurred even in the short period of time since the PSR has begun

working on its strategy. Although the data is not specific to the UK, the UK is a key global market for BNPL (second only to Australia and the U.S.).





Source: Square and Afterpay

III. The potential of crypto currencies

The proposed strategy makes several brief references to crypto assets and their potential to be used for payments. We note also, the PSR has included 'Cryptocurrency and stablecoins' in its Annual Plan, for the first time and has committed itself to further work in this area in the expectation that they will become of increasing importance to payments. Mastercard fully agrees that this should form an important element of the PSR's strategy because of their potentially significant impact.

It is generally recognised that whilst unpegged 'currencies' such as Bitcoin have limited potential as a widely used payment mechanism, stablecoins are very likely to play role, depending on the nature of their issuance and backing. The greatest uncertainty is the timeframe in which this may happen, as the regulatory environment, technology and business models continue to evolve and encounter growing pains. Both the regulatory framework and the consumer appetite to adopt crypto currencies are likely to be very significant factors in determining its success, even aside from the technology challenges.

Whilst it may be unlikely that even stablecoins become a widely used payment mechanism within the next 5 years, there will certainly be very significant developments during that period which pave the way for what will follow. Perhaps most significant is the reasonable likelihood that a number of central banks will move towards the launch of a central bank digital currency (CBDC) and the UK may be amongst the first to do, in view of the significant work currently being undertaken by the Bank of England together with HMT.

We do not yet know what form any GBP CBDC will take and specifically whether it will be wholesale or retail and designed to be widely used for retail payments. If it is, one of the key issues will be its interoperability with existing payment mechanisms, such as cards and interbank payments. Assuming that a retail GBP CBDC is interoperable with existing payment methods, it appears almost certain to play a key role in the payments ecosystem moving forwards. The unprecedented level of regulatory focus and attention which it is receiving and the confidence and reassurance which that will provide to the public, seems likely to give a CBDC a potential head start compared with other payment mechanisms. The launch of 'digital cash' could be expected to generate widespread public awareness almost overnight.

At the same time, a stablecoin launched by a globally recognised brand and technology platform with potentially billions of users is also very likely to receive almost instant awareness and very likely, widespread adoption. Although the regulatory hurdles should not be underestimated, if they can be overcome, the potential impact of this type of stablecoin on the global payments ecosystem cannot be overstated.

Another alternative may come in the form of a bank-issued stablecoin, more aptly referred to as a digitalized or tokenized deposit. Depending on the technological underpinnings and applicability of existing banking regulations, such a new technological representation of existing commercial bank deposits could also pave the way for new payment differentiators and consumer protection needs.

For Mastercard, new digital forms of money, including those that rely on cryptography and distributed ledger technology, represent another area in which it is vital to establish a clear payments and regulatory strategy in order to enable a broad and diverse set of participants to compete in the market, which appears likely to include (and perhaps be dominated by) many new and specialised players. We need to balance the potential demands and significance of the role which they may play with the possible risks and regulatory concerns which they could present.

As with many other innovative forms of payments, crypto-assets have the potential to disrupt the distribution of cost and burden across participants in entirely new payment chain models that lack established franchise rules and standards as well as the corresponding consumer protections. While new technologies like blockchain and self-executing ("smart") contracts may hold some potential to automate such rules through computer code, their effectiveness in protecting the payments ecosystem and consumers ultimately will depend on the validity and enforceability of those rules. Mastercard continues to strongly believe that, while new and innovative technology holds promise to improve payments, the efficiencies and advantages of a strong franchise model remains invaluable to the payments ecosystem and should remain top of mind as the PSR evaluates the most appropriate and effective ways to ensure consumers are protected when using new digital forms of payment.

For all of these reasons, crypto and digital currency must be a key element of the PSR's strategy over the next five years, even before any new payment system operator may be designated for its oversight. The launch of a CBDC, stablecoin or other digitalized form of money in the UK could prompt rapid changes in the payments landscape and level of competition. The PSR should anticipate and plan for potential impacts-by supporting the clear classification and corresponding regulatory frameworks applicable to each new form of digital money, ensure that those regulatory frameworks prioritize interoperability, fair competition and consumer protection to harness the potential benefits of these new payment mechanisms without allowing the potential risks to undermine the strengths of the existing payment mechanisms.

IV. <u>The importance of payment rail convergence</u>

Throughout its proposed strategy, the PSR places great emphasis on a renewed focus on promoting competition between payment systems. We discuss later in this response what the role of the PSR should be in that respect and how it can best ensure that it is delivering for end-users. However, in this section we question the extent to which distinctions between payment systems is still a relevant consideration or whether the PSR's strategy risks being outdated before it is even finalised.

The PSR's proposed approach assumes that a single payment will take place across a single payment system, being both initiated and completed on the same system. It pitches 'card payments' against 'interbank payments' as if the consumer will in each case make a binary choice between the two and the end merchant must receive the payment on the same system as the consumer made it. The proposed strategy makes some brief references to the importance of interoperability and the extent to which that may enhance competition between payment systems if the same service is available across multiple systems.

However, in reality, the future of payments will not be one in which a payment is a <u>either</u> a 'card payment' <u>or</u> an 'interbank payment' (or a crypto/blockchain payment) throughout the life of that transaction. Payments initiated on cards may be received by merchants as interbank payments or crypto currency transaction might easily cross over a card, interbank and blockchain network. Whilst interoperability might play an important enabling role, it is not a necessity.

We already see evidence today as to how this might work and again BNPL provides a helpful illustration. Different models work in different ways and BNPL providers are able to determine how they use different payment systems to complete and optimise the transaction, thereby promoting competition between them. Although it appears seamless to consumers, in practice a BNPL transaction will typically involve two payments, one from the consumer to the BNPL provider and one from the BNPL provider to the merchant. Either, both or neither of those transactions could be card or interbank, depending on which model the BNPL provider has chosen to adopt, even though it feels to the consumer as if a single transaction has been made (which they probably do not even think of as being either card or interbank).

Mastercard's Track BPS product is designed to optimise B2B payments, which is a source of significant cost and inefficiency to many businesses. Although B2B payments may not be the focus on the PSR's interest, it is nevertheless a useful example of what is possible. Track BPS has many features, one of which allows both buyers and suppliers to decide independently how they want to pay and be paid. For example, a buyer could choose to make payment with a commercial credit card, but the supplier might still receive payment by interbank transfer. This demonstrates again that the concept of a payment being either card or interbank will become increasingly outdated.

Track BPS is part of Mastercard's global 'multi-rail strategy'. In simple terms, the vision is that Mastercard's customers (issuers, acquirers and many other types of participants) have a single connection to the Mastercard network which will thereby enable any type of payment to be sent to or received from any other participant. Mastercard's role will be to manage multiple payment types across its network, whilst its participants receive a seamless service, without having to think about whether the payment is card, interbank or something else.

Mastercard's multi-rail strategy does not require ownership of interbank infrastructure and so it can apply globally. Of course, many other organisations operate in this space and are likely to have similar visions for the future of payments. As with other examples highlighted above, Mastercard will have to compete hard against those with similar or different strengths and experience in order to succeed and to be given the chance to deliver for end-users.

The PSR should therefore reflect on how relevant its view of cards versus interbank payments is likely be over the next 5 years. As we explain, in the following section, a better approach might be to focus more explicitly on maximising the outcomes for end-users which is likely to have a much more beneficial impact.

3. The PSR's proposed Outcomes

Mastercard believes that the PSR's proposed outcomes are largely uncontroversial, but also somewhat lacking in ambition and vision. There is nothing to which one could reasonably object, but the proposed outcomes appear to set a fairly low bar, which has arguably already been achieved.

On any measure, the UK is a global leader in very many aspects of payments. Across both interbank and card payments the UK has a greater level of product and service availability, choice and usage than most other nations. For many forms of new payment technology, the UK is often a launch market or second only to the U.S. where many such innovations often occur. The UK is also the first choice location for many fintech businesses, attracted both by the size and strength of the traditional financial services market and the forward thinking regulatory environment. As a result, the UK has far more participants in the payments ecosystem than other markets, generating ever greater choice, diversity and competition in payment services.

With this in mind, Mastercard believes that the PSR's strategy should outline a bold vision for ensuring the end-users receive the very best levels of choice and value, available anywhere in the world.

Outcome 1: All users have access to payment services that meet their needs in terms of functions, quality, cost and other relevant factors

Access to suitable payment services is of course a basic pre-requisite for any well-functioning payments market. Whilst we recognise and do not diminish the challenges related to access to cash, Mastercard believes that UK users have better access to payment services than those in almost any other country.

Card payments effectively deliver across an incredibly wide range of use cases from prepaid cards for the financially excluded and vulnerable to commercial cards for global businesses and everything in between. There is a very wide and continuing growing group of participants bringing these services to end users, from smaller prepaid issuers targeting particular niches in the market, to acquirers and payment facilitators extending card acceptance to more and smaller businesses. We are pleased to note that the PSR does not identify any problems with access to card payments for whoever may require them.

At the same time, we also note the PSR's concern that some services such as Paym, Pay by Bank and Request to Pay have not been taken up as quickly as it might like (although in fact, Pay by Bank has made significant recent progress[4]). Notwithstanding Mastercard's own commercial interest in some of these services, we do not believe that there is a role for the PSR to intervene directly in the market to drive their adoption.

They will succeed or fail according to their ability to address an identifiable need and the ability of payment participants to promote them. We note that reasons that the PSR lists at para 4.11 why services may nonetheless not be adopted, but still do not believe (as the PSR perhaps implies) that its role to address those issues directly, rather than leaving it to the market to do so.

[4] Barclays, HSBC and NatWest are all now signed up to Pay by Bank, bringing over 21 million consumers into the ecosystem, which represents 45% of the consumer mobile banking base in the UK

Outcome 2: Users' interests are adequately protected when using payment services so that they can use systems and services with confidence

The PSR's proposal that users should be adequately protected is, of course, another pre-requisite of a well-functioning payments market. It is a slightly vague notion, but the PSR appears to focus both on the costs imposed on participants and ensuring that they are well-protected from fraud.

The PSR will recognise that those objectives can conflict, to some degree. We are again pleased to note that the PSR does not identify any concerns with the functioning of card payments or the protections which they provide. Chargeback is a key element of that protection, particularly because it enables s75 to operate smoothly, apportioning costs between issuers and acquirers/merchants. Card payments are also market leading in terms of the fraud detection and prevention measures which are implemented both by the schemes and the issuers.

Of course, all of these protections do come at a cost, which must be fairly apportioned between all participants in the ecosystem. Card payments are so well trusted precisely because of the previous and ongoing investments which have ensured that consumers in particular, can feel safe using them. Any unbalanced focus (let alone regulatory intervention) on cost risks undermining those protections and increasing consumer detriment as is seen in other forms of payment. Interbank payments are a slightly different stage of their evolution, but the challenge of finding the right balance between cost and consumer protection is the same in both cases.

Mastercard strongly agrees that there is more work to do to ensure that end users continue to receive a high level of protection in all forms of the payment, but the PSR must recognise the costs involved in achieving that objective.

Outcome 3: Payment systems are designed and operated to enable effective competition in the provision of payment services

The operation of effective competition in the provision of payment services is a necessary, but not sufficient, requirement for how payment systems should be operated. Mastercard believes that this outcome should be explicitly linked to the need to deliver good outcomes for end-users because competition in itself is not a useful objective and focussing on competition without ensuring that it is delivering for end-users, will not produce any positive benefits.

It is interesting to note how the Government views the correlation between competition and consumers, as it develops the objectives for the newly created Digital Markets Unit. In the current consultation[5] it states:-

> *"It is our view that the statutory duty of the Digital Markets Unit should be to promote competition (which includes promoting competitive outcomes) in digital markets for the benefit of consumers. Competitive markets drive better services, greater choice and lower prices for individuals and businesses. The Digital Markets Unit should not simply promote rivalry between firms for its own sake, but pursue competition for the benefit of consumers. This is in line with the tried and tested statutory duty of the CMA."*

Whilst this may appear obvious, it is not how the PSR's objectives are currently framed, which is that the competition and end-user objectives are separate. Mastercard is concerned than the PSR's new focus on promoting competition between payment systems may be at the expense of the consumers of the services provided.

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[5] A new pro-competition regime for digital markets – July 2021

As the PSR implicitly acknowledges throughout its proposed strategy, card payments currently deliver incredibly well for consumers, which is the single reason for their continued success and widespread adoption. They are safe, secure, efficient and convenient, allowing consumers to shop online or in-person anywhere in the world, whilst all the time having a high level of protection should any difficulties arise. Innovation is continuous and UK consumers typically have the widest and earliest access to new card payment services and technology.

Throughout its proposed strategy, the PSR does not appear to have identified any concerns or ways in which it believes cards are not delivering. Therefore, there seems to be a clear risk that by promoting or encouraging consumers to switch to alternative forms of payment 'for the sake of competition' may not in fact be in the interests of those consumers, particularly if there is a risk that the alternatives do not provide the same level of safety, security, convenience and protection.

Mastercard is aware that concerns are raised from time to time about the costs of card payments, particularly with respect to scheme fees and interchange. But those costs are an integral and unavoidable feature of a system which delivers so many benefits to all of its participants. Of course, it is necessary that the costs are fairly distributed across the ecosystem, which is what happens, even though they may appear differently to issuers, acquirers, consumers, merchants and schemes. It is notable also, that whilst larger merchants do sometimes express concerns about card acceptance costs, the same merchants are often amongst the first to sign up to BNPL, for which the costs are much higher. They do so because of the value provided and card payments should be viewed in the same way.

Ultimately, the PSR must always ensure that competition in any form, is only ever promoted because of the specific and tangible beneficial outcomes which it drives, rather than simply as a theoretical exercise in generating rivalry between firms, regardless of the real-world consequences.

<u>Outcome 4: Payment systems are efficient and commercially sustainable</u>

Whilst Mastercard has no objection to this outcome, it appears to be focussed solely on concerns related to how the NPA should be funded, on which we have no view. But it is therefore perhaps questionable that one of the PSR's four main outcomes for its 5 year strategy is so narrowly defined. However, if this is the case, we believe that the outcome should be explicitly limited to the NPA, rather than drafted more broadly in terms of 'payment systems' which is potentially misleading.

From Mastercard's perspective, we recognise and agree with the importance of operating payment systems efficiently, which is of course, a priority for Mastercard as a profit-generating commercial business. However, we do not believe that it is the role of the PSR to investigate or intervene in how efficiently Mastercard operates its business. Any intervention of that kind would be extremely difficult to justify in a competitive market and would only be warranted where the PSR had identified a clear and significant inefficiency, which was having a demonstrable adverse impact on the impact.

We also do not believe that there need be a role for the PSR in ensuring Mastercard's commercial sustainability. Where necessary, that role may fall to the Bank of England in supervising designated Financial Market Infrastructures.

For all of these reasons, we believe that this outcome should reframed or even removed, as it does not appear to reflect a need which exists in the wider payments market.

4. The PSR's proposed Priorities

Mastercard broadly accepts the PSR's proposed priorities, whilst noting that they are significantly more focussed on interbank rather than card payments. In particular, Priority 2 and Priority 4 appear to relate only to interbank payments.

The PSR's greater focus on interbank payments may be viewed as implying that it believes that card payments are currently delivering more effectively for consumers and therefore do not require its intervention in order to succeed. Indeed, the theme of the PSR's priorities is that certain aspects of interbank payments need to improve in order to compete more effectively with cards as a retail payment method.

Mastercard has no objection to competition from any other retail payment system or service, but clearly competition needs to be fair and take place on a level playing field. Mastercard is concerned that the PSR's objective of enabling interbank payments to compete more effectively with cards might easily (if inadvertently) spill over into favouring one payment type over another. Any regulatory intervention can only be justified on the basis that facilitates competition, by removing barriers to entry/expansion or other means. It cannot mean that the PSR takes any steps actively to promote one payment system or encourage users to prefer it over the alternatives.

Priority 1: Ensure users have continued access to the payment services they rely upon, and support an effective choice of alternative payment options

Priority 1 maps closely to Outcome 1 and Mastercard understands that the greatest current challenge relates to access to cash. The PSR will be aware of Mastercard's work to support cash, primarily through cashback (with or without purchase), as well as providing input and data to the Bristol University work. Although providing access to cash is not a core part of Mastercard's cards business, we recognise its importance and why the PSR (and FCA) must continue to prioritise it. Whilst Mastercard is principally involved in providing digital and electronic payments, we do not believe that anyone should be forced to use them unwillingly, simply as a result of not being able to access cash.

Mastercard notes that the PSR does not identify any issues with access to card payments. As mentioned earlier, card payments are equally accessible by the unbanked and financially excluded as well as small and global businesses. They provide billions of cardholders globally with the means to make payments at millions of merchants both online and in-store, in a safe, secure and convenient way.

Mastercard also takes it regulatory obligations very seriously and is pleased that (to the best of our knowledge) the PSR has never received any complaints from potential providers about not being able to access the Mastercard network and no issues have arisen as a result of our annual General Direction 3 access compliance reports. This should not be taken for granted. Mastercard has open access rules and works hard to onboard new customers as smoothly and efficiently as possible, with teams dedicated to providing one to one assistance to any potential new franchisees. Noting, that access has previously been a significant concern in relation to some interbank networks, the PSR should recognise the achievements of the card schemes in that respect.

Mastercard agrees that the most likely focus for any future payment system which might be regulated by the PSR is cryptocurrencies. As highlighted above, stablecoins and/or CBDCs have the capacity to have a significant competitive market impact and whilst the timings of any launch are uncertain, they have the potential for fast widespread adoption. It is unclear how their development will be viewed by the Government and regulators and how soon it may be appropriate for any cryptocurrency payment system to be designated by oversight by either the PSR or the Bank of England, in addition to the likely authorisation of services by the FCA.

However, Mastercard agrees strongly that in principle any new cryptocurrency payment system should be subject to the same form of regulation as any existing card or interbank payment system. The issues which the PSR will need to address are likely to be very different, which is why it is important that the PSR begins to understand the competitive and consumer impact some time in advance of possible designation. The PSR took time following it formation in 2015 to develop its knowledge of card and interbank payment systems, but with the pace of innovation and likely speed with which cryptocurrencies may develop, it may well not have that luxury.

Priority 2: Ensure users are sufficiently protected when using the UK's payment systems, now and in the future

The PSR's focus for Priority 2 appears to relate very largely to interbank payments, rather than cards and specifically to fraud detection and prevention. Mastercard notes the ongoing importance of the PSR's work in this area and agrees that it should continue to be a focus in the strategy.
Mastercard is pleased to note that the PSR does not identify any consumer protection issues or concerns with respect to card payments. By contrast, and as previously highlighted, the sophisticated fraud prevention tools implemented by card schemes and issuers, combined with zero liability rules, chargeback and section 75 means that cardholders are extremely well-protected and can make card payments with the utmost confidence. In turn, this supports the issuers, acquirers and merchants, all of whom benefit from the widespread usage of card payments.

Nevertheless, the PSR's proposed strategy is in part focused on trying to shift retail payments from cards to interbank schemes. Whilst Mastercard understands entirely the importance of promoting competition, it cannot be at the expense of consumer interests and particularly consumer fraud protection. As we highlighted in relation to Outcome 3, competition should only be used as a tool to promote positive consumer outcomes and not simply as a theoretical exercise, without regard to the real-world implications.

As the PSR acknowledges, there is a careful balance between reducing costs in a payment system, whilst maintaining sufficient levels of investment to ensure adequate consumer protection. At times, the PSR appears to be concerned that costs in card payments are too high (yet consumer protection is effective), whilst investment in interbank payments is too low (and consumer protection is insufficient). The PSR should consider the potential inconsistencies in these views and whether its proposed interventions risk harming consumers by encouraging the use of payment systems which provide lower levels of consumer protection.

In response to the PSR's Call for views on 'Consumer protection in interbank payments', Mastercard highlighted some of the difficult issues which need to be addressed. In particular, it is important to acknowledge that different payment methods meet different consumer needs and that different levels of consumer protection are appropriate for different payment types and individual transactions. Consumers will rightly choose the payment method which best suits their needs and the level of consumer protection may be an important consideration in that choice. In that respect the differences between paying for a holiday several months in advance, or a cup of coffee, highlight the choices being made.

There is always a balance between costs and consumer protection, as neither can ever be unlimited. Both consumers and payment systems themselves should be allowed the freedom to decide where the balance lies and differences can quite properly exist and (in an effectively competitive market) those differences should be seen as a positive outcome. Therefore, whilst it is the role of the PSR to ensure that payment systems are able to develop in a way which best suits consumer needs, it should be wary of adopting a 'one size fits all' approach and of course, avoiding promoting payment systems to unwary consumers, which may not provide the levels of consumer protection which they may have expected.

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

The PSR exists primarily to promote competition and so of course, competition in retail payments must be a central feature of its strategy for the next 5 years. Mastercard agrees that there should be no limit to how the PSR achieves this objective, whether it be competition between payment services, providers or systems.

As we have highlighted elsewhere, competition cannot be an end in itself and should be used specifically as a tool to promote the interests of end-users. It is notable that throughout its proposed strategy, the PSR identifies few (if any) ways in which card payments may be failing to deliver for end-users and therefore the PSR should be cautious about upsetting a market balance which is currently working so well. Indeed, the PSR is more likely to identify ways in which interbank payments may not be able to provide the same level of consumer convenience and protection and so any promotion of one payment system over another should be very carefully considered.

However, as was outlined at the start, the bigger question is how useful or real the distinction of 'card or interbank' payment system will be over the life of the PSR's proposed strategy. We have demonstrated that the payments market is transforming in ways which mean that this distinction becomes increasingly less relevant and certainly less visible to payment system users. As payments develop and the number of services and applications increase, the value provided to those users will become ever less about the system(s) over which they are delivered and ever more about the nature and benefit which the service or application provides.

This calls into question whether competition between payment systems is the most effective means of delivering for end-users. This is because the number of payment services will become increasingly disproportionate to the number of payment systems and increasingly disconnected from those payment systems. Systems will support a multitude of different services and services will operate across more than one system. So competition will focus on services and be increasingly system agnostic.

Competitive pressure will therefore be exerted on payment systems as a consequence of how services evolve, even if the number of payment systems does not significantly increase. This is happening already and is likely to be much more effective than any PSR intervention aimed at artificially promoting one payment system over another.

Priority 4: Ensure the renewal and future governance of the UK's interbank payment systems supports innovation and competition in payments

Mastercard has no view on the substance of this priority and what governance changes may be required to increase the efficiency and effectiveness of Pay.Uk.

However, we note that the PSR's view of how effectively Pay.Uk is able to deliver for payment users, is in contrast to its view of Mastercard and Visa. The PSR acknowledges that the structure and governance of the card schemes is very effective in generating investment, producing innovation, maintaining compliance, ensuring coordination and delivering high quality services. This has been achieved without any form of regulatory assistance, whilst this PSR priority appears to be focused on intervening in order to enable Pay.Uk to replicate those successes.

Mastercard has no objection in principle to that approach, assuming that it does not result in the favouring of one payment system over another. Is it notable that one of the PSR's four priorities over the next 5 years is to assist interbank schemes to perform as efficiently as card schemes currently do. That strongly suggests that the PSR should also bear in mind the appropriateness of any form of regulation of those card schemes, which already deliver outcomes that it is looking to replicate.

5. Measuring strategic priority achievement

Mastercard agrees that objective measures to assess the extent to which the PSR is achieving its strategic priorities must be an essential element of its strategy. We note that proposed measures for Priority 2 and Priority 4 relate solely to interbank payments and so we will comment only on the measures proposed for Priority 1 and Priority 3.
Mastercard has no objection to any of the measures proposed for Priority 1, but believes that the primary focus should be on understanding consumer payment needs and how well consumers feel that different payment methods are currently serving those needs. In addition to investigating "*how people choose to transact and make payments in the UK*" it is critical to understand satisfaction levels across a range of measures e.g. security/trust, convenience, cost, dispute resolution etc. As outlined throughout this response, whilst Mastercard understands the PSR's focus is promoting competition between payment systems, what matters most is how well the payments ecosystem is delivering for consumers. That should be the principal driver of any type of PSR intervention, rather than a potentially theoretical perspective on levels of competition. Such an approach requires regular qualitative and quantitative consumer research, the detail of which the PSR should consult on in advance and the full results of which should subsequently be published.

The PSR's proposed measures for Priority 3 are somewhat vague and Mastercard believes would benefit from a greater level of industry engagement. In particular, any changes in market share will need to be carefully considered in order to understand exactly what market is being measured because the distinction between card and interbank is too limited to be of any real use and will become increasingly less relevant over time. The distinction between the volume and value of transactions is also important to consider. Price indicators may be similarly difficult to measure, although the PSR has already done significant work in this area, as part of its card-acquiring market review. Although the BRC's self-selecting survey estimate of card acceptance costs is unable to provide any reliable data, the acquirers will be best placed to provide the PSR with the detail of acceptance costs and how they may vary between merchants of different size and type. In any case, Mastercard looks forward to engaging with the PSR in order to assist on these and other measures of competition.

All queries in relation to this response should be to [redacted]

Modulr

Modulr Response to PSR CP21/7 - Consultation on proposed PSR 5 – year strategy

[redacted]

Introduction to Modulr

In order to provide context for our answers, we felt it would be useful to provide a brief introduction to Modulr as follows:

Modulr is the payments and banking-as-a-service API platform for digital businesses. We're not a bank but we provide payments and accounts infrastructure as an alternative to traditional banking infrastructure. We integrate into any product or system, and our direct access to major UK payment schemes and the Bank of England gives businesses a faster, easier and more reliable way to move money. Businesses can automate payment flows, embed payments into their platforms and build entirely new payment products and services themselves. All managed in real-time, 24/7 from one API.

We are a five-year old Electronic Money Institution regulated in the UK and Ireland with c. 250 employees in London, Edinburgh, Dublin and Amsterdam. Modulr joined FPS and BACS as a direct participant in 2019, and are one of the few non-bank FIs direct settling at the Bank of England,[redacted] We are active on all PayUK committees, pride ourselves on being an innovator and are an active TPP participant in Open Banking, plus we were part of the first ever RtP transaction testing during the pay.uk pilot phase in late 2019.

Beyond the UK payment rails we process SEPA Credit Transfers [redacted]. We also offer virtual and physical card functionality and will be launching SWIFT payments and additional currencies later this year.

As an innovation-led smaller non-bank FI and a direct participant in FPS and BACS we have a fairly unique view and trust this will be of value to the PSR. We are very happy to discuss this further with you if desired.

Priority 1: Ensure users have continued access to the payment services they rely upon and support effective choice of alternative payment options

We would agree with some of the observations made by the PSR that insufficient progress is made with regards to new payment services, as only certain participants see value in change and hence allocate the resources required. This is an issue as for most new payment systems to succeed they need a good degree of traction/market reach to reach critical mass. Focus can too often be on the technical solution, rather than participant involvement or end user adoption.

Whilst supporting PSR action to ensure support for and participation in *new* services, we would caution against mandated action with regards to what Modulr and similar non-bank FIs would consider legacy payment services. These are usually not relevant to our business models and target end users, are cost prohibitive for new participants to provide and anyhow make no sense as volumes are declining rapidly (vide the obvious UK examples of cheques and cash).

It should also be noted that services like cash deposit rely on a physical footprint and therefore new online-centric participants are at an inherent disadvantage if mandated to provide such services.

Priority 2 - Ensure users are sufficiently protected when using the UK's payment systems, now and in the future

We agree with the PSR that there is a lack of end user understanding of the protections available and the extent to which these cover different types of harm. With bank-to-bank payments the protections can often be complex & nuanced, high value and cover a long period of time.

There is also an industry lack of consensus on whether the costs for additional protections (particularly in no-blame scenarios) should eventually be met by some form of common sharing of costs, direct or hidden in pricing for all end users, and whether this leads to unintended consequences - as evidenced by the recent inconclusive discussions on funding for FPS fraud.

The available protections comparison often made between Open Banking / Faster Payments and cards does not usually take into account the costs borne by merchants, along with the additional restrictions and acceptance criteria for a business taking card payments. Replicating these within Open Banking / Faster Payments might result in an erosion of the benefits envisaged in a ubiquitous and low-cost alternative to card payments.

We would however support further regulator and industry investigation into this area, as an appropriate form of protection (conceptually equivalent to the card chargeback right / DD indemnity guarantee) would provide a kick start to non-cards payment usage.

Priority 3 - Promote competition in markets and protect users where that competition is not sufficient, including between payment systems within the UK and in the markets supported by them

Modulr has a rather unique take on competition stemming from our Faster Payments & BACS direct participation and associated accounts at the Bank of England (BoE). We believe that the current arrangements put non-bank FIs at a disadvantage in terms of funding settlement and flexibility of client funds safeguarding.

Firstly in FPS ,non-bank FIs have to hold funds to cover settlement plus the same again as collateral. This “double dip” is typically funded by client funds and as we are under our EMI regulation required to safeguard 100% of client funds (rather than be allowed to lend out as a bank can), this puts us at a significant disadvantage vs those same larger banks. The NPA single settlement model (avoiding the need for separate settlement and collateral accounts) will resolve this, but only on the NPA launch timescale of 2024+ and action is needed sooner than this in order to drive competition and innovation.

The Bank of England has also recently looked to enforce limits on overnight deposits held by non-bank FIs, asking that funds instead be held with commercial banks. This is problematic as it weakens our safeguarding commitment to end users & the FCA and forces us to maintain and extend commercial bank relationships as our balances grow. Non-bank FIs have always found it difficult to secure and maintain these relationships, as bank compliance teams are always looking to derisk from what is perceived as a problematic sector – indeed a few years ago there was regulatory intervention to try to ensure banks did not refuse service & quash non-bank FI competition.

We would recommend the PSR works closely with the BOE on this, perhaps looking to accelerate their work on innovation & access to reserve accounts which kicked off in early 2020 but seems to have stalled since (https://www.bankofengland.co.uk/research/future-finance/the-banks-work-on-innovation-in-payments).

Priority 4 - Ensure the renewal and future governance of the UK’s interbank payment systems supports innovation and competition in payments

Modulr has been working closely with PayUk on the various NPA working groups & committees and we remain concerned that funding strategy for the build may be distorted. To date only existing participants have been paying for innovation, from which new players and competitors will benefit in the future. We would ask the PSR to consider whether PayUK should consider longer-term funding, perhaps borrowing over an extended period so that costs are spread.

Nationwide

PSR 'Our Proposed Strategy' (CP21/7) - Nationwide Building Society Response

Thank you for the opportunity to contribute to the PSR's Proposed Strategy. The Strategy will influence the payments industry over the next few years and shape the PSR's own development. We look forward to working with the PSR and industry over this time.

We would be happy to engage further to discuss any of our views below.

About Nationwide

Nationwide Building Society is owned by, and run, on behalf of, our 16 million members, some of whom do not bank with us, making the optimal balance of cost, service and protection underpinning payments important in delivering our ambition to sustain outstanding service and look after members and their money.

Nationwide offers a choice of payment services to our retail consumer members and is investing to ensure our payment systems remain fit for the future. Nationwide does not provide a business banking service or have a card acquiring arm. Our response is therefore one of a consumer-focused mutual payment service provider (PSP).

Like the PSR, we believe payments are essential to our members. We have actively supported the work of Pay.UK in the development of the New Payments Architecture (NPA) and Pay.UK, the PSR and UK Finance in Authorised Push Payment (APP) scams and consumer protections.

In our response, we highlight:

- Our support for clear regulatory alignment to enable co-ordinated and appropriately lead regulatory work.
- Our welcome for access to payment systems improvements to date and the PSR's new focus on competition between payment systems.
- That the NPA creates opportunity to develop an interbank payment system for purchases, with consumer protections, governance, technology and the necessary commercial model etc. 'designed in' from the start.
- Development of such a service will incur cost for our members and there is a need for greater information on consumer benefits and demand and payee demand - post a fuller understanding of any consumer protection model – to help shape the Strategy, solution design, business case etc.
- That as payment systems operator (PSO), Pay.UK should have a greater role in forming consumer protections and requiring compliance.
- That Pay.UK will need the resources, capability and capacity to deliver the PSR's objectives. Including, potentially through working with bodies who have relevant expertise (e.g. consumer protections).
- That Pay.UK funding should cover the efficient provision of functionality necessary to encourage innovation and competition. Engagement is needed on funding for new activities such as M&A etc. if envisaged.
- The importance of considering PSPs as customers of payment systems – to ensure efficient design of core capabilities which PSPs need for onward development for end users.
- The need to consider commercial sustainability of payment systems for PSPs, in addition to payment system operators. Commercial models should be fair and open to all.
- The opportunity to consider the nature of competition and how payment services with declining usage can be innovatively and efficiently provided, regulated and engaged on as well as new developments funded.
- The importance of a multi-channel view of cash access and identifying a sustainable infrastructure model.
- The need to also consider payments as an ecosystem and the role of participants, such as merchants, regulators and legislators, to ensure good customer outcomes.
- The value of considering other industry developments such as Central Bank Digital Currency (CBDC), Digital ID etc. in delivering the PSR's outcomes and priorities. A 'digital pound' for example, would not only have the disruptive potential to modify credit models if it draws deposits from commercial banks and building societies, but could compete as a payment system in its own right, especially in digital spheres.
- That regulation must ensure consistent application of technical solutions to disrupt scammers across firms. Focus should be on scam prevention and within that on the role the receiving PSP can play. Data sharing will allow more informed decisions to be made by both the sender and the receiver PSP to release or stop a payment - reflecting the importance of not only focusing on sending PSP controls and liability protections, but also on prevention and receiving PSPs.

1) Our Overall Feedback

a) Opportunity offered by the NPA to build an interbank payment service for retail transactions

- The UK's payments industry is competitive and Open Banking and other digital initiatives are likely to increase payment options. Some interbank retail payment options exist today with consumer protections for trade disputes, such as PayPal, or without, such as the widely used iDEAL service in the Netherlands. The range of consumer protection options for different use cases, the role of different payments ecosystem participants (e.g. PISPs, merchants, regulators) and opportunities for payment agnostic solutions, capable of enactment outside the NPA, such as smoothing access to remedies of the Consumer Rights Act or insurance for use cases are all relevant to the PSR's consideration here.
- The PSR and industry has worked to deliver improvements in access to payment systems for new participants. We welcome the improvements to date and the PSR's new focus on competition between payment systems. Focusing on the role of infrastructure providers to provide their direct customers – PSPs – core functionality will allow efficient services, competition and innovation for the end user.
- The NPA, from its inception has been designed to foster greater competition in the UK's payments market through the utilisation of APIs enabling overlay services to operate on the core payment rail. It is designed to carry more data and enable access to payment systems. It should make possible the development of an interbank payment mechanism to be used in purchases.
- The development of such a payment service presents an opportunity to 'get the basics right' from the start and to deliver a consumer protection framework and supporting governance, technology, liability and economic model for inter-bank payment point of sale transactions prior to the service going live.
- By ensuring the building blocks are in place, such a model could encourage use of interbank payments for the purchase of goods and services for payers, suppliers and PSPs. Parties would be aware of the protections, commercial and governance model from the offset and by being economically sustainable a model would not act as a barrier to entry or a threat to free in credit banking.
- As the PSR itself describes though, promoting interbank payments for use in debit purchases presents complex issues to address:
  (1) Existing consumer protections for trade disputes have been created over a number of years and continue to evolve. We have fed into the PSR's consultation on Consumer Protections for trade disputes and await the response but to briefly reiterate some of our key points:
    (a) As a retail focused mutual, without a business banking arm, we wish to see good purchase outcomes for our members but would regard the creation of a consumer protection model for trade disputes which places a requirement for immediate refunds on a payer organisation – without strong economic or governance models - as unviable for our members and potentially a threat to free in credit banking.
    (b) Therefore, if the PSR is minded to develop an inter-PSP trade disputes consumer protection model we would urge consideration of a model under which the Payer PSP does not incur a credit risk. Potentially, through requiring merchants to refund as part of their obligations to accept Faster Payments for goods and services or for Payer PSPs to facilitate customer requests for refunds with a refund being contingent on one from the payee or Payee PSP.
    (c) Any model should reflect the liability position set out in the Consumer Rights Act. It provides a clear position that merchants are liable if there are issues with goods / services supplied. Responsibility for making the refund could sit with the Payee's PSP or Payment Initiation Service Provider (PISP) and be catered for in the commercial relationship between them and the payee. If after consultation, the PSR is minded to create a consumer protection model placing direct responsibility on PSPs to refund, it would be for the party with whom sellers have a commercial contractual relationship e.g. their PSP/PISP to be responsible for refunding.
  (2) Developing interbank payment systems for use in retail transactions will add cost and complexity for PSPs and therefore be costly for our members. Any service must be built on an understanding of benefits and consumer – rather than regulatory - demand for an interbank payment service for goods and services and payee demand - post a fuller understanding of any consumer protection model – to inform the business case, service design and any protections.
- We would wish that any service developed, is robust for end users and that any unintended consequences, such as the risk of a poor cost/benefit, or market differentials around access or wider negative impacts on the overall retail banking construct for new or existing PSPs are considered.

- Whether stimulated by regulatory intervention or independently by the UK's payments industry, there is a need for the development of interbank payments to attract consumer demand as well as yielding benefits for others in the payments community.

b) Authorised Push Payment (APP) scams

- There is an opportunity to consider what can be achieved for APP scams both before and after the introduction of the NPA. The combination of data rich overlays which have already been proven by Confirmation of Payee, together with a more data driven underlying clearing and settlement capability in the NPA, present a real opportunity here. Workable API based overlays show that we can make progress ahead of the NPA. Data sharing and common agreements on how to use that data will help address scams and the NPA will boost these data capabilities.
- The APP scams detriment is a focal point for collaboration at the ecosystem level and where the PSR can play a vital supporting role. Examples include the potential legislative and regulatory changes needed to enable data sharing, cross party responsibilities for decisioning on when to release, apply or reject payments between sending and receiving PSPs and reduction of risk exposures from social media and telecoms sectors etc. For more insight into Nationwide's thinking here please see our response to the PSR's recent consultation on APP scams.
- Pay.UK also has an important contribution in collaboration between payer and payee PSPs but has far from sole responsibility. Examples where it can help include the creation and application of standards for Digital ID and data sharing in payments. Pay.UK's rules and governance will be important, but participants working with solution providers, such as Digital ID enablers to a common set of standards within a trusted framework could extend protection across many payment types.
- We would highlight regulation must ensure consistent application of technical solutions to disrupt scammers across firms. The focus should be on scam prevention and within that on the role the receiving PSP can play, and how data sharing can enable more informed decisions to be made by both the sender and the receiver to release or stop payments to high risk receiving accounts. See also our comments in section 2.6.4 below.
- As the PSR is aware, there are players throughout wider ecosystem that can contribute to the defence against APP scams including government using legislation as well as big tech companies, social media, Telco's and more. The payments industry needs this support but isn't waiting for it and the potential Payments Standards Engagement Forum proposed by recent work on a strategy for payments standards offers a great opportunity to take a data sharing initiative forward.

c) What is competition?

- In seeking more competition, this Strategy offers an opportunity to consider the nature of true or 'fair' [1] competition over the next five years.
- While innovating for their customers, some players in the UK face a higher degree of regulation and scrutiny of their actions and expectation to fund new industry developments or declining payment types than new participants – some of whom have grown quickly. Areas of difference in offering include access to cash or a branch network.
- We share this heritage challenge with many larger banking groups but there are particular implications for building societies which operate differently – for example we derive no revenue from business or corporate banking and face a heightened credit challenge if a CBDC diverted retail deposits.
- Nationwide is committed to the provision of these services but believe the PSR's Strategy is an opportunity to consider afresh how new and decreasingly used payment services can be innovatively and efficiently provided and new developments funded.
- The Strategy does not explicitly discuss how payment systems are to be made commercially sustainable for participants in addition to the payment systems or payment service operator themselves. We believe consideration of new funding models, options to look at greater efficiency in provision of services and new commercial models - all form part of UK payments strategy over the next 5 years.
- This Strategy should drive towards regulatory enabled competition rather than regulated innovation. Delivery of directed policy is very expensive. We are supportive of competition enabling infrastructure, ISO 20022 and regard Confirmation of Payee as an initiative of which we have always been supportive,

[1] PSR Consultation Paper 'Our Proposed Strategy' para 1.6

but there is a customer service and competition opportunity cost to implementing initiatives which needs to be built into regulatory evaluation.

d) Need to consider payment systems with declining use

- We are supportive of the PSR preparing to regulate new payment systems designated to it.
- We would also encourage thinking about what it means to regulate a payment system with declining use. For example, as cheque usage reduces (with a 32% decrease reported over the last year by Pay.UK) and use cases become more niche, unit costs increase. There is an argument that over time a more efficient way needs to be identified to provide this service to customers. For example, via bilateral arrangements between a number of participants rather than a centralised system.
- The PSR has built into its strategic thinking that payment systems could cease. Although we do not anticipate a payment system ceasing in the next five years, from a regulatory perspective the PSR, by being prepared for the steps to be taken in the discontinuation of one, can ensure that their approach is robust, proportionate and coordinated with other regulators as appropriate. The PSR could begin by establishing principles for a 'winding up' process to be enacted once thresholds are met. The PSR could monitor and evaluate thresholds, supporting industry's management with end users' interests in mind.

e) Access to Cash

- We are supportive of a diverse cash ecosystem that is not overly reliant on ATMs and one that is cognisant of other channels through which cash can be accessed by consumers and which may be better suited to their circumstances. We would encourage use of insight to help create a sustainable, dynamic and responsive ecosystem that is fit-for-purpose.
- The Strategy, and other ongoing industry work offer the opportunity to take a step back, review what is needed and create a sustainable cash access model which encourages innovation.
- We would encourage the PSR, as regulator of LINK, to support this wider conversation and align with the regulatory approach - currently subject of HMT Consultation – under which the FCA will have primary regulatory oversight.

f) The role and funding of Pay.UK

- We discuss above that other parties and developments can contribute to the achievement of the PSR's outcomes, and we would encourage consideration of these. However, any organisation asked to deliver competition between payment systems, by supporting and developing the interbank systems to provide greater competition in retail debit transactions; develop consumer protections; the NPA for competition and innovation plus require greater compliance to their rules across a range of participants including potentially indirect participants and PISPs - will need the remit, capacity and capability to do so.
- Taking the cards model, it would make sense that for interbank payments this organisation is the payment systems operator, and so Pay.UK, has a stronger role in the development of consumer protections and the ability to co-ordinate and require compliance to rules where necessary.
- Interbank and card payments are not so different in that they are both managed by PSOs whose direct customers are their participants – for whom they develop services to be provided to end users. While we are obviously supportive of the PSOs understanding customer needs, it is key that, PSOs are attuned to how to support their participants in offering services needed by end users.
- The PSR says *it 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 and to allow it to effectively develop and promote the systems under its remit (which may require legislative change)."* Changes to the funding and governance model, on its own, may not be sufficient.
- In asking Pay.UK to take on this greater role, the PSR must consider the sophistication of the dispute processes; processing, risk, technology; data, governance and commercial models of other retail payment types which deliver good customer outcomes and sustainable services. The existing card schemes are proven to be safe, performant, trusted, global and with established operating practices.
- To replicate protections across diverse payment systems isn't necessarily the best ambition if it's unviable. There has to be some pragmatism for interbank payments whereby we develop protections targeting the most notable needs but commercially sustainable for participants and their customers.
- The PSR must consider these aspects - including before regulating. The PSR will need to consider any implications on Pay.UK's operating model. Pay.UK will need to increase its resources, capability and

capacity to deliver the PSR's objectives. Potentially through working with bodies who have an expertise in development of consumer protection models for retail transactions.

- Again, we'd recommend the PSR considers the potential value of the collaborative work proposed by the Payments Standards Strategy Group, to be sustained via a Payments Standards Engagement Forum. This has the benefit of bringing best practice and insight across payment systems and their operators.
- We are supportive of Pay.UK's funding covering the efficient provision of functionality necessary to encourage innovation and competition (such as the NPA, new payment messages etc.), and that this funding should be efficiently allocated within Pay.UK. We believe, though, that the innovation and competition will come from the industry and the market rather than the centre and Pay.UK, as the PSO.
- On the whole we would say that participants should pay for services fairly based on usage.
- In our response to the NPA competition consultation we wrote*: A funding model should be fair, proportionate and payable by all who utilise the NPA, recognising the significant transformational and implementation fees for NPA, but also a likely period of dual running of the current FPS and NPA. We encourage the PSR to consider promoting effective competition, without materially impacting current FPS participants' ability to offer enhanced products and propositions.* Though alternative funding models can be considered in this Strategy, such as an interbank model for interbank retail payment mechanisms based on where value is created or Pay.UK could look at attracting investors for particular developments.
- It is not clear, what the PSR envisages Pay.UK to look like in five years. At one point it discusses that Pay.UK cannot undertake mergers and acquisitions, invest independently in marketing, brand or promotion activities or expand internationally. The funding of such needs more engagement.

g) Payment Initiation Service Provider (PISP) Initiated Transactions

- We are supportive of a governance structure which can set rules and establish minimum standards for PISP initiated transactions end to end – for example in case of a trade dispute - as we agree that there is a current gap in the industry governance and regulatory space where participants are not part of a scheme. There is also a need for a commercial model to underpin standards and ensure they are sustained in the long term as well as providing the imperative for new services to come to market.
- This conversation is running alongside the work to transition Open Banking to a new body and the PSR itself mentions it is 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.
- Nationwide would be happy to support this conversation as appropriate.

h) Value of Consideration of other industry developments in PSR Strategy

- The Strategy's outcomes, naturally, focus on areas within the PSR's remit. There are other industry developments which are of relevance to the PSR's Strategy, and we would encourage consideration of the implications of these.
- Digital ID is an example of an industry development, which could be relevant to the PSR's objectives for end users to have security. Request to Pay could also be part of the solution for online retail payments – when combined with Digital ID. For example, this could be used by a merchant, such as a car dealer, who can benefit from a trusted identity which can no longer be so easily impersonated by a scammer.
- CBDC potentially has profound implications upon the UK's payments strategic direction. If we adopt a CBDC approach it changes the underlying models of UK personal banking, potentially altering the need for access to cash, for example, and reducing traditional banking deposits and adding a new angle to the consumer protection discussion.

i) Need to consider Payments as an ecosystem

- In delivering its Strategy, we would ask the PSR to consider payments as an ecosystem in which different players such as merchants – can influence outcomes for consumers. In addition, it is one which payment systems can have limited influence for example, on choice of payments offered or the priority of how choices are presented. In this context, regulators and legislators would also be able to influence.
- There is a potential for overlap between regulatory bodies in this Strategy. Resulting in a clear need for regulators to recognise and optimise their approach to these areas – such as the conduct elements of protections in payments. We are supportive of PSR aligning with other regulators to share expertise, deliver good customer outcomes and where appropriate ensure that those best placed to act take the lead. There also be should be alignment between any new Pay.UK rules and the FCA rules, to avoid multiple sources of conduct requirements and the potential for conflict or confusion.

Our Responses

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.**

1.1. The PSR gives a broad strategic view of the UK payment systems over the next 5 years. There are a number of trends we believe could be valuably included in the PSR's strategic analysis. These include:

1.2. **Central Bank Digital Currencies** - CBDC is relevant to the PSR's thinking, as it potentially has the ability to separate payments from current accounts and therefore providers - with implications on consumer protections - and change the deposit taking business model. Digital currencies would offer alternative methods of holding value and subsequently the way some payments are made, possibly impacting the use of more traditional methods such as cash and of course CBDC and other stablecoins could indeed compete with established payment systems, especially in online transactions. We recommend the PSR liaises closely with the Bank of England in reviewing the feedback from industry to the latest Discussion Paper and collectively, the UK payments ecosystems need to evaluate the significant risks.

1.3. **Digital ID** – enabling the customer to prove who they are electronically could be a very important tool in the fight against financial crime through improvements to KYC and, importantly for payments, it offers controls to help detect and prevent scams before transactions are made. Indeed Digital ID may have enormous potential to help security within payment services as well as competition between them. For example, when woven together with data such as Legal Entity Identifiers or merchant category codes in an ISO 20022 construct which allows a trusted identification of both payees and payers, and further combined with a process like Request to Pay, we could better enable online retail interbank payments to compete with cards.

1.4. **Regulatory thinking on declining payment systems.** We are supportive of the PSR's planned action to ensure preparedness for regulation of new payment systems designated to it. The PSR's competition outcome will also be aided by designation of payment systems. Concurrently, although we do not anticipate the ceasing of one of the UK's payment systems in the next five years, we do think it is important to be prepared to adapt regulatory thinking on declining payment systems. For example, cheques which account for less than 1% of payments today. As usage decreases, there is a question about whether a more efficient method of processing cheques should be identified. For example, a bilateral between a number of participants.

1.5. **Operational and investment costs for PSPs:** The PSR refers to 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. In considering the implementation of this Strategy, it is important to recognise the changes and challenges of the broader environment, some of which will have material and long-term impacts on the retail banking model. This includes the extended period of ultra-low interest rates – which challenges the fundamentals of traditional banking business models, especially in the building society sector which is heavily reliant on net interest margin for profitability.

1.6. **Need for innovative funding and commercial models:** In the lifetime of this Strategy, there will be a continuing need to invest and operate today's payment systems, including those with declining usage, while investing in other developments including those touched on in the trends overview such as development of the NPA, adoption of ISO 20022, potentially development of interbank retail payments, with consumer protections and a new funding model for Pay.UK. Given all of this, it is possible that unintended consequences emerge including barriers to entry, or even participants leaving the market, on the grounds of a perceived lack of sustainable commercial viability of offering a full suite of payment services. We would encourage innovative funding and commercial models be considered as appropriate to context.

1.7. **Customers as users of payment systems.** The PSR does not discuss the consumer journey to be offered by a new domestic interbank payment system for retail payments. New payment services must be built on an understanding of consumer demand for an interbank payment service for goods and services and payee demand - post a fuller understanding of consumer protection model – to inform the business case, service design and any protections. More consideration of consumer demand – including for any new payment types will help ensure the strategy supports competition.

1.8. **PSPs as customers of payment systems –** It is important to consider PSPs as customers of payment systems – to ensure efficient design and accessibility of core capabilities for onward competitive and innovative development for end users and to understand what capabilities PSPs need to serve their customers.

1.9. **Legal / European developments which may impact on the UK's payment systems or their participants.** For example, the European Payments Initiative or the review of PSD2 may be relevant over this time period. Additionally, there is uncertainty about how ambitions shared with the EU, and elsewhere, such as CBDC and Digital ID will evolve in separate jurisdictions and the UK may wish interoperability for trade reasons over time. A practical action here, would be for the PSR to support the work emerging from Pay.UK on payment standards, with a national and international perspective.

1.10. We would also like to make an observation on the commentary in section 3.23, the PSR say that payers are not charged for transactions and go on to say that firms recover costs in other ways not obvious to the end user. However, we would ask the PSR to consider that there are PSPs who do not offer commercial banking and therefore do not recover costs in this way – which is relevant to consideration of consumer protections. This is a reminder that commercial models should be fair and open to all and not disadvantaging those without commercial customers for example. Providing payment services is a complex and expensive activity and as such consideration needs to be made as to how to fund this fairly across the ecosystem.

1.11. Overall, the Strategy must keep pace; matching the operational efficiency that PSPs are striving for, while also being flexible enough to promote competition and adapt with more rapidly changing markets, technology and expectations. Having an active horizon scanning activity for trends will help in this regard.

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?

2.1. Nationwide welcomes the development of an outcome focused strategy which has consumers, our members, at its heart, while recognising that payment services must work well for government, business and other users to meet their core role of enabling an exchange of value.

2.2. As high-level statements, the PSR's outcomes reflect the different needs of players in the payments chain including payment systems operators and certainly seek to promote innovation and competition.

2.3. We would encourage more explicit reflection of the needs of PSPs as users of payment systems as was the case in the Payment Strategy Forum process. The fourth outcome regarding sustainable payment systems particularly needs to consider more explicitly PSPs' need for commercially sustainable and efficient payment systems with which to serve and deliver benefits to their customers. Having commercially viable payment systems will stimulate competition and innovation. Where new costs – such as consumer protections for trade disputes - are introduced commercial models need to be considered.

2.4. The outcomes, also naturally, focus on areas within the PSR's remit. We discuss the relevance of other industry developments and wider market players in achieving outcomes above and below.

2.5. Outcome 1: All users have access to payment services that meet their needs in terms of functions, quality, cost and other relevant factors.

2.5.1. We agree with the PSR that payments are essential to everyone's lives and as a consumer focused mutual would wish our members to have access to payments that meet their needs.

2.5.2. To meet this outcome there is a need to understand payer and payee needs and demand. We would welcome understanding of consumer demand for an interbank payment service for goods and services and payee demand - post a fuller understanding of consumer protection model – to inform the business case, service design and any protections.

2.5.3. We would ask that as the PSR, considers whether user needs are met (as in section 4.3), it considers when assessing if costs are 'fair and appropriate' - the service, risk and costs of offering the payment systems and any consumer protections. Additionally, the assessment of whether systems work to prevent harm and provide redress – should consider that payment systems and providers are only part of the ecosystem of a transaction and others will have a part to play in harm prevention and redress.

2.5.4. We have comments on the PSR's assessment of how payment services are performing against this:

2.5.4.1. Free to use ATMs are more plentiful today than when cash usage was much higher and customers can also access cash in physical locations, through cashback and cash without purchase plus other innovative alternatives are continuing to emerge. We are supportive of a diverse cash ecosystem and the industry should promote new services appropriately. However, for PSPs supporting this, it is not without cost, which should be factored into the consideration of delivering this outcome. Enabling PSPs to sustainably support payments systems with declining use needs to be achieved for end users.

2.5.4.2. We agree that APIs will enable a greater innovation on payment rails – including the NPA. It will be important that innovative payment services can be efficiently provided from this payment infrastructure - minimising the need for technological development for all players.

2.6. **Outcome 2: Users' interests are adequately protected when using payment services so that they use systems and services with confidence.**

2.6.1. There are other developments which could help with regards to the delivery of this outcome such as data sharing to fight financial crime and Digital ID for payment transactions, as well as security enhanced by overlays such as the next generation of Confirmation of Payee or Request to Pay. Or impact, over time, it is also possible that payment transactions and current accounts could become decoupled – e.g. with the occurrence of CBDC - adding another angle to consumer protections.

2.6.2. We discuss above that the NPA creates opportunity to develop an interbank payment system for use in retail transactions with consumer protections for trade disputes, governance, technology and commercial model etc. 'designed in' from the start to be used for purchase of goods and services. Along with the complexities in development of consumer protections and need to understand the consumer need and payee demand.

2.6.3. There are things we can do in advance of the NPA. The PSR can help here by supporting the initiatives already underway in data sharing and Digital Identity experiments – each with a potential to enhance protection against financial crime. And we discuss in 1(a) and 2.6.5.2-2.6.6 below, the value of studying macro or use case specific trade dispute consumer protection ideas which could be developed separately to the NPA.

2.6.4. The industry is working hard on APP scams, including individually within our payment processes and systems but also collaboratively as we aim to markedly increase prevention and detection of scams through a series of initiatives which create mutual responsibility between customers and their PSP, between sending and receiving PSPs and across the wider payments ecosystem. The PSR is separately consulting on APP scams and a central recommendation regarding data sharing of relevant risk factors. Finally on this point, for now, it is possible to consider not just what can be developed before ISO 20022 and NPA, but how those major infrastructure changes can take the defence against fraud and money laundering to the next level of system driven control. Our strategic ask of the PSR would be to consider how regulation can support industry and UK Finance's strategy to advance the position to ensure consistent application of scam prevention standards for end users.

2.6.5. Comments on text:

2.6.5.1. The PSR say in 4.18 – that the payee can restrict the payment options to a payer or present them in such a way as to direct payment to a certain type and in 4.20 sets out their expectations on payment systems and PSPs. Whilst PSPs have a role to play here to provide sufficient information on the features and benefits (including protections available) of the payment systems available - the payment system will not be able to prescribe the payment choices offered to payers or the priority in which these are presented – legislators and regulators must also work together to address concerns. The PSR must also consider here any implication of the FCA Duty of Care requirement in developing new payment types.

2.6.5.2. It is possible also that other answers to prevention / redress do not lie within the remit of the payment systems or PSPs, Pay.UK or the PSR. As we highlighted in our response to the Consumer Protections consultation, there are existing statutory protections for the supply of faulty goods or services etc. We agree that the process should be smoothed so it is easier for consumers to obtain redress if goods are unsatisfactory through the Consumer Rights Act.

2.6.5.3. The benefit of strengthening consumer rights against merchants is that this could be payment agnostic and could also apply, for example, to cash purchases. Whereas changing, for example, the Faster Payment scheme rules would limit the protections to Faster Payments only and leave cash payments without equivalent protection.

2.6.5.4. Strengthening consumers rights against merchants could be achieved by building on the underlying protections in the Consumer Rights Act. For example by introducing a timeframe within which merchants need to reach a decision to refund and carry out the refund (e.g. cumulatively 28 days) and the introduction of an ombudsman service to deal with disputes.

2.6.5.5. We would urge the PSR to work with the government and industry to explore more macro solutions as part of on-going consumer protections work.

2.6.5.6. Establishing consumer protections is bigger than the remit of the PSR or Pay.UK and will require the support of other regulators and government to achieve its outcome.

2.6.6. The PSR says (in 5.51) it will 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.* These commercial incentives need to consider the risk, service and costs of different participants in the payment and the role of other parties. In a trade dispute, where there is no intent to scam, if a PSP is being asked to act as an intermediary between two parties - an efficient governance, technical, economic and commercial model will need to be identified to support this.

2.7. **Outcome 3 Payment systems are designed & operated to enable effective competition in the provision of payment services**

2.7.1. We are supportive of Pay.UK and other PSOs providing the functionality necessary to enable and encourage innovation and competition but recognise that the innovation and competition will come from the industry and wider market rather than the Payment System Operator, itself.

2.7.2. Any organisation asked to deliver competition between payment systems, by supporting and developing the interbank systems to provide greater competition – particularly in retail debit transactions; develop consumer protections; the NPA for competition and innovation and require greater compliance to their rules across a range of participants – including potentially indirect participants and PISPs - will need the remit, capacity and capability to do so.

2.7.3. Pay.UK will need to increase its resources, capability and capacity to deliver the PSR's objectives, including, potentially working with bodies who have an expertise in development of consumer protection models.

2.7.4. Comments on Text

2.7.4.1. The costs for PSPs of administering payments infrastructures are huge but innovation does occur in interbank payments. There is additionally, continuing innovation in other payment types such as P2P card payments or social media payment types.

2.7.4.2. The description of card fees in 4.46 does not fully reflect what these fees cover. Also for large parts of the evolution of cards, chargebacks and development of their global networks MasterCard and Visa were both membership organisations.

2.7.4.3. It is early to judge the offering of interbank payments for retail transactions. Today, FPS is not built for retail payments – technologically, commercially etc. – and as the PSR identifies the NPA, which should enable this innovation, is not yet implemented.

2.7.4.4. We would encourage the PSR to consider here that as it goes on to say in the next outcome – payment systems need to be efficient and commercially sustainable.

2.8. **Outcome 4: Payment systems are efficient and commercially sustainable**

2.8.1. We support this outcome. However, payment systems are expensive to build and support and are not 'commercially sustainable' without consideration to their funding.

2.8.2. Comments on Outcome text:

2.8.3. **Commercial sustainability** - It is not clear, in the discussion of this outcome, how payment systems will be commercially sustainable for their participants – with the exception of making them more efficient. Especially, given the new investment and other costs being considered as part of this Strategy. If new types of cost are introduced for PSPs – such as consumer protections for trade disputes - there is a need to consider economic models.

2.8.4. The failure to identify the correct economic model may disincentivise participation in interbank payment services for goods and services or create a change to the free in credit banking model.

2.8.5. While we are supportive of efficient payment systems and the ecosystem, there is a need for sustainable funding models not just for payment systems but payment system participants.

2.8.6. Innovative ways of financing central development of the UK's payment systems could be investigated through the PSR's Strategy, to ensure that costs are equitably distributed between all parties.

2.8.7. **Ceasing Payment Systems** - The PSR has built into its strategic thinking that payment systems could cease. Although we do not anticipate a payment system ceasing, from a regulatory perspective – the PSR, by being prepared for the steps to be taken in the discontinuation of one, can ensure that their approach is robust, proportionate and coordinated with other regulators as appropriate. The PSR could begin by establishing principles for a 'winding up' process to be enacted once thresholds are met. The PSR could monitor and evaluate thresholds, supporting industry's management with end users' interests in mind.

2.8.8. **Interoperability** - We have been supportive of the adoption of ISO 20022 over many consultations and continue to work with Pay.UK on the development of these messages. There is more to interoperability between systems though than co-ordination of participants, systems need to be built to handle the transaction values and volumes of other unavailable systems. There needs to be seamless switchover capabilities to avoid having complex contingency processes for rare use cases. We would encourage any new central infrastructure to have optimal levels of resilience to avoid service outages.

2.8.9. **PISP initiated transactions** - We agree that there is no one effective body today to regulate end to end on a PISP initiated transaction for instance where there is a dispute. This conversation is running alongside the work to transition Open Banking from the OBIE and the PSR itself mentions it is 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. Nationwide would be happy to support this conversation as appropriate.

2.8.10. **Pay.UK's Role**: Taking the cards model, it would make sense that for interbank payments, the PSO, and so Pay.UK, has a stronger role in the development of consumer protections and the ability to co-ordinate and require compliance to rules where necessary.

2.8.11. In asking Pay.UK to take on this greater role, the PSR must consider the sophistication of the payment systems dispute processes, processing, risk and financial crime technology, governance and commercial model of other retail payment types which deliver good customer outcomes. The capacity and capability to replicate this should not be underestimated. It must truly consider these aspects in its Strategy, including before regulating.

2.8.12. Pay.UK will need to increase its resources, capability and capacity to deliver the PSR's objectives - including potentially through working with bodies who have an expertise in development of consumer protection models.

2.8.13. We are supportive of Pay.UK's funding covering the functionality necessary to encourage innovation and competition (such as the NPA, new payment messages, APIs), and that this funding should be efficiently allocated within Pay.UK - but believe that the innovation and competition will come from the industry and the market rather than the centre and Pay.UK, as the Payment System Operator. Funding should be equitable and new funding and commercial models can be explored here.

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.

3.1. The PSR's priorities are broad but do provide focus and flexibility to help achieve the PSR's outcomes.

3.2. As above, we believe that the PSR's strategic priorities should consider other industry developments such as, Digital Identity, data sharing to fight financial crime etc. which could contribute to the achievement of the outcomes. As the PSR recognise, payments is a fast-changing area and there will be new developments emerge which will impact their strategic priorities. We would encourage the PSR as it says to "work closely with other organisations, including where they are best placed to take action" to capitalise on developments to achieve outcomes and priorities.

3.3. **Priority 1 Ensure users have continued access to the payment services they rely upon, and support an effective choice of alternative payment options**

3.3.1. We agree that end users should have continued access to payment services they rely upon – although as above thinking must ensure these are economically and efficiently provided - and are supportive of an effective choice of alternative payment options where demanded. Consumer studies though need to be undertaken to assess the demand for alternatives, whilst PSPs can suitably educate their customers on the range of existing payment choices by continuing to provide information on the features, benefits, protections available.

3.3.2. Nationwide supports a reasonable spread of ATMs across the UK to ensure consumers have access to the cash they need. However, we must stay cognisant of the multiple and increasing ways through which consumers can access cash. And the industry should be looking to promote these accordingly, cashback, cashback without purchase, the Post Office, PayPoint nearest penny withdrawal etc.

3.3.3. The PSR in it actions say *it 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.*

3.3.3.1. Nationwide fully support the premise of this; however, we must be clear on reliance. The allocation of an ATM should be within the context of a clear framework as other solutions could provide better answers to the cash access question.

3.3.3.2. The key to the PSR's action is also the creation of new sustainable solutions. The Strategy and other ongoing industry work offer the opportunity to take a step back, review what is needed and create a sustainable cash access model.

3.3.3.3. We would encourage the PSR, as regulator of LINK, to support this wider conversation and align with the regulatory approach - currently subject of HMT Consultation – under which the FCA will have primary regulatory oversight.

3.4. Priority 2: Ensure users are sufficiently protected when using the UK's payment systems, now and in the future

3.4.1. We are very much in favour of the PSR opting for a collaborative approach in the development of consumer protections.

3.4.2. Nationwide has worked on development of APP scam protections and continues to do so. It has also been active in conversations and fed into the PSR's consultation on Consumer Protections.

3.4.3. Through Pay.UK's Strategic Participants Group and other groups PSPs have worked to help Pay.UK develop interbank payment solutions for the future. We believe that in the case of interbank payments for purchases – such protections need to be 'designed in' including to the technological development.

3.4.4. The NPA, from its inception has been designed to foster greater competition in the UK's payments market through the utilisation of APIs enabling overlay services to operate on the core payment rail. It is designed to carry more data and enable access to payment systems. It should make possible the development of an interbank payment mechanism to be used in purchases.

3.4.5. The development of such a payment service presents an opportunity to 'get the basics right' from the start and to deliver a consumer protection framework and supporting governance, technology, liability and economic model for inter-bank payment point of sale transactions prior to the service going live.

3.4.6. By ensuring the building blocks are in place, such a model could encourage use of interbank payments for the purchases for payers, merchants and payment service providers. Parties would be aware of the protections, commercial and governance model from the offset and by being economically sustainable a model would not act as a barrier to entry or a threat to free in credit banking.

3.4.7. We would wish whatever is developed is robust and any unintended consequences avoided.

3.4.8. The number of consumer protection mechanisms to be operated needs to be considered. The development and operating costs of consumer protections are expensive and having numerous ones could be confusing to customers and merchants. Additionally, the more variants introduced can lead to more risk, costs, points of failure and complexity from a systems perspective.

3.4.9. **Comments on text**:

3.4.9.1. Paragraph 5.43 underplays that Confirmation of Payee was a complex initiative to deliver – at a PSP and industry level. We would regard its deployment as successful and are actively working on Phase 2.

3.4.9.2. In 5.49, the PSR mentions that Pay.UK may also have to make trade-offs between different initiatives in the development of new payment services. This is also true of PSPs. Making the PSR's Strategy a regulatory enabling strategy - creating efficient ability to support new payment developments and innovate on new systems - would maximise competitive investment.

3.5. **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**

3.5.1. We welcome improvements to date and the PSR's new focus on competition between payment systems. Through focusing on infrastructure providers to provide their direct customers – PSPs – core functionality will allow efficient services, competition and innovation for the end user.

3.5.2. In considering the markets supported by them, the PSR also needs to consider the relative supply and demand dynamics. These dynamics are important because the scope and appetite for competition in different layers of the payments supply chain can vary over time and space and it isn't always possible to predict but can affect how services develop. A lack of demand or uncertainty of direction can influence vendors coming into the market to help competition.

3.6. **Priority 4: Ensure the renewal and future governance of the UK's interbank payment systems supports innovation and competition in payments**

3.6.1. We agree 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.

3.6.2. The NPA needs to enable PSPs to effectively support competition and efficiency in offering payment types for end users.

3.6.3. With such extensive change happening across interbank infrastructures (RTGS, NPA, SWIFT all underpinned by ISO capabilities), and our shared priorities for payments to be accessible, safe and innovative, efficient etc. it has never been more important to prioritise a strategic and holistic approach to mutually aligned standards. We encourage the PSR to support the work of UK Finance and others in shaping the 'what' and 'how' of standards to deliver benefit to end users, taking a creative and inclusive approach which learns from best practice across all payment systems e.g. by involving Mastercard, VISA and SWIFT.

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.

4.1. We think that the PSR's strategic priorities do provide the clarity on choices made including on why and when the PSR choose to intervene. We would call out three areas on which further clarity would be valuable:

4.1.1. Customer payment journey detriments, customer demand, commercial models and therefore payee demand for new interbank payments payment systems for purchase of goods and services to inform the Strategy, solution design and cost benefit analysis.

4.1.2. The future intended role of Pay.UK would also be valued. Does the PSR envisage, Pay.UK will undertake M&As, cross-border alliances, marketing campaigns etc.?

4.1.3. How the PSR will work with other regulators on particular topics to deliver the best solutions for an issue. As the PSR highlights, sometimes the most effective solution may lie with another regulator or does not lie in any one regulator's remit and a more effective one could be delivered collectively. For example, consumer protections, and choice and presentation of payment types by payees

4.2. The PSR say they will not actively consider environmental issues, data in payments or cross-border payments in this Strategy but will monitor. We believe the PSR has a role to play in environmental issues even if it is not within their explicit remit – environmental concern could be a core value that is threaded through the Strategy. The PSR can act as a leader in this respect and guide Pay.UK and others. The PSR can act in support of relevant initiatives including considering the environmental impact of all current and emerging payment types as part of developing the NPA and pushing for competition.

4.3. Cross-border payments are relevant to the Strategy, as cards offer cross-border functionality and as a consideration for multi-national banks implementing a domestic interbank retail payment model. We would ask that the PSR consider, the needs of cross border payers (e.g. for online transactions) and the cost of administering a £ only scheme. Additionally, if there are any implications of the development of new international schemes such as the European Payments Initiative in pursuit of driving the use of interbank payments in retail debit transactions. Furthermore, the development of standards isn't isolated within the UK's borders and will have a global perspective as we look at the potential for cross border interoperability.

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.

5.1. There is a need to understand more about some of the measures proposed to help assess the achievement of the PSR's priorities, in order to comment fully. We look forward to further engagement on this topic.

5.2. As an overall point though, we would also ask that confidential measures continue to be treated as confidential and consultation takes place on the form of new measures prior to publication.

5.3. **Priority 1**

5.3.1. The PSR suggests a number of measures, which while sensible in principle, will require careful thought of what is a good or bad measure and how to establish a causal link between implementation of the Strategy and outcomes. These include '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' and 'uptake trends of existing alternative payment options for groups who currently rely on cash'.

5.3.2. The number, duration and extent of outages or faults on central systems are monitored by other regulators (FCA for conduct and the PRA/Bank of England for risk). There is a need to ensure effective delineation of role with other regulators to ensure PSO and PSP reporting work is streamlined and avoidance of multiple, varying requests for data. This will also avoid conflicting regulatory efforts.

5.3.3. The PSR in measuring the total 'protected' ATMs which have yet to be replaced under the LINK direct commissioning scheme risks a blinkered approach towards ATMs, and specifically protected ATMs, rather than measuring the impact of current industry developments or potential future trends and developments in meeting its access priority. We do not believe that this metric is the right one and would be reluctant to support an approach that focuses solely on a specific channel or on a specific 'stream' of activity within a channel.

5.3.1. A measure based more on the uptake of new methods of cash access may be more sensible, but we would ask measures here to be developed and captured by the FCA. We anticipate that the PSR will continue to revisit Specific Direction 8, over the lifetime of this strategy to consider its appropriateness and continuing need taking account of usage, alternatives, access and legislative trends etc.

5.3.2. The PSR says it will measure the qualitative and quantitative information on users who are unable to make or receive payments or incur costs in doing so. We would say it should be accepted that some payees may incur costs for the acceptance of payments. Which should obviously be clearly communicated, fair and reflective of the service, risk and cost of participants.

5.4. Priority 2:

5.4.1. There is a real moral hazard here. The PSR must consider the profound unintended consequences where protections that are biased to redress more than prevention will effectively subsidise economic crime and not resolve one of society's most serious challenges within the sphere of personal finance.

5.4.2. In 6.13 the PSR says *the focus of our… 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.*

5.4.2.1. We consider the best strategic regulation would be to disrupt the criminals and their ability to operate accounts, by focusing on the likelihood of incoming payments being a scam rather than anticipating who scammers may target which could be more subjective.

5.4.3. The PSR say it will use its annual consumer and small business survey to measure different users' perceptions about the risks of using different payment systems and how this influences their behaviour. We would encourage the PSR to consider the opportunity of other players – e.g. regulators and legislators - to improve outcomes of using different payment systems (e.g. choice and presentation of payments). Also there are other factors which would drive consumer choice on a macro scale such as convenience, availability, loyalty, familiarity etc. Measuring attitudes is useful but should be linked to the availability and convenience of services as well as any inherent protections.

5.5. Priority 3

5.5.1. In measuring changes in market shares of participants over time (both within the same payment systems and in different payment services), we agree it will be important to identify the relevant transactions. This measure assumes that any use of interbank payments for retail transactions would come from cards – which may not be the case – and there will be a need to allow for other factors which may influence payment type usage – such as demand for payment services. In setting/monitoring success in this measure, the PSR will need to consider, that interbank payments have low usage today for purchases and it is difficult to predict the rate/level of take-off, although factors such as Open Banking or an overlay service may change this. If we take contactless as an example, usage in this really grew with adoption by TfL, mobile payments and COVID 19.

5.5.2. Measuring for changes in key price indicators, such as merchant fees and interbank fees over time should reflect the service, cost and risk of different participants. New services will require investment and it is possible that these could be more expensive if they add value. If a new consumer protections model is introduced this would considerably alter the costs of an interbank payments service. This measure is subject to causal factors which may impact and needs careful definition in implementation.

5.5.3. In considering international comparisons we would encourage that these are directly comparable and consider any wider differential factors of the UK market in any evaluation.

5.6. Priority 4

5.6.1. Here, it is necessary to consider the rules etc. of the payment systems today and separately those of the systems of tomorrow in order to ensure the right measures are established.

5.6.2. There will need to be careful consideration in what would be a good or bad level when measuring the *nature and number of rule changes made by Pay.UK and proposals for rule changes from different participants*. We would ideally want future rules to balance the ability to facilitate competition and innovation with a sufficient level of specificity to enable consistent implementation where this benefits end users. Overall, there will need to be a quality check on the rule changes to enable conclusions to be drawn. An additional measure here would be on effective delivery of necessary rule changes.

5.6.3. The PSR says it will measure the extent and nature of compliance sanctions. This is an area in which greater specificity of what is to be measured and alignment of compliance activities of other regulators such as the Bank of England, FCA, PRA - would enable more comment on what is relevant for the PSR to measure. The PSR should also note PSOs in both the card and interbank realms do themselves operate controls that include sanctions, waivers etc. and measures here should complement and not duplicate what is already working.

5.6.4. As the implementation of the NPA matures it will be possible to comment on the PSR's measure of the '*proportion of transactions migrated from existing interbank payment systems (Faster Payments, later Bacs) to the NPA*.' It could be though that this would be a short-lived measure if the implementation is successful as the vision is not to have a dual infrastructure.

5.6.5. Similarly to our comment above, there will need to be a 'quality check' when measuring the '*Entry by new overlay service providers using the NPA central infrastructure (and volumes of transactions supported).*' It will be difficult to determine what is a good or bad number. The sustainability and demand for services will be relevant here.

5.6.6. Like measuring *the proportion of transactions migrated from FPS to the NPA*, measuring '*the 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'* feel almost like programme delivery measures. There is a need to understand how this would be measured to comment fully.

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?

6.1. We discuss in our response to Question 5, how the PSR's proposed measures may need to be refined over time and below additional measures which could complement those mentioned by the PSR in assessing the effectiveness of its Strategy:

6.1.1. A possible much higher level 'measure' could be the delivery of relevant solutions across the industry with a long-term aspirational roadmap of implementations that are relevant to APP scams. Examples include the expansion of Confirmation of Payee in 2021/22 and later on the design of ISO content in NPA specifications and bringing data sharing into production, potentially ahead of NPA.

6.1.2. The number and nature of consumer protection-related complaints or disputes raised with payment providers (excluding APP Scams measured above).

6.1.2.1. This would need careful categorisation to select the right measures, for both consistency and the substance being tracked. There are a range of reasons for which complaints are raised. Unless categorisation is standardised and clear enough, insight will be hard.

6.1.2.2. Also complaints are driven by factors outside the control of the PSR or firms – such as a non-delivery of goods and services where there was no intent to scam.

6.2. Given our answers above additional measures would be to assess:

6.2.1. The uptake of new methods of cash access but we would ask measures here to be developed and captured by the FCA.

6.2.2. Regulatory preparedness for new, declining or ceasing payment systems.

6.2.3. Where actions have been taken by other regulators to improve good customer outcomes.

6.3. A highly active horizon scanning assessment across time and space would also be useful, so we are mindful not to build in obsolescence in our payment systems.

7. **Question 7: Do you know any existing sources of data we can use to assist our metrics?**
   7.1. PSOs can offer insights on data that is likely very relevant to the risks and detriments we seek to resolve. In addition, the providers of central infrastructures similarly have valuable intelligence on the dynamics of payments, including service performance and resilience which are routinely used by participants and regulators such as the FCA/PRA.
   7.2. Therefore, we recommend including players across whole payments supply chain in considering what measures the PSR may value and taking a broad approach may also help to bring best practice to the surface – for example where card payments data can exemplify valuable measures.
   7.3. Some of the data which the PSR discusses may already be collected by other regulators. There is a need to ensure effective delineation of role with other regulators to ensure PSO and PSP reporting work is streamlined and avoid multiple, varying requests for data. This will also ensure regulatory efforts are aligned – avoiding parties pursuing an action to improve a measure where more effective action could be taken elsewhere or continuing to enforce a target when it is no longer required due to wider developments.
   7.4. As the PSR's thinking develops it would be worth further stakeholder consultation on data sources. The PSR needs to liaise with the FCA and other bodies first to understand what data is already available before setting new reporting obligations on industry.
   7.5. Overall, we would urge the PSR to develop a data collection strategy which minimises multiple or changing data requests to monitor achievement of its strategy.

Freedom of Information Act 2000 (FOIA)

For the purposes of FOIA, your organisation is a Public Authority. We are providing the information in this submission on the condition that, in the event you receive a FOIA disclosure request in relation to any of the information it contains, you will, as soon as reasonably practicable after receiving such a request:

1. Notify Nationwide Building Society of such a request by email [redacted]
2. Advise us of the extent to which the relevant request relates to Nationwide Building Society;
3. Take account of any representations made by Nationwide Building Society before reaching a decision whether to disclose the information;
4. Notify Nationwide Building Society of any decision to disclose the relevant information not less than one business day in advance of the disclosure being made.

Section 44(1)(a) FOIA provides an absolute exemption against the disclosure of information which is prohibited from disclosure under another statute. Therefore, information that comes into the hands of the PSR in the exercise of its competition and regulatory powers must not be disclosed other than in strict accordance with the provisions set out under section 91 Financial Services (Banking Reform) Act 2013. As such the information must not be disclosed other than in strict accordance with those provisions.

In addition, we would expect any such disclosure would fall under the qualified exemption in section 31(1)(g) FOIA, on the basis that it will, or is likely to, prejudice the exercise by you of your statutory functions.

NatWest Group

CP21/7
PSR proposed Strategy Consultation

NatWest Group

Information classification: Public

PSR Proposed Strategy Consultation

Introduction

NatWest Group welcomes PSR's consultation on its proposed strategy and its focus on how payments use and developments in UK payment systems will progress in the next five years.

We are pleased to respond to what are well considered proposals, which reflect many of the current strategic issues, specifically:

- NPA – the need for continued focus to deliver the NPA and through this the modernisation of the UK's retail interbank payment systems. The emphasis should be on achieving a commercial arrangement which will see fair cost allocation to current and future participants of build and ongoing costs. As Pay.UK moves closer to contract negotiations with a potential vendor, it must be clear that participants are not required to fund the vendor's development up front.
- Future proofing – the ever growing emphasis on CBDC and stablecoin developments should be monitored to assess whether the NPA might play a role in supporting transaction routing.
- Competition – we must continue to see the wider significance of effective payment systems and to recognise that they also support the competitiveness of 'UK Plc' and not solely a competitive procurement process or competition between payment systems. Card payment systems will continue to compete and adapt, both by product innovation and acquisition. However, regulators should be cognisant of concentration risk particularly where infrastructure providers dominate a number of payment sectors.
- Fraud - this has become a pernicious threat to UK society given the range and extent of fraud attempts to which consumers and businesses are subject. Our key concerns remain the continued expectation that sending firms should bear all responsibility, when the issue is caused by the account holder held by the receiving firm. In addition, the UK's reputation as a country with poor AML systems and monitoring reduces our potential competitiveness. Continued collaborative regulatory engagement with all relevant parties in the wider ecosystem is essential to progress measures to reduce the threat level and to improve confidence in our payment systems.
- Regulatory alignment - we raise this because the UK and wider regulatory environment is complex, with many large policy and system developments underway and proposed. The Regulatory Initiatives Grid sets this out clearly and regulators must be mindful of the impact of this on firms, their customers and ultimately their resilience if there is overload.

[redacted]

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.

In general terms we agree the PSR has identified the key emerging trends and those that are most significant for the interbank, card and cash systems. The key trends focus on systems which PSR oversees, whilst firms are also interested in parallel similar changes to the RTGS system, those planned for SWIFT and the continuing changes in the European and global environment, including considerations to improve cross-border payments.

For Open Banking we expect to see continued growth and competition, and if Open Finance progresses as proposed, more API based solutions emerging, some of which may add to payment transfer and growth. It is possible that emerging solutions such as Request to Pay and the Internet of Things (IoT) may also drive significant volume increases for single immediate payments.

We note PSR's reference to its research into the CBDCs, stablecoins and cryptocurrencies and think inevitably these will need greater focus in the next five years as solutions emerge and consumers and businesses begin to use them.

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.

We agree in the main with PSR's overview, and with the statement that the deployment of new technologies may lead to more and different competition, and more so were an existing non-payment network, such as a social media firm, to move into the payments space. This has happened elsewhere with China providing perhaps the best known example. Firms which are trusted by consumers and have large networks should have the capability to grow to operate at scale relatively quickly if they gain consumer confidence in their payment service and its relevance to their needs. Additionally, regulators should be cognisant of concentration risk particularly where infrastructure providers dominate a number of payment sectors.

Outcome 1: All users have access to payment services that meet their needs in terms of functions, quality, cost and other relevant factors

Here PSR says it 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

PSR makes clear in its proposed actions that it expects to gather data and, where needed, undertake further and ongoing research to validate its understanding. We recognise this may be necessary.

Although we would expect PSR to have developed a good understanding from its work to date on how and whether current payment services meet user needs now and enable it to assess how users' needs are likely to be met by or affected by payment system developments or by new payment services that are developed, this proposal represents a significant further step. Given the likely introduction of the FCA Consumer Duty, it may also become necessary for firms to assess how the outcomes of a new payment service will meet or impact different users.

It is difficult however to say whether or how well the points above will support the PSR's objective to focus on providing the right balance between promoting competition and innovation. This will need to be assessed and monitored over time rather than being considered something which stated outcomes alone may necessarily achieve.

On cash where usage has been particularly impacted by the pandemic, we remain aware that it is more relied on by certain users, particularly those who are vulnerable and those living in areas of the country where deprivation is high. We have seen as the pandemic has lifted in 2021 month on month increases in cash withdrawals, although we do not expect this to rebound to affect the overall downward trend in cash usage.

We note that PSR makes specific reference to business needs, which we agree is important, as they will often have insights to how consumers pay and their need to make different payment options available and to support vulnerable customers.

We agree too that the payment systems used today by people and businesses remain largely the same (3.9) – and for businesses which use Bacs payments to support planned business payments/ collection, this remains a payment option which supports business routines well. We have alongside this seen a continuing shift in how customers make payments with both consumers and businesses moving to digital and card payments, with increased adoption by consumers of mobile devices and wallets from which to make payments. More people across all age groups have done this, which has reduced further the use of cash and cheques; more recently exacerbated by Covid 19.

This creates the issues PSR refers to i.e. how to manage systems in decline and how to determine when it becomes uneconomic to continue them. On current trends, it seems clear that cheque obsolescence will occur sooner than that of cash, despite imaging supporting their cost-effective use for longer. Careful thought will be needed to assess how many customers will continue to pay using a paper instruction, and how this can be simplified to remains cost effective to achieve the longevity needed.

PSR also refers to services which have not had as much impact as might be expected, giving PayM and Pay by Bank as examples. These solutions emerged at different times and Pay by Bank remains a relatively new service which will increasingly be linked to Open Banking growth.

PayM may be of its time, enabling people to use a different identifier to their sort code and account number to pay someone. Unlike contactless cards, which had a long gestation before taking off, PayM has not done this, largely because an opt-in model was agreed more appropriate at the product launch for registration. A parallel is PayID[1] in Australia which continues to grow, and similarly enables a payment to be routed to an account using a proxy identifier that is not the sort code and account number. It is difficult to say, now CoP is well established and with other options to identify trusted payees using Open Banking solutions, whether PayM will continue to offer a useful solution, particularly for mobile payments, or whether it could become a supplementary identifier to the payee's name, in the same way as PayID.

[1] https://payid.com.au/how-it-works/

[redacted]

PSR also reflects on how adoption of new payment services is sometimes slow, here also mentioning Request to Pay (RtP). This was of course a PSF proposal to support users who needed or wanted more options in how they paid their bills. The RtP options may already be supported by billers of essential /utility services, but not able to be requested by the bill payer as easily as an app based service.

As RtP is based on Open Banking principles, this requires billers to support a new payment service and the added internal change and overhead required. For a new service, without known demand, there may be no proven business case. Third party RtP providers are emerging, and this may support adoption by billers. This provides a good learning on the complexity of introducing what may be considered a simple new payment service. A business would need a business case to introduce it and a plan to ensure they implement it well to gain user confidence and to support their migration from known options. The pandemic may have seen plans placed on hold because of other business priorities. PSR may wish to monitor whether as the economy opens up, RtP starts to move forward, particularly as it has the potential in increase the volume of single immediate payments.

We agree with PSR that the number of payment systems will remain small, because of the investment and industry coordination they require, alongside the overhead for firms. These systems provide a service that moves funds between firms, with added value being provided by account providers or third parties. A payment is often intrinsic to something else that a consumer or business needs to do, and this is where overlay competitive services can provide value to improve the user experience. We have seen this develop through Open Banking and can expect that this trend will continue.

Whether the expected greater interoperability will provide more opportunities for competition between systems remains to be seen. It might provide support where system outages occur or facilitate improvements to cross-border payments.

If, as anticipated, new and different payment systems emerge, we agree that it will be essential that the risks to end users are understood and adequate protections developed, alongside clear communications to ensure consumers and consumer bodies are aware of them.

The FCA consultation on a potential Consumer Duty focused on outcomes and will also need to be considered by firms alongside payment system developments once industry is clear on when and how it is to be adopted.

Outcome 2: Users' interests are adequately protected when using payment services so that they can use systems and services with confidence

We believe that this is an important outcome and ties in with PSR's work on consumer protections and other emerging proposals such as the FCA's Consumer Duty. It will also be a key consideration for any changes caused by infrastructure renewal programmes, which impact firms' or users' obligations or liabilities. We agree too that the evolution of payments requires a corresponding evolution in protection as well as prevention. The probable growth of PISP payments for example will inevitably produce an interest from fraudsters. In general, wider use of CoP by all payment firms would help to improve protections for users and support prevention.

It is however both foreseeable and understandable that users are not always aware of their protections when a payment goes wrong, as this can be for reasons where different or no protections apply. Firms need to have clear procedures in place to be able to identify the necessary information to apply the right procedure to recover funds and any redress to be provided. Where fraud has occurred, this will normally see a handoff to fraud specialists given the added complexity of the situation and potential recovery.

We are very aware that different uses of Faster Payments can lead to different risks, and that they are exploited by fraudsters because of their real-time nature. We have supported both the development of the Contingent Reimbursement Model and the implementation of Confirmation of Payee (CoP) checks. Each has played its part in partly mitigating the effects of authorised push payment fraud. It is appropriate that PSR covers how use of Faster Payments is likely to evolve. The proposal to raise the Faster Payments limit to £1 million reinforces the importance of this outcome, and the need for Pay.UK and industry to ensure robust rules and standards as well as formal governance, to ensure effective evolution without unintended consequences.

We believe this evolution should already be part of Pay.UK's current work, to assess probable use change scenarios, the timing of their introduction and estimated growth trajectories. Some solutions will sit as part of Open Banking, where protection models are currently less rule-based than those in payment schemes. Consideration will need to be given as to how protections should develop where e.g. a PISP is a payment service participant.

We note PSR's comment on further scope for changes to 'rules, standards and technology to make Faster Payments transactions safer for all concerned'. This will need further wide-ranging engagement and consultation to consider how to achieve equivalent outcomes for users where the same payment type is used for the same activity, but the channel to make the payment is different. Consideration will also need to be given to payment journeys where only the payment is made via a Pay.UK system, but payment initiation occurs via an Open Banking service. Consideration may need to be given to a new model for protections, and responsibilities, as user payment journeys become layered.

PSR will be aware that many firms already submit fraud data to UK Finance and which forms part of its annual reports[2], as well as for wider reporting. While we are pleased that Pay.UK is becoming more active in supporting industry efforts to prevent and reduce fraud, we would prefer it and UK Finance to work together so firms do not have double the reporting to undertake.

Pay.UK does however have a role in supporting participants to share relevant payments data flowing through its payment systems and for which participants are data controllers, to predict and prevent frauds, based on the data. In the past the payments schemes and VocaLink have developed successful responses such as the Money Mule initiative.

This area is not one that should be competitive and both Pay.UK and the PSR should encourage and, where PSR believes the circumstances are appropriate, mandate the co-operation of all PSPs large and small. Often the involvement of small PSPs is necessary to plug weaknesses in the overall industry defences.

We are already seeing this in CoP where fraudsters appear to be placing their payee accounts at PSPs outside CoP. It may also be appropriate for PSR to bring to Pay.UK's attention the FCA's Financial Crime Guide[3] so they can ensure all scheme participants are aware of their obligations.

We are aware of the activity underway to involve players outside the world of payments, in particular Stop Scams UK[4] involving Telcos. Much has been written recently about the need to engage particularly the big tech companies, whose advertisements can lead customers to think that they are buying from genuine vendors and find themselves with nothing to show for money paid away because they are not genuine. While this lies outside the PSR's remit, we hope it will raise concerns with government to seek action elsewhere in the wider ecosystem. Such an approach is consistent with the emerging view of e.g. the Bank of England that all parts of the payments process need to be within the ambit of some level of supervision.

[2] https://www.ukfinance.org.uk/policy-and-guidance/reports-publications/fraud-facts-2021

[3] https://www.handbook.fca.org.uk/handbook/FCG.pdf

[4] https://stopscamsuk.org.uk/about-stop-scams-uk

Fraud protection is more likely to demand a mandated approach. While PSPs are likely to recognise their duty to refund customers as a last resort, given the work of many to prevent fraud where this is within their control, it would not be reasonable to expose them to this growing area of fraud. Without a duty on non-payment firms, for example social media firms, to take action to prevent fraudulent advertising and provide funds to support refunds, the balance of responsibility is unreasonable. , Ultimately this lack of accountability of firms outside the financial regulators' remit adversely impacts our customers and their payment experience.

We see potential opportunity with the evolution of the UK's key payment systems also as an opportunity to modernise protection and address abuses/anomalies. One such is the DD guarantee, which has been a cause of concern to some merchants. A new NPA based scheme and / or the Open Banking VRP proposition, could offer such an opportunity.

Outcome 3: Payment systems are designed and operated to enable effective competition in the provision of payment services

We agree that PSR's work to date has helped transform the payment systems and their participants, and that system operators should not impose unnecessary barriers to participation. However, given the wider responsibilities of participants, our view is that it may be necessary for operators to look beyond the barriers to connectivity and rule adherence, to factors such as a participant's fraud prevention and anti-money laundering preventions to ensure a healthy ecosystem.

PSR refers to the decline in cash use and the impacts of this on the ATM network, its distribution and its numbers. The decline in cash use is likely to continue as may the ways to access cash for those who prefer to use it. Options under consideration or being introduced such as in store cashback without purchase, mobile branches and OneBanks' hubs may provide continuity of access for those that need it, alongside Post Office and bank branches. Overall availability will need to be monitored and we would expect PSR and FCA to agree how this will be done. There may be a need to consider whether a specific MoU on Cash Access is needed between regulators.

PSR also raises issues in its final sections in this outcome on firms' appetite to introduce change, citing that that the introduction of PISPs has not 'so far led to a large expansion of using interbank systems for retail purchase transactions'. PSR posits that it could be because banks may have no commercial interest in encouraging the growth of independent PISPs, and thus not wish to make the customer journey for these services attractive.

NatWest Group was a CMA9 bank and thus mandated to deliver Open Banking and now also operates as a PISP. We are aware however that some smaller ASPSPs find the cost of becoming and being part of Open Banking is high and may not be able to justify the development. That said, as Open Banking matures, we welcome discussion to achieve a more equitable funding model that reflects the now more plural participant market.

This links also to 4.50 where PSR references the 'incentives on participants to support change', and makes an over-generalisation that participants are unlikely to 'prioritise the enhancement of systems that represent a net cost to them over the enhancement of systems that represent a net revenue gain'. Participants invest in regular updates to the interbank payment systems.

Major change to any payment system however comes at a high cost, both for technical investment and internal change, which is why it is important for consensus to be achieved before system enhancement begins. The early phases of NPA remain a good case study on how not to move a major system replacement forward; with the costs incurred already higher than participants might have anticipated for full delivery.

This last sentence in 4.50 states the obvious that if Interbank systems do not offer the full range of functionality required for some payment types, they cannot compete effectively with card systems for those payment types. These systems were not intended to provide the same payment experience, or to be used in the same way. Whilst this could change – and Open Banking developments are supporting this – more will be required to provide consumers with the same confidence that they gain from card protections when buying goods and services.

Outcome 4: Payment systems are efficient and commercially sustainable

We largely agree with 4.51-4.58, but would comment in relation to 4.53, that we agree that in establishing a new payment system, it is likely that a high upfront investment will be necessary. It is also true that operating costs are largely fixed.

We believe also that regulators should look beyond commercial sustainability and consider the broader environmental impacts of implementing and operating payment infrastructures. The efficient use of resources in the production and distribution of notes and coin, and to a lesser extent paper cheques, as well as the rapid migration to digital need to form part of the societal business case for change. Likewise any move towards CBDC also needs to consider potential energy use and savings.

Infrastructure Vendor Financing

Consistent with the PSR's objectives to increase the competitive and commercial nature of the payments market, NatWest is clear that major investments such as a new payment system should be funded initially by the vendor as in many other fields of commercial endeavour.

Upfront funding by PSPs in a particular payment system was a logical funding method when payment schemes were essentially mutual organisations. The sale of VocaLink and establishment of Pay.UK was expected to bring to an end calls on participants to pre-fund new infrastructure development. In the more commercial environment in which Pay.UK now operates, a more normal market approach to funding is required. Pay.UK has been slow to change the funding approach for NPA.

To use participant funding for upfront costs is likely to obscure the true cost of the system in the longer run, as such cost may be treated as sunk . We would expect full transparency of pricing and visibility of future cost models to be evidenced in the contractual agreements between Pay.UK and the vendor

Item pricing to user PSPs

It is likely that user PSPs will pay item charges to the operator/infrastructure operator to spread the costs fairly over all user PSPs, large or small. In common with most commercial and indeed consumer activities, it would be reasonable to offer a discount for volume to larger users, to sustain the system for all SPs. This seems consistent with the PSR's objective for the payments systems to be more competitive and more commercial.

Recovery of all costs by the operators

In these circumstances it is likely that the fairest way for the infrastructure operator to recover its costs plus a reasonable return, will be to spread the up-front costs over the expected initial supply contract. Where a completely new system is involved, this is likely to be 10 years if the item price per payment is not to be uncompetitive against other competing payment types.

Upgrade cost might be recovered over 5 years

We recognise that the potential flaw in our suggestion is the current rapid evolution of payments; it is possible that a new payment system could be obsolete in less than 10 years if e.g. it does not accommodate digital currencies. Some measure of future proofing in e.g. the NPA is essential.

Should a conventional infrastructure start to lose volume to a digital alternative, it may face the challenge of trying to cover the fixed costs of an infrastructure that remains necessary for some users but sees declining volume leading to increasing average costs - a challenge the industry is already seeing for ICS. A freer market might well see the cheque clearing system closed because of its cost because of falling volumes - as has been done with paper instruments in jurisdictions such as Sweden.

Beyond the above points, our view is that PSR's comments reflect the in between stage that UK payments has reached, with the two main interbank systems continuing to fulfil their roles as separate and distinct schemes, which cannot because of their different proprietary messaging standards easily be used as a substitute for the other. The delay to NPA delivery will extend this situation. Its design, and the adoption of ISO20022 will allow a uniform standard data message format to be used, and additional discretionary information to be passed which will support innovation.

We would expect the NPA programme to address such technical issues and for the NPA rules to support effective use of the technical capability. We will also expect in parallel work to be undertaken but as part of the programme, such as updated consumer protections to support new and revised user propositions.

PSR states that Pay.UK's governance will need to allow it to develop and promote the systems under its remit. We can agree with "develop" but think greater clarity will be needed on what is meant by "promoting" the systems. It will need to be clear to participants what this means and what may be changing. For bulk payment users where propositions will potentially change more significantly, and current direct submitters will need to adopt ISO20022 formats, this will require investment and change programmes. The time this might take cannot be underestimated if we consider the impacts of the equivalent SEPA migration. Pay.UK and sponsor participants will have a key role to play here.

Whether any of the above is an evolution of Pay.UK's role needs to be carefully considered. Nothing above seems outside or beyond what was the role of payment scheme operators before they became Pay.UK. Current changes to Pay.UK's governance have still to bed in. Where we do see the need for continued reflection is on participant engagement for developments and changes to ensure that there is early consensus and a roadmap. There have been some improvements which should continue to be developed to provide maximum value and insights to Pay.UK and ensure clear communication lines to participants.

We note PSR's comments on the moves triggered by Open Banking and the introduction of overlay services to initiate payments with account holder consent. We agree that the NPA is likely to bring more opportunities for firms that are not members of the system to be involved in payment transactions. We also agree that where payment transactions have more parties, there will be a need to set rules or minimum standards governing the interaction between those parties, for example, in the event of a disputed payment. In addition, we concur there is currently a gap with no one party well placed to establish minimum standards to cover such situations. For Pay.UK, we agree it can establish and monitor standards but that these will apply only to its participants.

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.

At the high level we agree that the proposed strategic priorities are appropriate for the current environment, and that choice remains important, not solely to support or drive competition, but because it matters to users. Without it, users cannot assess how well a payment service meets their needs and collective user views on any service may see certain products gain or lose users depending on feedback.

We believe too that competition already exists between payment systems, but that because they offer a different payment experience and protections, users may have preferences which determine their choice. This may tend to downplay competition between the systems. It also worth noting that consumers are often guided to certain choices by consumer groups and their providers to ensure their protection when buying higher value items. A levelling of protections across payment types in a cost-effective and proportionate way could help support the competition PSR envisages.

In 5.15, PSR refers to the impact that a new system may have on users, such as only being allowed access to the new system if they consent to broad uses of their transaction data as a form of trade-off. Without a clear explanation of how such information will be used it is likely that some users will sign up and accept the trade off, without understanding the potential implications and others will decline to use the system, because they cannot get the clarity they need. This is not an issue for payment services only.

The FCA's potential new Consumer Duty, which requires firms to consider outcomes may also see firms become more risk averse to offer access to such a system, and less inclined to partner with third parties because of concerns linked to liability within the distribution chain. This could impact innovation and competition. As the FCA has still to consider responses, it is not yet known whether any further clarity or interpretation will be given, until it publishes its views and revised rules.

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.

The priorities do make clear the choices PSR has made and where it intends to focus. It is however a long and detailed chapter and not always obvious on why and when PSR has chosen to intervene. It reads more as statement of intent on next stage work which will focus on key actions, which we expect will be revised as PSR's work progresses and the payments landscape evolves.

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.

In 5.12 PSR says that it sees 'effective competition as a way to promote the interests of users, rather than as an end in itself', which contrasts with the statement in the Strategy overview which says it will 'focus more on reforms to promote competition in and between payment systems and the markets that they support, because as the UK's economic regulator of payment systems, this is our core purpose'. Given that competition between payment systems has not been a focus to date, and multiple systems currently offer all of consumers, businesses and merchants choice, this seems contradictory.

This is particularly relevant given the very different models which card and interbank systems have, as we state earlier. Card system operators have many opportunities to generate income for the schemes themselves and their PSP participants.

Pay.UK by contrast operates more like a public utility entity that determines its own costs and sets a tariff to recover them but is under no effective constraint on what these costs can or should be. As such its fees to participants are more akin to a tax than a commercial cost. It is worth noting that unlike card systems where infrastructure ownership and system operation are combined, Pay.UK contracts with an independent infrastructure provider and is required to ensure that the costs of this can be recouped from its participants.

It is unclear what PSR's view is on this fundamental difference between the entity types, or if it has undertaken any research into how interbank payment systems are owned and funded elsewhere.

It is also worth noting that card systems provide consumers with more protections when buying goods, and that if the UK interbank systems begin to be used in the same way, then equivalent and proportionate protections will be needed. There is currently no equivalent funding model that would support this. Does this mean that PSR might contemplate Pay.UK moving to a business model with new and quite different commercial incentives? If so, this could lead to Pay.UK itself potentially move to a commercial ownership model, possibly by a technology entity keen to extend its capability.

PSR refers to the need for users to have a choice of alternative payment options, which most can already make use of and with which they are comfortable. Depending on vulnerability or income level, consumer users may consider their choice narrower, and it will remain essential that as the UK moves further to become a digital society, those that cannot or can no longer use digital solutions are supported by other payment types.

PSR's actions to meet this priority are sufficiently generic and specific e.g. in respect of access to cash and considering the needs of vulnerable users, to flex and adapt as the payment market continues to develop, and its own policy approaches mature.

Priority 1: Ensure users have continued access to the payment services they rely upon, and support an effective choice of alternative payment options

In 4.11, where PSR says there may be several reasons why the adoption of new services might not happen, it's important to be aware that firms are usually managing multiple regulatory or scheme developments, which may impact different internal systems and operational processes, as well as requiring staff training and customer communication. Alongside this, firms will have their own essential change or development plans and may not have the resource or budget to take on an additional development.

The Regulatory Initiatives Grid provides a clear view of the asks by UK regulators of the sector, and we suggest that new developments should be considered both by the lead regulator and the group, supported by feedback from firms, before any deadlines for delivery are set.

Firms will increasingly need to consider whether a service will deliver what is considered a good customer outcome. In its consultation on the Consumer Duty, the FCA refers to the concept of "undue hindrance" i.e. where a firm takes an action which prevents consumers from achieving what they intended e.g. to exit a service. Although the FCA does not make any reference to payment services, this concept could conflict with firms' abilities to add positive friction to customer journeys e.g. to mitigate fraud, and industry is seeking clear acknowledgement from the FCA that firms can build in friction and restrictions where it reasonably serves the interests of both them and their customers.

Priority 2: Ensure users are sufficiently protected when using the UK's payment systems, now and in the future

We agree with PSR's conclusion that if payment developments continue their current direction, with greater use of interbank payments to buy goods online, it will be essential for consumer protections to develop and adapt.

This is likely to require both Pay.UK and the successor to Open Banking to work closely together and determine the roles of the respective participants in a payment journey. As we look ahead to Open Finance developing, there will be a clear need to review customer journeys involving payments and assess whether the protections remain appropriate when something goes wrong, or a customer is defrauded.

Competition may see adequate protections put in place for proprietary solutions which a provider can support. However, research commissioned by Pay.UK[5] found that industry had limited understanding of consumer expectations, awareness and understanding of the protections in place when they make a payment. Consumers themselves were differently aware depending on their use of payments, their need to claim back, with card and Direct Debit protections best known. Many consumer users would check with their account or card provider, as the need to make a claim occurred rarely.

We believe it is more helpful to have protections aligned to a payment method or a payment use. This has the benefit of all participants needing to follow the same guidance, ensure staff are aware and for agreed guidance material to be produced for users. It also ensures ownership of the protection and oversight of participant adherence sits with the system operator and where issues arise a central point of reference and adjudication.

We anticipate too that as use of Faster Payments extends further to making online purchases of goods and services, particularly through app based services, there will be a need to assess what is the equivalent protection to that when a payment card is used. The PSR's findings from its Call for Views on Consumer Protections will be of interest when published.

We also note PSR's proposal to give Pay.UK the role to lead the development of relevant protections (and the necessary conduct rules). We believe this is a role it should undertake albeit that it will need to ensure it has appropriate expertise to do this. Any such developments will need considerable engagement with participants and other stakeholders to ensure a model that is capable of adapting to further changes in payment use, reflects the types of error, loss or fraud that are to be covered and develops workable, cost effective procedures which participants can implement. Consumer awareness material will also require development.

Priority 3: promote competition in markets and protect users where that competition is not sufficient, including between payment systems within the UK and in the markets supported by them

PSR focuses on the card payment systems and the suggestion that there may not be sufficient competition in retail payment methods which provide good long-term options for consumers and businesses. It raises points surfaced in its market review of interchange fees, and that the rules and structure of charges of these payment systems may dampen effective competition. Given the market share of the card schemes and their widening interest in other payment types, this concern is understandable.

Card payments are however used by many consumers for everyday purchases because of their convenience and on the face of it, their simplicity. This may partly be because fewer consumers choose to pay direct from their bank account, even where this is possible. We might expect this to change and become more common and PSR will need to monitor this.

While card systems appear to have complex charging arrangements, these cover multiple different elements, including consumer protections, and any review would need to consider carefully whether elements of the charging model that need to change, or the levels of the charges.

[5] https://newseventsinsights.wearepay.uk/media/b4gb3xj5/consumer-protections-in-payments-summary-paper.pdf

[redacted]

The PSR proposed the following actions:

- "shift our focus to promoting competition between payment systems.
- support and develop the interbank systems to provide greater competition.
- consider the need for us to regulate to protect consumers and businesses if other measures are not producing the competition outcome we seek".

NatWest believes these need to be carefully prioritised as the interbank systems will only compete effectively with the card systems, if they can demonstrate that they are able to offer comparable payment services to those which card systems now predominantly support, together with equivalent protections for those that use them. This may be developing with Open Banking growth but has not yet been tested at the same levels.

Priority 4: Ensure the renewal and future governance of the UK's interbank payment systems supports innovation and competition in payments

PSR covers the many issues which have faced Pay.UK as it has addressed the expectations of it and deliver the necessary changes to establish itself:

- Revised interbank payment system governance
- New engagement model with participant firms
- New ways of working internally to move away from the independent scheme mode
- Building reserves, and
- Taking NPA forward

Together these have taken time, and whilst with hindsight they might have been achieved more easily if the organisational changes had been prioritised, the last expectation, i.e. the renewal of the Bacs and FPS infrastructures remains Pay.UK's most critical responsibility, as this is the key element from which much of the innovation and competition should flow.

PSR's actions for this priority are more detailed and specific yet will not be achieved unless PSR gives Pay.UK time to refocus and develop a clear strategic plan on how it intends to deliver on these actions. We suggest this is shared with PSR and the Bank of England, as well as syndicated in advance with participants.

In our view, the UK market is already highly innovative. Pay.UK's challenge is that it does not have the resource and bandwidth to assess and consider proposals at the pace required. This may require a review of whether it has the right mix of people resource, whether its people are deployed on the right activity, and whether the mix between strategic thinking and effort to support these actions is adequate. On the first action, we would refer earlier to our comment on the amount participants have paid to Pay.UK. Consideration now needs to focus on value for money development and support for innovation by the market.

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?

On **Priority 1**, the existing activity is comprehensive although PSR may want to ensure that its key areas of interest i.e. whether cost is appropriate and fair, access is easy and cost effective to achieve, and that the quality of the service is meets needs are focussed on, particularly for declining payment types and new ones where more variances in service and cost may be seen.

On **Priority 2**, which is clearly one on which PSR has considerable focus, we anticipate that PSR will need to stay close to APP scam developments, which may see different levels of harm occur, as seen recently with crypto assets. Fraud warnings, which supplement Confirmation of Payee messages, are an early stage prevention measure, but ones which coerced payers may be convinced to ignore.

The measures are all metric based and whilst useful are only one part of understanding APP scam developments. PSR may need to consider seeking wider insights from relevant parties.

On consumer protections, the proposals are early activity measures, and we would expect these to evolve, with PSR working with third parties as necessary to gain insights to specific user groups, and the effectiveness of different protections.

For **Priority 3**, we note PSR's observations on what might be effective ways of measuring competition between payment systems and the markets they support. Faster Payments has seen growth in participant numbers which will have supported the overall growth in FPS volumes and potentially seen changes in existing participants share of volumes simply because of new participants and increased market competition.

PSR's key proposed measures are a good starting point and as insights emerge, may lead to revised or additional measures being added. There may be merit in seeking back data for certain payment schemes to see what their growth/change trajectory shows, both from a competition perspective but also payment preference.

On **Priority 4**, we recognise that it may be more difficult to set measures to assess Pay.UK's approach to governance. It will be essential to determine what it is that PSR is measuring e.g. the effectiveness of a process such as a participant proposing a rule change via the appropriate process, or simply how many are raised and of what type. This might extend to which rule change types are more likely to be adopted and whether there appears to be bias based on participant type.

We suggest that PSR discusses this with Pay.UK. We would also note that rule changes tend to lead to downstream change for participants. We would therefore expect them to be managed carefully and as for example with SEPA Rulebook changes to be released for change at agreed times, to make them more manageable.

We note PSR's approach to understand more about Pay.UK's powers to proceed against participants for rule breaches and how it deals with these. Were there to be any proposals to change Pay.UK powers these would need to be consulted on by Pay.UK as this might represent a material change for participants.

The NPA programme will need considerable monitoring to ensure that the existing recommendations are followed and all necessary actions to select the vendor and finalise the supply contract are tracked. The UK's infrastructure renewal has been delayed and now needs to progress in a well managed way. This will in time need to include tracking the rate of transition to the new system, and we would expect this to form part of the NPA's programme forecasting and monitoring. It may need to include more than transactions alone.

We note PSR's proposal that Pay.UK should progress with participants plans for how Bacs payments might in time migrate to NPA (or split into part overlay service), but may not proceed without PSR's consent. Given the ambitions of the NPA and wider aims to ensure modernisation of the UK systems, together with support for innovation and competition, we believe Pay.UK's activity on Bacs should be limited to high level analysis for the time being. More detailed design work could be a distraction from delivery of the first phase of NPA. While a clear PSR steer to this effect would be helpful, we also believe that Pay.UK should have freedom to decide the direction with participants and thus PSR involvement should be limited.

The proposal to monitor overlay services that run on top of the central infrastructure is interesting and will need to be considered alongside in particular the transition of Bacs payments and other services intrinsic to the current infrastructure. We also suggest that PSR discusses with Pay.UK how it will deal with other types of change request such as those being proposed by participants to deliver wider CoP solution. It is evident that this is a resource hungry process and has placed strain not only on CoP resource but wider Pay.UK teams.

Finally, we would make two more high level points about Pay.UK governance and Priority 4.

- Funding – the PSR compares the funding available to Pay.UK to that available to the card schemes. The card schemes are richly resourced it is true. However, so far Pay.UK has essentially been able to raise any funds it wants with no effective incentive to reduce costs or mechanism for participant push back. Nor does there appear to have been any effective internal cost discipline to date. We hope that the recent appointment of a new Finance Director will go some way to address this. Without a change of approach and more overt financial diligence within Pay.UK, we are not optimistic.
- NPA has progressed very slowly – We believe this reflects the earlier reluctance of Pay.UK to engage participants. We are pleased to note that it has engaged more effectively in the last year and progress has accelerated somewhat. This approach needs further enhancement and should be more generally applied. We understand that participants will never have the sort of role they had in the predecessor payment schemes, but the NPA example demonstrates that Pay.UK needs to modify its governance to make collaboration with participants a fundamental part of its working model. This should enable Pay.UK's Board and executive to make it own decisions with the benefit of informed external insights. This approach would create an environment which would lead to a mutually beneficial relationship of co-operation and trust.

Issues under Continuing Review – Environment – Climate Change

As the PSR notes, it is currently unlikely that the new payment systems will be as energy intensive as some crypto currencies. However, as COP26 approaches and the nature of the climate emergency becomes clearer, we believe that the PSR should be more pro-active, like all responsible agencies, particularly as it works with payment operators and infrastructure providers to drive the move to carbon neutral payments.

As Pay.UK moves towards selecting the provider of the NPA infrastructure, the PSR may consider it appropriate to discuss a requirement for Pay.UK to ensure its vendor for NPA provides a carbon neutral solution.

In addition, while safeguarding the access to cash and cheques which some consumers need, the PSR should nonetheless welcome and encourage their gradual decline as being some of the more carbon intensive payment types.

Finally, a clearer general statement from the PSR that it expects new payment types to be carbon neutral (or better) would be helpful.

7. Do you know any existing sources of data we can use to assist our metrics?

We are only aware of reports which contain generic data from system operators and industry publications from UK Finance. As PSR progresses with its work on the strategy, other sources of data may prove to be relevant.

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Northern Ireland Consumer Council

The Consumer Council for Northern Ireland (NI) response to the Payment Systems Regulator's (PSR's) Proposed Strategy

1. Introduction

1.1 The Consumer Council is a non-departmental public body (NDPB) established through the General Consumer Council (Northern Ireland) Order 1984. Our principal statutory duty is to promote and safeguard the interests of consumers in NI.

2. Consultation Response

2.1 The Consumer Council welcomes the opportunity to respond to the PSR's Proposed Strategy. We are supportive of the recognition of the immediate challenges outlined in Chris Hemsley's foreword. In particular, we support the PSR's recognition that it "*needs to make it harder for criminals to defraud people using the payment systems we regulate;"* and *"look after the victims who lose money when they have done nothing wrong."*

2.2 The Consumer Council broadly supports the high level outcomes and the priorities that are aligned to those outcomes. We support the actions outlined in Table 1 that summarises the actions to meet the *priority to ensure that users have continued access to the payment systems they rely on*.

2.3 However, there is a lack of detail on the actions that will be undertaken to deliver the priority *to ensure users are sufficiently protected when using the UKs payment systems.*

2.4 Section 1.16 seems to indicate a number of important areas that the PSR will keep under review, but will not be taken forward as priorities for the PSR. One area listed is the use of data in payments. The Consumer Council believes this is a key issue of protection and should be aligned to the priority of ensuring users are sufficiently protected. One of the biggest issues facing consumers today, in terms of payments and payment systems, is fraud/scams and consumer confidence. Consumers need to be confident when using payment systems, that they will receive the highest level of protection and that there will be fair recompense if they lose out financially due to fraud and scams.

2.5 The proposed strategy does not make it clear that achieving this for consumers is one of PSR's main priorities and indicating that the use of data in payments will not be a priority is a key concern.

2.6 Section 6.17 of the consultation lists measures that will be used to monitor success in terms of the levels of transactions stopped and the level of authorised push payment fraud. Whilst we support these measures, the consultation does not provide sufficient information on what actions the PSR plan to take to improve these issues for consumers.

2.7 The only action we can see against the priority *to ensure users are sufficiently protected* is at section 5.52 which states "*we will consider how best to develop Pay.UK's governance of the interbank rules".* There is a lack of detail on how this will achieve the outcome of providing sufficient protection for consumers.

2.8 Section 6.16 states the PSR proposes to measure the extent to which victims are being compensated under the Contingent Reimbursement Model Code (CRM code). However, a number of NI based banks are not members of the CRM code for Authorised Push Payments scams. According to the UK Finance "Fraud – The Facts" document[1] Danske Bank, AIB and Bank of Ireland are not signatories to the code.

2.9 The report also indicates that the majority of consumers are not receiving compensation when they fall victim to fraud. The APP Fraud section of the document states that, of the £387.8 million lost in personal APP scams, only £170.8 million was reimbursed to consumers, which equates to 44%. Of those signed up to the code, there was £311.8 million lost to fraud, and only £147 million (47%) was reimbursed to consumers. Therefore, regardless of whether consumers' banks are signed up to the code or not, less than half got their money back.

2.10 We are also aware from our discussions with the Financial Ombudsman Service that it is upholding a significant majority of cases in favour of consumers that have not been reimbursed by banks when they have fallen victim to fraud. Over half are not getting their money back according to UK Finance, but we do not know how many of these actually appeal the decision of the service provider.

2.11 If the Financial Ombudsman is overturning the majority of relevant cases in the favour of the consumer, the code is being applied inconsistently. There is a lack of transparency on the rate of reimbursement to consumers who fall victim to fraud, so it is not possible to understand why there is such a low rate of protection for consumers.

2.12 There is also a lack of clarity on which banks perform better than others in terms of reimbursement for consumers. This is a difficult picture to understand as it could be the case that firms which return money to consumers that fall victim to fraud may be performing badly in terms of preventing the fraud in the first place.

[1] Fraud The Facts 2021- FINAL.pdf (ukfinance.org.uk)

2.13 The Consumer Council believes that the PSR, as the regulator, needs to be able to satisfy itself that all service providers are delivering the best level of protection for consumers and that where these protections fail, consumers are being reimbursed. Without a level playing field it is difficult to understand which service providers are meeting the needs of users/consumers or whether users are sufficiently protected.

2.14 Scams are becoming more of an issue for consumers, particularly as we increase our use of online banking and payment services. Our own research[2] with consumers on their views of increased digitisation shows that online fraud for financial services is still a key concern. The rates of reimbursement for consumers are unacceptably low and do nothing to increase consumer confidence in digital payment services and banking.

2.15 The FCA recognises the needs for action on scams and states in its business plan that *"We need a collective effort at a national level to tackle fraud."* The Consumer Council believes the PSR needs to be part of that effort and this strategy should make it clear that tackling fraud and scams in UK payments systems is a priority.

2.16 Section 2.13 of the consultation states there are now better protections for consumers to reclaim money lost to scams, however, the statistics from UK Finance show that the protections are not enough. Focusing primarily on competition and innovation will not deliver better protection for consumers and therefore this has to be a priority for PSR as the regulator.

[redacted]

6 September 2021

[2] Consumer views on Digitisation which is yet to be published

Northey Point

Northey Point Limited

PSR Proposed Strategy Consultation (CP21/7)

This paper sets out Northey Point's response to the PSR's proposed strategy (CP21/7).

Introduction

Mike Chambers is a recognised authority on retail payments and, as Chief Executive Officer, led Bacs Payment Schemes Limited (Bacs), the UK's biggest retail payment system, from 2004 until 2018. During this time, he successfully steered the company through a record number of payment processing, technological, regulatory and innovative customer proposition 'firsts' including extending Bacs' product offering to include the ownership, management and market adoption of the Current Account Switch Service (CASS) and the Cash ISA Transfer Service.

During his time at Bacs, Mike also led the UK's systemically important RTGS payment system (CHAPS) as its CEO and operated the UK's Faster Payment Scheme as its first Chief Executive creating the Payment System Operator (Faster Payment Scheme Limited).

Mike was an integral part of the industry initiative which led to the New Payments Architecture (NPA) vision (including concepts such as Request to Pay and Confirmation of Payee), the regulatory endorsed merger of the UK's retail payment schemes and the formation of Pay.UK.

Having successfully merged Bacs into Pay.UK, Mike has developed a portfolio including roles as chairman, payments advisor, Non-Executive Director and ambassador. Mike also publishes a newsletter[1] which provides an informed insight into the UK's retail payments landscape.

Comments on the PSR's proposed strategy

Northey Point welcomes the publication of a new strategy by the Payment Systems Regulator (PSR) and the opportunity to provide feedback ahead of the confirmed strategy being published towards the end of 2021.

Having considered the proposed strategy document, we are pleased to provide the following feedback:

Desired Outcomes

Outcome 1: Access

[1] Payments:Unpacked www.payments-unpacked.com

Whilst we fully agree with the need to protect users of declining payment types (paragraph 4.8) it is vital that the PSR recognises that the UK is fast becoming a digital society and that digital payments reflect this wider societal change. Noting the careful balance between 'analogue' and 'digital' payments we are firmly of the view that to preserve cash for cash sake will, ultimately, only serve to leave people behind.

Paragraph 4.9 notes that Bacs Direct Debit and Direct Credit are widely used and depended upon but suggests that that may not meet the needs of all users. We note that (a) there are already a range of alternative payment options that are seeking to establish themselves in the marketplace. One of these is Request to Pay and which would benefit from PSR intervention to gain traction. Equally, as signalled in previous Northey Point submissions, the 'narrow, Faster Payments first, strategy risks the danger of any detriments in Bacs Direct Debit and Direct Credit not being addressed as, in effect, the strategy for these significant payment systems appear to have been set in aspic.

As part of the new PSR strategy it is important to consider why the slow adoption pathway of new overlay innovations such as Request to Pay has occurred (paragraph 4.10). It would be helpful for the PSR to consider whether it needs to intervene and review why market adoption of new overlay services appears to be slow given the underlying end user demand and corresponding global activity.

Outcome 2: Protection and Confidence

The cost of providing the UK's payments infrastructure is difficult to determine in the context of the UK's 'free in credit' banking model. This challenge is compounded by the fact that consumers do not (a) see the cost in the current account they use, (b) that most retail payments are processed free of charge and (c) the consumer often has unrealistic expectations when 'something goes wrong' with a payment.

Whilst it is important to stress the personal liability we all have when making payments (paragraph 4.21) it is important that an appropriate focus is centred on education and the provision of tools such as Confirmation of Payee. Northey Point has long campaigned that '[safer payments need service ubiquity'](safer payments need service ubiquity).

The current use of Faster Payments and the potential new use cases does not reflect the use that were originally intended for this payment scheme and, on this basis, the protection model is not fit for purpose for a number of uses. Unlike card payments and Direct Debit, the level of consumer protection in Faster Payments is limited and has resulted in an inequitable and unsustainable protection model. There needs to be a better protection model for users of Faster Payments, differentiated by the 'flavour' of payment type used within Faster Payments.

When considering the scope of Outcome 2 it is important that the PSR considers whether the Direct Debit Guarantee remains appropriate, fit for purpose, and appropriately balanced between stakeholders. Some 50 years after its launch is the unlimited Guarantee in time and amount still appropriate?

Over the past few months, we have seen a card operator proving that payment protection can be a competitive issue.

Some years ago, ‘bank error’ and ‘customer error’ payment recovery processes were developed for Bacs and Faster Payments respectively, to what extent could these mechanisms be developed to increase confidence and protection when ‘payments go wrong’?

Paragraph 4.35 considers the likelihood of new payment systems establishing themselves here in the UK, does the role, scope and remit of the PSR permit sufficient flexibility to adapt to a radically new mechanism?

Outcome 3: Effective Competition

The development of new overlay services had been reduced due to the delay in delivering the proposed NPA. Given that real end user innovation will occur at the overlay level to what extent should the PSR be considering whether intervention is required to stimulate competition in the meantime – especially given that we are unlikely to see the NPA facilitating overlay innovation for the duration of the five-year PSR strategy.

To what extent is the disintermediation of the physical debit / credit card by smartphone based virtual wallets and Open Banking solutions an area that the PSR ought to be considering?

True development based incentives and promotion is very difficult to achieve with a not for profit / non-interchange based payment system operator. This position presents an inequality when compared to for profit payment system operators.

Given the significant innovation occurring within the Open Banking space we would expect that Open Banking initiatives, regulatory focus and Open Banking’s relationship with payment schemes to feature within the scope of Outcome 3.

Outcome 4: Efficient and Sustainable

Unwrapping the true opportunity of ISO20022 has long been discussed and, apart from the RTGS Renewal programme, largely unaddressed. Reference Northey Point blog: Moving with all the alacrity of an arthritic glacier.

Outcome 4 makes reference to the part standards play in the area of reconciliation, it is important to note that services seeking to achieve market adoption are already focussing on the challenge of reconciliation. For example, Request to Pay offers end to end immutable reference data.

We note the high expectation on the proposed NPA to unlock the use of ISO 20022 in the UK’s payments landscape and consider this to be a significant dependency and, therefore, risk.

We also note that the strategy does not reflect the role that Open Banking will have in establishing new payment standards. Indeed, Open Banking is already utilising overlay services based on new standards to provide innovative solutions.

It is our view that setting payment standards within an organisation like Pay.UK and / or Open Banking limits the applicability and obligations to comply.

Priorities

Priority 1: Access

True access and real choice to payment types is vital as Burkhard Balz of the Bundesbank, states:

> "*Consumers should be able to decide for themselves how they pay. For us, it is important to have a broad mix of options and that efficient methods for payment are available.*"

It is worth considering, however, where competition and choice best occurs. To be an effective scheme Direct Debit is offered on an equitable basis but there is plenty of opportunity for differentiation, innovation and competition in the provision of overlay services. Conversely developing different 'flavours' (or attributes) of a Faster Payment provides significant opportunity for Near Real Time / Real Time innovation. Such innovation could support levels of consumer protection, non-repudiation and batch options, although this would require a move from the 'narrow, Faster Payments first' strategy for the NPA.

Sometimes there are factors outside of the payment system operators (and the regulators) control – for example; constraints imposed by smartphone hardware and operating systems.

It is encouraging to see that the strategy considers the subject of access to cash and seeks to address the needs of those that have to or want to rely on physical banks, but it is ultimately important for the good of all in society that digital alternatives are also considered.

We are concerned that the positioning of paragraph 5.23 suggests a fixation on whether (or not) Bacs Direct Debit and Direct Credit provide sufficient flexibility. Whilst the flexibility of these payment instruments is an important matter, we suggest that the PSR should take a more holistic and wider view on the payments eco-system and the suitability of alternative solutions to address any functionality gaps.

In describing what the PSR will do (also paragraph 5.23) we would urge the PSR to unpack why the adoption of overlay services such as Request to Pay and Confirmation of Payee has not been ubiquitous and adoption has been slow.

This aspect of the PSR's focus should also understand the opportunities and risks of new payment systems developing or entering the UK - e.g. payments linked to social media platforms and CBDC / crypto payment systems. In this light the criteria and timing of any new system designation needs to be clearly determined.

Whilst we agree that any activity must take into account the perspectives of vulnerable consumer groups (paragraph 5.27) we'd also argue that it is important that the payment protection of all users is clearly understood and articulated.

The strategy clearly articulates a desire to protect access to cash (paragraph 5.29) but it is important to recognise that to preserve cash for cash sake will, ultimately, only serve to leave people behind.

Priority 2: Protections

It is important that the PSR strategy considers appropriate mitigants and protections that pre-empt fraud occurring. We note that over the last 12 to 18 months, probably as a consequence of the introduction of the Confirmation of Payee service, there appears to have been a disproportionate fraud liability shift towards the end user.

We believe that there is a clear case for differentiation of types of Faster Payments which could include a type of payment that offers clear consumer protection, however we note that the narrow, Faster Payments first NPA strategy may preclude such innovation.

We also note that the adoption of services that provide end users with additional levels of protection can experience slow adoption because they are dependent upon actions of other banks which often result in services being constrained by the lowest common denominator. This challenge was first surfaced some 21 years ago in the Cruickshank report.

Protections are also often constrained by the need for user consensus and not for profit operators of payment systems are often constrained in making changes.

Notwithstanding the importance of the payment schemes offered by Pay.UK and the protection it delivers through the rules and its governance process, we believe priority 2 is too focussed on Pay.UK and needs a more inclusive application (paragraph 5.52).

Priority 3: Competition

We are supportive of the two-pronged focus to (a) promote competition between payment systems and (b) supporting and developing other interbank systems to provide greater competition. That said, the merger of Bacs and Faster Payments into Pay.UK's guardianship has reduced the occurrences of interbank payment system competition.

Similar to comments made elsewhere in this response the success of Priority 3 appears to have a disproportionate focus on Pay.UK. We'd argue that the PSR should be open to the fact that the fulfilment of this Priority might emanate from sources other than Pay.UK.

Priority 4: Renewal and governance of interbank payment systems.

Whilst this Priority could encompass a wide scope it is clear that the PSR consider the primary focus to be that of the proposed NPA and Pay.UK's responsibility to deliver the new architecture. If this is the intention it might be useful for the priority to be more clearly defined.

Different ownership models, commercial incentives, funding and governance arrangements makes the PSR's achievement of Priority 4 difficult to achieve.

Given the current status of the NPA programme, the narrow Faster Payments first strategy, the proposed NPA timeline, Pay.UK's governance, organisational and funding model we question whether the desired outcomes relating to the priority can be fulfilled during the five-year lifespan of the PSR strategy (or even a ten-year horizon).

We note the reference to Pay.UK funding dependencies (paragraph 5.97) and (a) question why, after many years, the NPA programme has yet to have an agreed business case and funding model and (b) why Pay.UK does not have an agreed approach to supporting and promoting overlay services such as Confirmation of Payee and Request to Pay.

Issues to keep under review

Given the increased importance of cross border trade in a post Brexit economy we question the decision of the PSR to leave cross border payments under review.

Notwithstanding the cost, complexity and friction in cross border payments, it seems that cross border payments have been excluded due to current payment system designation and the probability of powers enabling regulatory resolution. This apparent assessment appears to be the wrong way round – i.e. if there is a detriment then should it not be addressed?

It seems strange to rely on alternative initiatives like the BoE's RTGS Programme given that that programme is unlikely to address the underlying issues with cross border payments.

Proposed Measures

Priority 1

It is a concern that the PSR does not have the data or information to measure the impact of its actions. Whilst we agree that data collection and analysis should not become of primary focus of the PSR it is difficult to understand and substantiate the success (or otherwise) of both the PSR's achievements to-date and of the desired future regulatory outcomes outlined in the proposed strategy without the availability of functional measures.

Paragraph 6.7 suggests a very narrow engagement focus on a small number of organisations, it is important that measures are developed in conjunction with a wide variety of stakeholder groups.

Paragraph 6.8 appears to focus on direct alternatives to ATM's rather than the extent to which alternative digital payment options address the issue of ATM availability.

Paragraph 6.9 suggests a measure that has some duplication with the role and reporting of the Bank of England's regulatory objectives.

There is a danger that some of the PSR's desirable outcomes might be outside of the control of a payment system operator.

The proposal to undertake periodic research regarding transaction choices and how people and businesses make payments might be better fulfilled by utilising the data published by UK Finance.

Priority 2

We support the utilisation of UK Finance fraud reporting as a definitive source of payment fraud vectors.

Whilst measures to determine the effectiveness of the Contingent Reimbursement Model are vital it is important to understand (and measure) the effectiveness of activity undertaken to prevent the fraud occurring in the first place. That said, we understand the difficulty in determining such measures as, for example, with Confirmation of Payee it is impossible to determine the effectiveness of an in-app message when a person initiates a payment.

Priority 3

When collecting payment system transactional data, it is important to address how 'on-us' transactions are handles, especially when a PSP with large market share routes 'on-us' transactions outside of a payment scheme.

Priority 4

The focus of Priority 4 and the measures outlined on page 76 appear to be fixated on Pay.UK to the detriment of other payment system operators. The schemes operated by Pay.UK are not the only inter bank payment solutions today and, we suspect, not in the future.

We would question the effectiveness of a measure that considers the number of rule changes as measuring the number seems to be a blunt instrument.

Also, we question whether the proportion of transactions migrated from Faster Payments and Bacs to the proposed NPA is, in itself, a suitable measure of innovation and competition.

Whilst we consider that new entrants into the provision of overlay services might be a useful indicator, we believe that such a measure (a) fails to address the market adoption of overlay services by existing providers (e.g., lack of market adoption with Request to Pay) and (b) measuring the entrants as a finite number neither proves nor disproves adoption (e.g. providers of Confirmation of Payee overlay services).

Measuring the number of direct participants is a useful but appears to be counter to the objective of the PSR to ensure a vibrant and competitive indirect access payment scheme model.

Overall, we believe that the proposed measures provide a useful starting point but will need a significant amount of unpacking and focus. Such unpacking will, of course, include what action would be taken based on the output from the measures.

Mike Chambers

[redacted]

September 2021

NoteMachine

PSR: PROPOSED STRATEGY

NoteMachine response

Summary

1. NoteMachine welcomes the opportunity to submit its response to this consultation, given our long-standing commitment to protect free access to cash in the UK. NoteMachine is fully engaged with policymakers, officials, regulators, retailers, financial institutions, and consumer groups on this issue.

2. We welcome the Payment Systems Regulator's (PSR) commitment in its strategy to ensure there is good geographic availability of free to use ATMs. It is key that this coverage is distributed based on where there is need, and that free access to cash is made available close to hubs of economic activity, where cash is being used.

3. Millions of individuals and businesses rely on a robust cash depositing and withdrawal infrastructure as part of their everyday activities. It is of vital importance this is protected to ensure the needs of people and communities across the UK.

4. As part of our response to the consultation, we would like to highlight NoteMachine's disappointment that the PSR has so far failed to intervene in the ongoing reduction in free access to cash. Successive cuts to the interchange fee and the removal of the independent fee setting mechanism by LINK have made it commercially unavoidable for providers like NoteMachine to have to convert some of their ATM estate to a pay to use basis.

5. We would urge the PSR to intervene and correct the damage and harm done to the UK's cash infrastructure, caused by LINK's decisions and failure to protect consumer's free access to their own cash.

Question 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.

6. The PSR's strategy refers to a decline in the use of cash, with retail payments increasingly being made using digital payment methods. Whilst we accept the use of cash in society is declining, for millions of people cash remains essential to everyday transactions and therefore protecting access to cash is key.

7. We have consistently seen a correlation between the successive loosening and tightening of Covid restrictions, and the volume and amount of cash being withdrawn across the UK. It is clear that when restrictions have eased, cash withdrawals have increased – this demonstrates that there is a clear link between cash demand and economic activity.

8. Additionally, whilst cash usage is yet to return quite to pre-pandemic levels, statistics from LINK compiled by This Is Money show that during the pandemic, in periods when restrictions were lifted or eased, both the volume and value of cash withdrawals from ATMs spiked.[1]

9. As LINK figures published in May 2021 show, a significant percentage of the UK adult population still regularly uses cash. In terms of ATM usage since the pandemic, 44% of people in the UK are using an ATM at least once a fortnight, and 68% at least once a month. Only 6% of people said they never used an ATM.[2]

10. This evidence of high cash withdrawals from ATMs across the UK population demonstrates why the ATM infrastructure must be protected not just for more vulnerable consumers, but for the right of everybody who chooses to transact in cash.

11. Data published by the Association of Convenience Stores (ACS) also shows that cash has continued to be used for the vast majority of payments in its members' stores throughout the pandemic. Pre-pandemic, cash was responsible for between 70-80+% of transactions, and since April 2020 has continued making up around 60-70% of transactions.[3]

12. We therefore welcome the PSR's commitment to ensure good availability of cash from free to use ATMs. NoteMachine has made every effort to continue offering access to as many of its ATMs for free as possible. However, in many cases this is at a loss to NoteMachine and successive cuts to the interchange fee and the removal of a fee setting mechanism have made it commercially unavoidable for us to have to convert some ATMs to pay to use.

13. NoteMachine has long been calling for a sustainable and fair solution to interchange fees that ensures the public continued free access to cash where it will be needed, and the economic sustainability of the ATM infrastructure. It is crucial a fair settlement for the interchange fee is achieved so independent ATM deployers (IADs) like NoteMachine can continue to provide vital support to communities across the country, enabling consumers to access their cash for free.

14. We believe there is a simple solution to protecting free access to cash. The interchange fee should once again be set by an independent cost assessment, thereby reflecting the true costs of transactions fairly. A tiered or zonal interchange fee should also be introduced so ATM infrastructure funding is distributed fairly throughout the UK. This will protect ATMs throughout all communities, regardless of their population and withdrawal volume levels.

15. As well as it being hugely important to protect free access to cash in people's communities, it is of greater importance that free access is made available nearby to hubs of commerce – such as clusters of retail or hospitality venues – where cash is being spent. NoteMachine is campaigning to ensure that sufficient cash facilities exist in locations where cash is required, and that people living

[1] See appendix A
[2] LINK, ATM use up by 18% as lockdown restrictions ease, 6 May 2021
[3] See appendix B

rurally aren't further disadvantaged. Cash must be accessible where cash is used, and often one cash machine may not be sufficient in locations that have high levels of demand.

16. The ongoing closures of bank branches and the conversion of ATMs to pay-to-use has been to the significant detriment of small businesses in particular. Many small businesses rely on customers who pay using cash and it is frequently a cheaper form of payment for merchants to process than card payments, as shown to be true by research published by the Bank for International Settlements.[4]

17. Card transactions are more costly for retailers to process due to the charges levied by payment providers on merchants. Whilst a transaction will be identically priced for a customer whether they pay by card or cash, in real terms those paying with cash are offsetting the true cost to the merchant of the transaction for those paying by card.

18. Whilst it may be cheaper to accept payments by cash, small businesses will not be able to if the facilities required to deposit cash at the end of the business day aren't available to them. Whilst NoteMachine is making every effort to ensure continued free access to cash, it is equally essential that business have convenient access to inbound cash depositing facilities. If inbound facilities (e.g. banks and post office branches) continue to be removed, businesses may not be able to accept cash, further reducing consumer and business choice.

Question 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.

19. The options for people to choose to pay for goods and services is broadening, and digital payments are increasing. However, cash remains the default choice of payment for millions of consumers. Businesses too are suffering from an eroded cash infrastructure. Whilst many particularly small businesses prefer to transact in cash, the decline in facilities to deposit it means increasingly businesses are preferring to accept payments by card.

20. As competition and innovation accelerates across payment systems, the individuals and businesses who want to use cash every day cannot be overlooked. The UK's free to use ATM infrastructure has suffered from successive cuts to the interchange fee and the removal of an independently set fee setting mechanism. This has unfortunately made it commercially unviable for IADs to operate some ATMs on a free to use basis. This is despite the best efforts of providers like NoteMachine to protect continued free access to cash through ATM networks.

21. Alongside the reduction in free outbound access to cash, the ongoing closure of bank branches and post offices has simultaneously reduced the network of inbound cash facilities. The ongoing closures of bank branches and the reduced ability, particularly for small businesses, to conveniently deposit cash at the end of the business day means there is an increased hesitancy towards accepting cash at the till.

[4] Bank for International Settlements, Annual Economic Report: III. CBDCs: an opportunity for the monetary system, 23 June 2021

22. If inbound cash facilities are not easily accessible or there are additional costs involved (such as by contracting a cash collection service), then business owners are forced to travel further to deposit cash at a bank branch, or risk their safety and security by holding large amounts of cash on their premises. This is likely to lead to a position where despite there being high demand for cash as a form of payment, businesses are unable to accept it as they are without the means to deposit it.

23. NoteMachine is fully engaged with banks and payment account providers, as well as communities, retailers and other stakeholders to deliver innovative solutions to help plug the gap left by the ongoing programme of bank branch closures. Significant investment by NoteMachine and other IADs is helping to protect or replace vital banking services for communities stricken by branch closures by providing new inbound cash facility solutions.

24. It is disappointing that there has so far been a lack of intervention from the PSR to ensure IADs can deliver a robust ATM network in a competitive market place. The PSR has failed to intervene to help deliver a sustainable solution to correct the ongoing closures of bank branches and commercial unviability of operating a free to use ATM network. This has left many without access to cash deposit and withdrawal facilities, thus removing choice for the millions of individuals and businesses who use cash.

Question 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.

25. As explained above, given the successive cuts to the interchange fee and the removal of a fee setting mechanism by LINK, it has become commercially unavoidable for NoteMachine and other IADs to convert some of their ATM estate to a pay to use basis. It is of vital importance that a solution is implemented with urgency, to ensure the sustainability of the ATM estate and the protection of vital free access to cash facilities for consumers.

26. NoteMachine believes the interchange fee reductions have breached competition law as they prevent, restrict, and distort competition. This decisions conflicts with LINK’s and the PSR’s regulatory duties to protect free access to cash in the UK.

27. NoteMachine believes the lack of intervention by the PSR in this matter, to ensure IADs can deliver a robust ATM network in a competitive market place, is regrettable. LINK’s decision and the PSR’s failure to intervene on the matter has left many without access to cash deposit and withdrawal facilities, thus reducing choice and disadvantaging the millions of individuals and businesses who use cash.

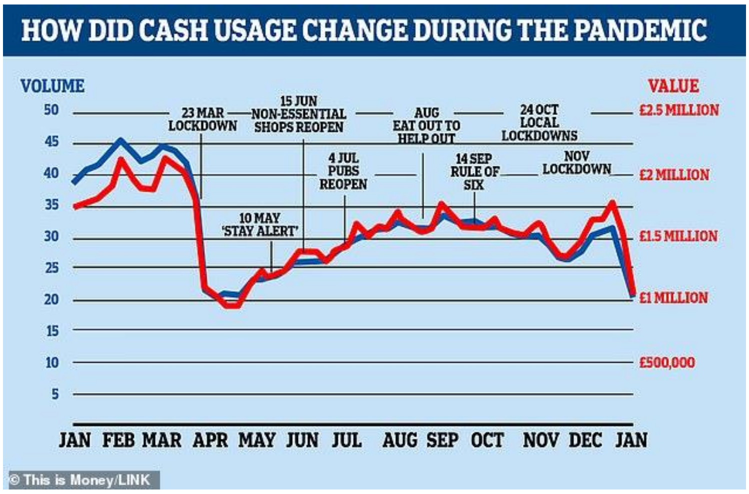
28. NoteMachine is urging the PSR to intervene and reverse LINK’s decision as a priority to ensure the cash access infrastructure which is of vital importance to millions of individuals and businesses, is protected and ensuring there is fair competition in the marketplace.

Question 7: Do you know any existing sources of data we can use to assist our metrics?

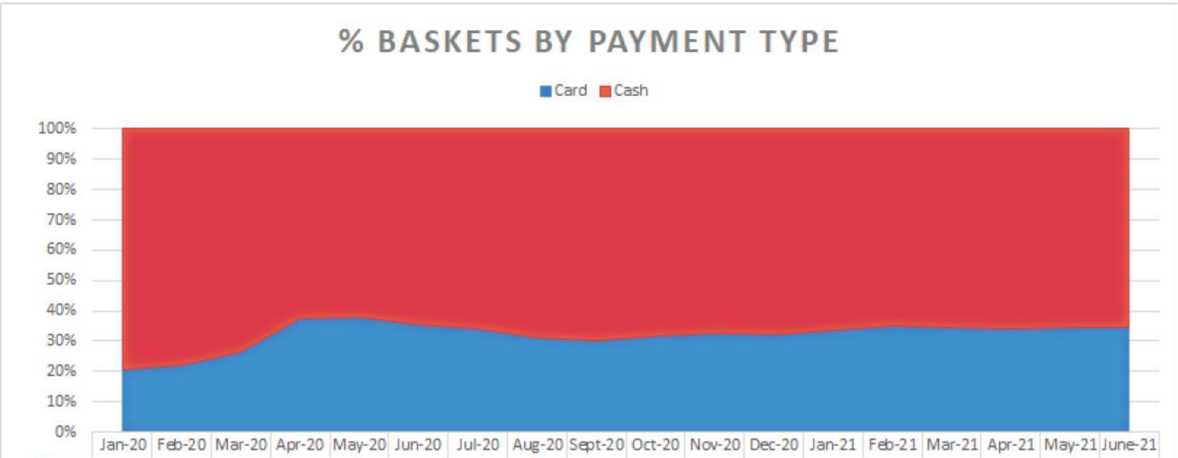
29. As our response has highlighted, there is a wealth of data from LINK demonstrating that cash is still in high demand from a significant proportion of the UK population. Data from the ACS also highlights that cash forms the bulk of transactions that convenience stores process, far exceeding payments by card. Ultimately, alongside the growth of alternative payment methods, a significant number of people choose to use cash or rely on it as they do not have access to alternatives.

30. We would urge the PSR to actively consider this data and the role it plays in demonstrating that cash is very much still actively used by individuals and businesses in all parts of the country. The absence of sufficient intervention from the PSR to adequately protect the UK's cash infrastructure is regrettable, and the millions of individuals and businesses who use cash have been overlooked by the regulator.

Appendix A



Appendix B



	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sept-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	June-21
Cash	80%	78%	73%	62%	62%	64%	66%	69%	70%	68%	67%	68%	66%	65%	66%	66%	66%	65%
Card	20%	22%	27%	38%	38%	36%	34%	31%	30%	32%	33%	32%	34%	35%	34%	34%	34%	35%

Open Banking Implementation Enitity - Consumer and SME Representatives

To: [redacted]

CC: [redacted]

Date: 7 September 2021

Dear Imran and Chris

Securing the Success of Open Banking Payments

We are writing to you to spell out our concerns that open banking payments may fail to deliver their intended benefits because of some critical and unresolved risks. These risks have been highlighted in recent work completed by the Open Banking Implementation Entity (OBIE) including the joint working group between OBIE and the PSR. They are also alluded to in the PSR's 5 Year Strategy. In both cases the risks are clear, but the action plans lack urgency and specificity.

We share PSR's objectives for open banking payments and agree with paragraphs 5.68 and 5.69 of the draft strategy paper. Open banking payments are the primary potential source of competition to cards, offering choice, control and convenience. The development of VRPs adds additional competitive functionality.

However it is clear that there are a number of strategic challenges facing open banking payments – indeed one of these risks was accurately described as "existential" in a recent OBIE paper.

Risk One: Fraud

We have already seen the first significant fraud attack on open banking payments. It appears that open banking payments have been the target of both authorised and unauthorised payment fraud. Today, these journeys offer no Confirmation of Payee check and there is no structured means to pass data from the PISP to the ASPSP to support them in making a fraud decision.

OBIE has pulled together a tactical action plan, but emerging strategic work needs full regulatory backing and an urgent timescale. The danger of inaction is significant as there is a risk that ASPSPs take unilateral action, through warnings or delaying or declining transactions, which discourage users from proceeding even with legitimate transactions and encourage a return to card payments. OBIE has undertaken some excellent work on Transaction Risk Indicators, but without regulatory backing it will go nowhere.

Risk Two: Customer Protection for undelivered or sub-standard Goods and Services

This topic was extensively reviewed at the Consumer Protection Working Group (CPWG), which we lobbied to include in the CMA's Revised Roadmap. The work included some excellent analysis, but a weak set of recommended actions. The work underlined the significance of the 'protection gap' between open banking payments and card payments and the risk that high-risk merchants have a financial incentive to adopt open banking payments as a means to reduce the costs they pay towards protecting consumers. This could, over time, cause transactions (especially higher risk ones) to migrate towards the payment rails with the lowest level of protection, without consumers exercising a choice or understanding the consequences. This risk was rated the highest by the OBIE End User Risk Committee.

For us, the CPWG's recommended actions represent a minimum set of next steps, but on their own they will generate slow progress, which could even then be jeopardised by the impending transition to a new governance structure for OBIE. Meantime there is scope for increasing consumer risk and harm, in proportion to the growth of OB payments.

Success of open banking payments cannot come at the expense of consumer protection – and moreover, the entire ecosystem could be exposed to negative publicity, loss of end user trust and resultant low levels of adoption.

We are concerned about the approach outlined in your strategy document of reforming pay.uk and appointing it to develop a conduct regime. We would need significant reassurance on roles, responsibilities and timescales before we could support this approach as the best way to promote the competition we all seek.

Risk Three: Customer Journeys and Availability

At present, it appears that only around two thirds of open banking journeys are successful and many TPPs have highlighted low consent rates as a critical impediment to their business. Open banking availability is typically around 99.0 – 99.5% (99.5% in July's MI), significantly below any other payment scheme. This is a conduct and systems and controls issue for regulated payments providers, but one where widespread poor performance leads directly to adverse competition outcomes between payment systems. OBIE has worked hard to improve root cause analysis around failed journeys, so that market participants can improve standards, but this work is struggling to gain traction because of concerns around the cost of further improvement. Unfortunately, there is no corresponding analysis of the potential benefits.

It seems unlikely to us that we will ever achieve a breakthrough level of participation for open banking payments when so many journeys fail.

Risk Four: Consumer Awareness and Trust

For consumers to adopt at scale, they must trust open banking payments. Current evidence suggests that they don't, or don't even understand open banking payments. It is unlikely that open banking payments will thrive in such conditions. Discussions on trustmarks in the past failed to move forward because they didn't distinguish between data and payments – which are fundamentally different. Now is the time to reinvigorate this discussion. This discussion could also include a pragmatic review of whether a Scheme would enable greater growth in open banking payments, and greater clarity for all participants, and a realistic appraisal of how one might be established and operated, and how quickly this work could be done.

The Unique Challenge of Open Banking Payments

It is often stated that these risks need to be addressed at the level of all inter-bank payments. In our view, open banking payments present a fundamentally different challenge and risk profile for five main reasons:

1. Open banking payments can provide a genuinely better merchant payment experience and are therefore more likely to be a substitute for card payments in sectors such as e-commerce. The protection gap is therefore significantly more relevant for Open Banking Payments.
2. Open banking payments are part of a competition remedy, and one which is under threat because the Trustee lacks a mandate to address these "existential" risks.
3. There is a clear and present danger on fraud. Open banking payments represent a higher level of exposure and risk to end users and the likely response from ASPSPs could choke off growth and adoption of open banking payments
4. A particular and unique aspect of open banking payments is that the PISP will in many cases know more about the nature of the payment than the ASPSP. Yet there is no standard way for this information to be passed from PISP to ASPSP, or any requirement for the information to be accurately completed, or used by the ASPSP.
5. There are unaligned incentives[1] in the open banking payments ecosystem, meaning that leaving the market to resolve these risks is unlikely to be successful.

For these 5 reasons, we strongly believe that considering open banking payment risks alongside all inter-bank payments will be excessively slow and unlikely to address the specific issues highlighted here. We are also deeply concerned that a slow response will allow the risks to crystallise and the open banking payments market to be permanently tarnished. So we recommend a separate Open Banking Payments strand in your strategy.

Existing Initiatives

This is a crowded space with a number of overlapping or competing initiatives or consultations. Whilst we welcome the attention focused on payments, it concerns us deeply that the end user will get lost in this process and that progress will be slow and disjointed. The issues are urgent: what action would be taken, for example, if a major airline or holiday company started encouraging consumers to pay via open banking payments[2]?

We have reviewed the PSR's 5 Year Strategy and recognise that a number of these issues are highlighted in it in broad terms. However, we have some significant concerns with the way that the PSR proposes to address these risks.

Firstly, the strategy considers risks at the level of inter-bank payments without considering open banking payments separately. This will slow down any response and overlook the very specific nuances of open banking payments. We are concerned that the PSR's strategy acknowledges the protection gap that could exist, but has already made the assumption that the solution lies in the domain of Pay.UK at the level of interbank payments. Open Banking payments have distinctive features and applications which offer the only serious source of competition, but which require a separate strand in the strategy.

[1] For example: there is limited incentive for PISPs to provide protection (as they will find it harder to compete with cards); there is limited incentive for ASPSPs to optimise journeys beyond what is required under regulation (because ASPSPs have a significant interchange income stream to protect, in the region of £1.4bn per year); there is an incentive for higher risk merchants to adopt open banking payments because their risk profile means that their card costs will be very significant.
[2] This is not a theoretical question. We understand at least one PISP is already developing business plans to target the travel sector. Airlines and holiday companies are an attractive sector because card solutions involve lengthy delays before funds are released to the merchant.

Secondly, the PSR strategy highlights competition as a means to resolve many of the challenges facing the payment market. As we outline above, the competitive and economic drivers in the payments market are very likely to drive poor outcomes for end users in terms of protection.

We acknowledge the wide-ranging and collaborative work UK Finance has begun on Open Banking payments, but we think it is subject to the same misaligned drivers that OBIE has contended with and is therefore unlikely to achieve results sufficiently quickly. We also acknowledge PSR's preference for a market-led solution across all interbank payments, led by a reformed Pay.UK.

Our Request

It is also clear that all four of these critical risks have a common element: the Open Banking Trustee has limited powers to address the substance of the risk. The Trustee and OBIE have done some excellent work to set out potential options to address these risks – such as expanding transaction risk indicators – but without regulatory drive or mandate we fear that these ideas will go nowhere. This is particularly true given forthcoming changes to open banking governance which could make it even harder to undertake such analysis and develop proposals.

We therefore make 5 specific requests to move forward:

1. We are extremely concerned about Risks 1 and 2, related to fraud and payment protection. The Consumer Protection Working Group has finished without a clear action plan. As an immediate action, we ask for a comparable piece of work to be completed for Single Immediate Payments as has been completed for Variable Recurring Payments by OBIE[3], spelling out and clarifying the existing regulatory requirements on PISPs. This work should be led by OBIE, but would need support from the FCA and PSR. As with the VRP work, it may require external legal input. We are for example interested in what obligations Treating Customers Fairly and the FCA's proposed new Consumer Duty might have on a PISP's actions towards its customers in cases where a merchant presents a risk of bankruptcy (such as a travel company or airline). This work should consider whether a comparable set of Guidelines for payments should be created to mirror the work recently completed on Data.
2. So that we can start to have an informed conversation about the cost and value of consumer protection on cards, we urge the PSR to force disclosure of the costs of Section 75 and Chargeback. We regularly hear it stated as a fact that "if PISPs are obliged to mirror protections on cards there will be no financial case for open banking payments". Our understanding is that the data which would be needed to prove or disprove this point is held by payment providers and not reported anywhere.
3. UK Finance has kicked off a piece of exploratory work on open banking payments. We recognise UK Finance's ability to convene stakeholders and curate useful debate, and it's crucial that they bring in a range of viewpoints, not just of their largest members, if the work is to be helpful. We will also seek to provide end user perspective to the work. But we worry that they will ultimately not be able either to reach consensus on core issues, or be able to mandate any solutions. We request that the PSR (with FCA) stand ready to intervene if a solution in not reached within a realistic but demanding timeframe (See also Point 5).
4. It is clear that there are a number of overlapping, potentially conflicting, pieces of work relating to consumer protection and open banking payments (Treasury, UK Finance, OBIE, Pay.UK, PSR and the FCA). It is essential that the PSR acts as a central coordinator of all these

[3] This work is currently out for consultation and can be viewed here. It will be published shortly.

pieces of work, publishes a timetable and moves these pieces of work forward. A working group with published updates on each of the pieces of work would be highly beneficial.

5. Whilst the PSR may be minded to let workstreams already underway conclude before stepping in to take further action, we urge the PSR to be ready sooner rather than later to take action. We suggest that unless the updates we propose under Item 4 show material progress by the end of Q1 2022, the PSR should step in to take more decisive action rather than letting the market drift, the opportunity dissipate, and the risks of end user harm grow.

As well as these 5 actions, we also urge the PSR to consider open banking payments separately from broader questions of inter-bank payments, although recognising that they are a sub-set of this broader type of payment. As we set out above, open banking payments present a very different set of opportunities and challenges as compared to other types of inter-bank payments.

We trust that the PSR is able to address these points in their forthcoming response to its two Calls for Views.

We hope that this letter includes helpful analysis and an appropriate set of actions. We would also ask you to consider this letter to be our response to your 5 Year Strategy.

Yours sincerely

Mark Chidley	Francis McGee
OBIE SME Customer Representative	OBIE Consumer Representative

Pay.UK

Pay.UK's response to the consultation on the proposed PSR Strategy (CP21/7)

September 2021

Pay.UK's response to the consultation on the proposed PSR Strategy

Executive summary

1. Pay.UK welcomes the opportunity to respond to the consultation on the proposed PSR Strategy. We are largely supportive of the outcomes the PSR is aiming to achieve over the next 5 years, and the priorities set out to reach these outcomes.

2. We explain below how our future plans align with the outcomes the PSR is seeking to achieve, before turning to the PSR's proposed strategy more specifically. The main body of our response provides further detail.

Our role and the evolving payments landscape

3. The payments landscape in which PSR and Pay.UK both operate is increasingly complex and demanding: new technology and new payment service providers are changing the competitive landscape; the needs and expectations of users are growing; and what was once a purely domestic business of retail payments is becoming more international and global. Continual evolution in this external environment requires Pay.UK to change and itself evolve – whilst ensuring we continue to deliver a robust, resilient and cost-efficient payments platform to support the UK economy.

4. Against this backdrop, we have been developing our own future strategy. We need to be cognisant of the views of those in the current ecosystem and be agile in what we do so we are ready for future requirements and opportunities. You will see from our response that we consider our strategy and that of the PSR are broadly aligned. We see this as crucial to our success: the PSR strategy and its implementation will have a material impact on us. As an organisation, we also need to meet the expectations of FMID, and support our participants to meet their own regulatory requirements whilst being champions for innovation and competition in payment services so that collectively we deliver value to our end users.

5. To deliver this, our new strategy focuses on our role as platform leader: enhancing our current platform, including through setting new rules and standards; as well as scoping, procuring and building our next generation platform via the NPA programme, through which many of our responses to the evolving market will be delivered. As a platform leader, we will focus on adding value across the whole ecosystem and identifying where a collaborative approach will deliver more value in the long term.

6. The introduction of ISO20022 and the design and operation of the NPA will help deliver many of the **PSR Strategy Outcomes**: they will ensure <u>appropriate access, offer choice to end-users, and facilitate competition and innovation</u> in a range of different markets. We also want to facilitate <u>better conduct, including consumer protection</u>, including through NPA technical advancements, and agree that we can, and should, do more than some of our predecessor organisations have historically done in this area.

7. Our new strategy will require us to change as an organisation and we are devising a programme of work to support its delivery, including assessment of the impact on our capacity and capability, rulemaking abilities and legal powers. We recognise that our governance and funding models may need to evolve to reflect the platform leadership role that we are aiming for, and the changing nature of the services we support. Support for our work to drive this forward through the PSR's identification of these areas as a priority is welcome. Particularly important in key areas such as consumer protection, we also need to be assured that any new roles have a sound legal basis, would not take us outside of our risk appetite, and that the scope of activities covered by our rules mirrors the activities we are held accountable for. This too is relevant to questions of enforcing our rules. We want to continue to discuss with the PSR and FMID the respective responsibilities and roles of Pay.UK, our regulators, participants and other parties in this space. The PSR Strategy process provides an opportunity to begin those discussions and our response highlights some particular areas of focus we would like to explore further.

8. Appropriate sequencing and timing for the consideration and delivery of the different elements of our strategy is important. The development of the NPA and maintaining the resilience of our systems must remain our central priority and therefore we will need to ensure we balance delivery of our priorities to enable us to effectively achieve our aims.

9. We want interbank payments to offer a competitive alternative in the retail space, though we need to keep in mind that the card schemes currently operate fundamentally different business models to Pay.UK. We will need to work through the implications of Pay.UK, as a not for profit UK organisation, enabling competition with the global, for profit, card schemes. Increasing competition with cards and enhanced consumer protections are important and likely interlinked issues, which also relate to the funding models, needed to support both activities. This will need a significant further analysis.

PSR strategy – Outcomes and Priorities

10. We agree that overall the **Outcomes** the PSR propose are appropriate for the PSR to focus on over the next five years. They work together as a group, rather than as distinct elements: Payment systems that enable access for a range of users, provide appropriate protections and enable effective competition and innovation will be efficient. Similarly, those payment systems that are efficient will deliver access, protection and effective competition and innovation. We provide a fuller discussion in our response; but some of the areas where we think further consideration is required are highlighted below.

11. *Outcome 1: All users have access to payment services that meet their needs in terms of functions, quality, cost and other relevant factors.* This is not a static consideration, and therefore is an appropriate outcome in order to take into account any evolution of technology and changes to customer needs.

12. *Outcome 2: Users' interests are adequately protected when using payment services so that they can use systems and services with confidence.* Clarity between the PSR's and FCA's respective roles in this area would be welcome and it is important that the optimal regulatory tools (across the suite available to both regulators) be used to address specific issues.

13. *Outcome 3: Payment systems are designed and operated to enable effective competition in the provision of payment services*. Competition opportunities from rapidly advancing technology, and the emergence of new innovators means payments need to evolve and deliver enhanced benefits for end-users. This outcome would be an appropriate place for the PSR to incorporate the importance of innovation into its strategy (which would also be consistent with the PSR's statutory objectives).

14. *Outcome 4: Payment systems are efficient and commercially sustainable*. It is important to note that there are tensions between competition and commercial sustainability in all markets - including payment related markets.

15. We think the **Priorities** and related actions would be more effective if they made provision for broader application to all payment systems rather than being narrowly focused on interbank systems. It is important to recognise that many aspects of the payments landscape are fast moving, with new technologies being developed all of the time. The PSR will need to ensure its priorities are flexible and adaptable to these changes over time.

16. With regards to the PSR's delivery of its priorities overall, we anticipate that the PSR will undertake careful evidence-based decisions and proportionate approaches to take priorities forward. We see benefits of a targeted approach to the PSR's regulatory approach, with hard and soft regulatory intervention being appropriate in different circumstances.

17. We focus here on the key issues for Pay.UK and in our full response expand further on considerations about how best to take forward these priorities.

18. *Priority 1: Ensure users have continued access to the payment services they rely upon and support effective choice of alternative payment options.* Our new strategy is built on delivering choice and enabling the widest possible use of the payment systems we operate. We will continue to ensure that our payment systems meet the needs of a range of different participants and leverage technology to remove barriers to access and reduce cost wherever possible.

19. *Priority 2: Ensure users are sufficiently protected when using the UK's payment systems, now and in the future.* Confidence in our systems is critical to our success. We want to do more to help provide protection to consumers and are already working with the wider industry on solutions for prevention and detection of scams. We agree with PSR the ability to update our rules to reflect evolving requirements is important. As the operator of critical national infrastructure, a sound legal basis and internal capacity for any expanded role is vital. It is also important that the PSR considers the issue of consumer protection more broadly across all payment systems and not solely across those operated by Pay.UK.

20. *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.* Pay.UK will continue to focus on promoting competition within the NPA value chain as it is developed, pursuing a thin core so as to maximise the part of the ecosystem in which there is ongoing competition with participants and users free to choose their suppliers. We will ensure our rules around access and other technical aspects enable all overlay and other providers to engage in fair competition. New opportunities brought about by the NPA and the

use of ISO20022 will also create new markets in which competition can thrive. We are also keen to facilitate competition between those who use the NPA and the card systems through our aspirations to enable payments at point of sale through our systems. Enabling the transfer of funds is only one aspect of the establishment of a compelling retail alternative to cards.

21. Given the network effects that characterise payment systems, we agree with the PSR that there will likely be some cases where solutions to consumer detriments are reliant on collective uptake and where consideration should be given to central intervention to support delivery. As covered within the next priority, it will be important to consider who is best placed to provide any agreed coordination or mandate function in circumstances where collective uptake is deemed necessary, and that the boundaries between Pay.UK and the PSR are clear.

22. *Priority 4: Ensure the renewal and future governance of the UK's interbank payment systems supports innovation and competition in payments.* This priority is solely focussed on interbank payment systems rather than all payment systems that are under the PSR's remit. This may limit PSR's flexibility to respond to developments elsewhere in the payments landscape over the next five years.

23. The creation of Pay.UK and our independent governance was driven by an ambition to support greater innovation and competition in interbank payments. As described above, our new strategy recognises the need to strengthen our governance arrangements. We want our new governance, including our ability to make rules and standards, to enable us to drive forward with resilient, efficient payment systems which facilitate innovation and choice in the interests of all users.

24. Pay.UK maintains independence from participants in our decision making, and clear boundaries between us and our regulators are equally important. This is both so that there is not a replication of effort in respect of those tasks that are ours to deliver, and also so that we are not inadvertently pushed into a 'quasi-regulatory' role that ought to fall to the PSR.

PSR strategy – Implementation

25. Given the alignment in our strategic direction, and the importance of the interbank systems to the delivery of your Strategy, we want to work openly together to mitigate and address any risks to delivery of better outcomes for customers. We look forward to engaging further with the PSR as it plans the implementation of its strategy, and sharing our own plans in relation to important issues such as governance and funding.

26. As the PSR moves to operationalise some of its priorities, it will be essential for Pay.UK, and our participants to understand the timetable for particular workstreams. This is important so that we are able to appropriately resource our engagement with the PSR, other regulatory expectations which are upon Pay.UK and the industry more broadly, and also so as not to create difficulties with our critical path in successfully delivering the NPA. The Regulatory Initiatives Grid, maintained by the FCA, is a good example of how the PSR could provide this timetable. The Grid, in setting out the key initiatives, their expected milestones and touchpoints, is beneficial supporting internal planning and resource.

ADDRESSING THE CONSULTATION QUESTIONS

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

Consultation question #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.

27. We broadly agree with the PSR's analysis of the changes UK payment systems will undergo over the next five years and the features of those systems within the UK.

28. As the PSR have identified, the payments ecosystem is undergoing a digital transformation which has been accelerated by the COVID pandemic. The role of the interbank payments system has and will continue to evolve during this transformation. This is integral to our new strategy and we want to support and drive that change, predominantly through the NPA[1].

29. Our new strategy focuses on our role as platform leader, where we will undertake a stronger leadership role, and continue to coordinate rules and standards within our system for the benefit of our customers, end users and the wider economy. As a platform leader, we will focus on adding value across the whole ecosystem and identifying where a collaborative approach will deliver more value in the long term.

30. As a part of this we will speak with an independent voice – this will include publishing our opinions on key payments matters, decisions on what sits within our strategy, and our strategic roadmap. This will show what we are investing in, what we will achieve and when we will deliver. As a part of our leadership role, we will work to solve market detriments, when it is agreed with our regulators and legislators that we are best placed to do so.

31. As the PSR identified, PSOs do not directly recruit end users, and we note that this is a barrier to the adoption of some services we offer that could benefit end users such as PayM. We are, however, as a part of our future strategy, intending to enhance the PayM functionality to improve access in order to support its adoption where we can.

32. Like the PSR, we think that the payments sector is facing increased competition, driven by the emergence of new payment systems and services. New technologies like Distributive Ledger

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[1] The strategic objectives of the NPA, which highlight this ambition, are: (A)Robust, resilient and scalable: The NPA will remain robust and resilient while offering cost-effective scalability as the payments market and interbank payments' role evolves. (B) Adoption of the ISO20022 messaging standard: Enhanced data will enable the development of new interbank payment services. (C) Real-time capability, enabling flexibility and choice: Enabling real-time payments in new environments such as point of sale will provide end users with more choice on how they want to make payments. (D) Lower barriers to entry: Making it easier for new customers to join our system will grow the interbank payment system and enable the introduction of new payment services. (E) Safe and secure environment: as interbank payments evolve we will continue to offer a platform that offers safety and security for customers and end users. (F) Data benefits to customers and end users: We will ensure that data is made available to the market to facilitate the development of innovative, competitive services such as overlays.

Technology (DLT) and network effects from platforms in other industries are lowering the barriers to establishing a payment platform. A new platform may also be created at the behest of the Bank of England in the case of Central Bank Digital Currency (CBDC).

33. There are some details within the PSR's analysis that merit greater consideration. Namely, our role in the digitalisation of payments, trends in cheque usage, the commercial incentives of PSOs, and the future impact of APIs and ISO20022.

34. <u>Our role in the digitalisation of payments:</u> We acknowledge that debit cards have grown rapidly as the PSR has identified. However, while the *number* of payments is greater for debit cards than for FPS, the *value* of payments for FPS is more than three times that for debit cards. Further, the growth rate of FPS between 2015 and 2019 exceeds that of debit cards on both a volume and value basis[2], reflecting greater use of FPS by both consumers and businesses including that due to substitution away from cash and cheques.

35. <u>Trends in cheque usage</u>: The PSR has acknowledged the decline in the use of cheques between 2015 and 2019. Despite the infrastructure upgrade within ICS, during the COVID 19 pandemic, cheque usage has declined further with monthly volumes falling by 21%[3] and it remains to be seen how usage will develop as customers emerge from lockdown.

36. <u>Commercial incentives of PSOs:</u> We agree that our not-for-profit status means that commercial incentives differ between ourselves and, for example, the for-profit card systems. However, the UK situation is by no means unique with many international examples of PSOs with a not-for-profit status such as the National Payments Council India (NPCI) and Payments Canada. There are also some PSOs that do not have a commercial incentive because they are owned and run by the central bank, such as the PSOs of the real-time payments systems in Sweden and Denmark.

37. <u>The future impacts of APIs and ISO20022:</u> The PSR has identified the growing use of APIs and the migration to ISO20022 as areas that will cause change in the industry. This is particularly true for our payment platforms. Improved API connections will enable wider and easier access to our systems, combined with enhanced data carried in the ISO20022 messaging standard, and will therefore facilitate the development of new and innovative overlay services. We believe that the significance of these two developments, and in particular the ISO20022 migration, should not be underestimated and may have more impact than anticipated by the PSR.

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[2] See data in UK Finance Payment Markets Report 2020 p. 48-9

[3] Internal analysis – average monthly volumes from March 2020 to June 2021 are 21% lower than the previous 14 months

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

Consultation question #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.

38. We agree that overall the outcomes the PSR propose are appropriate for the PSR to focus on over the next five years, and believe that each outcome plays a role in achieving a balance of promoting competition and innovation in a way that benefits all end-users. However, it would be helpful for the outcomes to more strongly capture the importance of innovation (which would also be consistent with the PSR's statutory objectives).

39. We see that each outcome will help work towards the achievement of the others; ensuring users interests are adequately protected will be important in users having access to payment services that meet their needs. Ensuring payment systems enable effective competition will be important in ensuring efficient payment systems.

40. Below we comment on each of the outcomes the PSR has proposed in its document. Much of what follows focusses on our role within delivery of these outcomes – this is because the PSR's strategy document has a clear focus on interbank payments.

41. Pay.UK has already played a role in working towards these outcomes, and we see a key and more developed role for ourselves going forward.

42. It will be important to ensure any overlap or necessary alignment with other bodies is considered and clear boundaries are set. This is particularly the case with outcome 2, where, for example, the PSR has taken a role in issues such as APP scams but where the FCA currently also has remit in conduct issues and regulating PSPs.

43. <u>Outcome 1: All users have access to payment services that meet their needs in terms of functions, quality, cost and other relevant factors</u>: This outcome is important in ensuring businesses and consumers have access to payments systems that serve their needs and therefore can access their benefits. The better understood and served customers are, the more competition and innovation will be appropriately targeted which will improve the function, quality and cost of payments.

44. We agree that this should be a continued area of focus for the PSR to ensure that this is the case across payments, and the industry continues to work towards improving and evolving its payment services to enable customers to be better served. This is not a static consideration, and therefore is an appropriate outcome for the PSR to aim for across the next five years in order to take into account any evolution of technology and changes to customer needs.

45. Access has been an important consideration in the operation of our payment systems – ensuring our access requirements for participation are efficient and fair, and that we run an agile yet robust process, has been one area in which we have sought to contribute to ensuring appropriate access across interbank payments. This, in turn, allows for more end-users to

access our services and benefit from the offerings of our participants. Understanding the needs of end users is an important aspect to ensuring that our payment systems operate in a way that they can benefit end-users, such as through their function, quality and cost, as the PSR have identified. Therefore, we place importance on gathering and understanding the views and needs of end-users so we can effectively take this into account in our decision making – our End-User Advisory Council is an important part of this, along with the research we undertake exploring different aspects of end-user views and needs. For example, we are currently undertaking research to better understand the payment behaviours and needs of SMEs. The PSR's outcome 1 is therefore an outcome which Pay.UK is supportive of and is contributing towards achieving.

46. We also are continuing to consider these issues for the NPA, which should have a significant beneficial impact on access for end-users in the future. The NPA will be capable of carrying real-time payments that include more data, and will have improved interoperability, features which will contribute to all of the PSR's outcomes. Our strategic objectives for the NPA demonstrate the NPA's aspiration to achieve this outcome, which can be found in our response to question 1.

47. As the PSR is aware, we are considering the appropriate participation model for the NPA which will contribute towards better access.

48. <u>Outcome 2: Users' interests are adequately protected when using payment services so that they can use systems and services with confidence:</u> This outcome is key to ensuring that customers do not face undue harm through their use of payment systems and we agree that it is appropriate that regulators should seek to achieve this outcome. In furthering this outcome, it will be important for regulators to recognise that the appropriate level of protection will vary depending on who the users are, the features of the payment service being offered, and how different types of users interact with the payment service.

49. Clarity between the PSR's and FCA's respective roles in this area would be welcome - it is important that the optimal regulatory tool (across the suite available to both regulators) be used to address specific issues. It is important that the party who takes the lead in tackling protections issues has the necessary reach and tools to undertaken effective action. Consideration of protection and conduct issues which need such resolution, and what is the right route to solve the problem, should be undertaken on a targeted case-by-case basis.

50. We agree that consumers should get appropriate protection when they use our payment systems to transfer funds. As the operator of FPS, we want end-users to be confident in our payment systems and in particular the use of FPS in retail settings, as this is a part of our strategy. Ensuring that consumers are adequately protected when using payment services will encourage confidence in their use, and therefore allow customers to benefit from their functions. This will also allow for further competition and innovation to occur in the market. It is important to us and to our participants to uphold the credibility of FPS, trust in Pay.UK and trust in our payment systems.

51. As the PSR are aware, Pay.UK has been undertaking a project exploring consumer protections in consumer-to business FPS payments, supported by our Consumer Protections Working

Group comprised of participants and end-user representatives. This project has produced secondary research exploring the payments landscape, and primary research to identify consumer perceptions of protections in payments.

52. The work has highlighted a number of areas for consideration in applying protections to interbank payments for retail purposes. For example, the working group raised concern around how consumer protection would be funded in for interbank payments in a retail setting.

53. In addition, we have discussed the need for further consideration of the issue of providing customers with consistent minimum protections and outcomes across FPS payments, whether made directly from a PSP or through a PISP. Different systems and processes for consumers could be confusing and could produce differing levels of protection. One area which should be considered as a part of further work is the PISP liability – currently, whilst a PISP can initiate a payment, the liability remains with the PSP. This may not be conducive to good outcomes for consumers.

54. It is prudent that public policy makers and industry dedicate an appropriate time and effort to understand how the protections could be sustainably delivered in this area. We have remained engaged with the PSR on this matter, and continue to contribute to the work taken this work forward through your recent Call for Views on Consumer Protections.

55. It is acknowledged by the PSR and the industry more generally that detriments in this space are not as pronounced as with APP scams and will likely not emerge for some time yet. Pay.UK shares the view that APP scams can be a particularly devastating form of fraud and present a current detriment to consumers. To this end, we place emphasis in our response on measures which can prevent and detect APP scams, to reduce their incidence, but we also agree that credible compensation approaches are needed and we want to help in both areas.

56. We continue to advocate the view that any interventions need to be effective in the long term, and solutions should be comprehensive and consistent, for the benefit of customers. In essence, this will require an approach that solves the issues of coverage and of variable outcomes which can currently be found in some solutions, for example the CRM code.

57. We see that the NPA can help in this space. Consideration of such issues are being undertaking with regards to the NPA, so they can be taken into account in early stages of development, and thereby become an inherent feature of its design and are appropriately built into the system. This could, for example, mean utilising and building data which allow for PSPs to better understand the risk being transferred across the system and so detect where their intervention may be needed. At the same time, we need to ensure that payment functions continue to operate smoothly, including in real time where applicable, for the overwhelming majority of payments that do not raise consumer protection concerns.

58. These issues are important as FPS continues to evolve – continuing over the next five years to protect users' interests is a key outcome considering the everchanging payments landscape and therefore currently unknown issues which could arise. The same will also be true for other payment systems where new developments may also bring new challenges in protecting users' interests.

59. Outcome 3: Payment systems are designed and operated to enable effective competition in the provision of payment services: We agree that it should remain central to the PSR's strategy to continue to promote effective competition in the provision of payment services via its focus on the regulation of payment systems. This has been a key objective of the PSR, over the past 5 years, and we see its importance in delivering the PSR's statutory objective to promote effective competition in the markets for payment systems and services.

60. There are clear benefits to enabling effective competition in payment systems and services. Keeping up with the rapidly advancing technology, and emergence of new innovators means increasing expectations on payments to deliver enhanced benefits for end-users. Competition and innovation can provide these enhancements for consumers, enabling new functions, efficiencies and emerging needs to be met. This is not only the case for those who already utilise payments systems, but can mean that those whose needs are not currently served can have their needs met by new innovative approaches.

61. Outcome 3 would be an appropriate place for the PSR to incorporate the importance of innovation into its strategy. The relationship between competition and innovation is key to enabling benefits for end-users. This would also be consistent with the PSR's statutory objectives.

62. Pay.UK's focus on innovation also helps to work towards this outcome; delivering needs of consumers through encouraging innovation in the system which in turn help to promote competition in the market. We continue to work towards this with our aspirations for the NPA, where we aim to continue to drive competition and innovation in the market. The composition of the NPA itself, the enhanced data it will bring, and aspirations for real-time point of sale payments will contribute to this.

63. Our overlay approach will be key for competition and innovation in the NPA. It is key for us to ensure data is made available to the market to facilitate the development of these innovative and competitive services. The enhanced data and interoperability of the NPA will contribute even further to this – allowing for new and improved functionalities in support of end-users.

64. Many of the issues already discussed in these outcomes will help to facilitate competition and innovation. For example, enabling access will mean that customers can benefit from the increased competition in various markets and the associated innovative products and services that will be developed, and appropriate protections will mean customers will have the confidence to do so.

65. Outcome 4: Payment systems are efficient and commercially sustainable: This outcome is intertwined with the previous three outcomes. Payment systems that enable access for a range of users, provide appropriate protections and enable effective competition and innovation will be efficient and commercially sustainable. Similarly, those payment systems that are efficient and commercially sustainable will deliver access, protection and effective competition and innovation. There are tensions between competition and commercial sustainability in all markets - including payment related markets.

66. The PSR may want to consider how it will balance the broader service user interests, and the needs of vulnerable customers, with the outcome of ensuring commercially sustainable

systems. We also see that there may be a tension between outcome 3 and outcome 4, as competition could have an impact on the commercial sustainability of systems.

67. Nonetheless, the importance of efficiency and sustainability of our own systems is of course critical to us. We are focused on these issues and they are under constant consideration for both live systems and the NPA. As the PSR is aware, work is underway to consider the appropriate funding model for the NPA and this will be key to ensuring that the NPA is commercially sustainable.

68. The interoperability of the NPA and introduction of common messaging standard will improve the efficiency of the ecosystem. Allowing for richer and more meaningful exchanges of information within payments will improve the efficiency of the offerings of the NPA, for example through enabling more efficient ways to tackle fraud. Automated straight through processing will also contribute to efficiencies which will be felt by end-users.

69. Our consultation and subsequent work on the ISO 20022 standard and next generation standard for UK retail payments is working towards this. The recent publication of the first draft collection of standards materials demonstrates our commitment to ensuring the industry is equipped to take on this change.

70. The additional functionalities and overlays will also contribute to improved efficiency as ongoing competition between different providers of these services will also force them to be efficient so as to offer value for money to their customers.

Questions related to Chapter 4: Our priorities

Consultation question #4

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.

71. In answering this question, we have considered both the priorities and actions set out to meet them.

72. We are supportive of the outcomes the PSR is aiming to achieve over the next 5 years, and the priorities set out to reach these outcomes. We note that the priorities have significant focus on interbank payments in a number of areas. As the operator of these systems, it will therefore be important to understand and recognise where the boundaries lie between us and the PSR. This is important both so that there is not a replication of effort in respect of those tasks that are ours to deliver and also so that we are not inadvertently pushed into a 'quasi-regulatory' role that ought to fall to the PSR. At the same time, we believe that some of the priorities should be widened to look across other payment systems rather than ours alone.

73. We see that there is interaction and complexity when considering a number of the PSR proposals as a whole and their implications for Pay.UK. Increasing competition with cards and enhanced consumer protections are important and likely interlinked issues, which also relate to funding models, needed to support both activities. It is important to consider the changing payments landscape to ensure any priorities are flexible and adaptable. Changes could happen

across any part of the landscape, and therefore being able and willing to act in other areas will be key for PSR's success in meeting the outcomes.

74. Priority 1: Ensure users have continued access to the payment services they rely upon and support effective choice of alternative payment options: It is important across the whole of payments to ensure that customers are appropriately serviced and can benefit from the payment method they chose. We are supportive of the PSR's strategic priority in relation to access and agree this is an important priority for the PSR– it is also our intent to continue to promote access and choice within the payment systems we operate. Our new strategy is built on delivering choice and enabling the widest possible use of the payment systems we operate. We will continue to ensure that our payment systems meet the needs of a range of different participants and leverage technology to remove barriers to access and reduce cost wherever possible.

75. Providing choice to end users is important for Pay.UK, for example a key aspiration is to enable payments at point of sale through our systems.

76. Whilst the emphasis on understanding needs of vulnerable customers' is a new area for the PSR to highlight, we are already undertaking work in this space. We have recently initiated a research project exploring financially vulnerable customers and payments. Our marketing campaigns also have continued focus on the needs of customers, and vulnerable customers where necessary. For example, the Current Account Switching Service adapted its marketing approach in 2020 to focus on groups that could potentially benefit most from switching in light of the pandemic –this included specific focus on the financially vulnerable. We are therefore supportive of focus in this space, acknowledging that this may be a new area for payment systems to step into and therefore may have some implications on our capacity and capability.

77. Providing choice to consumers, including vulnerable consumers, is something that the PSR will need to consider across all payment systems as it is not something that can be examined in relation to one payment system alone. Innovation across all payment systems improves the options that consumers have for their payment services, and better services will drive out those that offer lower value to consumers.

78. Access is a key consideration for the development of the NPA, and we will continue to ensure that access to our payment systems meets the needs of a range of different participants and facilitates new entry wherever possible including through the use of clear Standards that make it easy and efficient to connect to our systems. Access issues will also include consideration of funding and the cost of access to the NPA, and its participation model. We will continue to remain engaged with the PSR to ensure that we meet expectations for this.

79. Regulatory alignment with the Bank of England will be an important consideration for the PSR in relation to this priority to ensure that any widening of access is built on a robust and resilient basis – the POND access requirements implemented by the PSR recognise this balance. Whilst we are committed to providing access to our systems for a wide range of different firms, the greater variety of firms, as well as the greater volume of firms, seeking access is likely to lead to more complex considerations of systemic risk which is critical to our PSO role.

80. Priority 2: Ensure users are sufficiently protected when using the UK's payment systems, now and in the future: We agree that it is important that regulators ensure users understand the service they should expect when using a payment system including understanding which protections may, or may not, be in place. Protections have been a key area of focus for the industry in the past few years – there is general agreement that action needs to be taken in both the broader consumer protections and APP scam space, noting the different timelines for these issues as highlighted in our response to question 2. Confidence in our systems is critical to our success.

81. The specific actions that the PSR highlights in respect of this priority solely relate to Pay.UK's governance of interbank rules. It is important to note that conduct or protection issues could pose a threat across any payment system, and therefore it is important that the PSR considers the issue of consumer protection more broadly across all payment systems and not solely across those operated by Pay.UK.

82. We do not believe that being passive in this area is an option for Pay.UK if we want to maintain the reputation of and confidence in the systems we operate (specifically FPS), and we recognise that we can do more in this area to work with the wider industry to help protect consumers. We are keen to play our part in the prevention, detection and reimbursement of scams, and we have considered how to do this within the remit of our PSO role.

83. We will continue our engagement with the PSR, HMT and participants on how we can support implementation of measures in the PSR Call for Views on APP scams to ensure that they are effective, and have a sound legal basis. Similarly, we have worked to identify how we can support the introduction of fraud protections in FPS, for example through enhanced data sharing and overlays.

84. We agree with PSR the ability to update our rules to reflect evolving requirements is important. We have previously engaged with the PSR on concerns regarding the use of our rules in areas such as protections which reach outside of the PSO remit. [redacted]

85. We are mindful of the reach of our rules, which may impact on the effectiveness of any measure or protections [redacted] - we are clear that we must have a sound legal basis for any role we do undertake.

86. There are also implications on Pay.UK's capacity and capability of any expanded role, with funding and governance also an important consideration. These are issues we must consider to understand what role in other conduct issues Pay.UK can take, or any other expanded role – we are currently undertaking this work and would be pleased to engage with the PSR to discuss progress at an appropriate time.

87. Clarity between the PSR's and FCA's respective roles in the area of consumer protection would be welcome, as noted in response to question 2.

88. 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: We are supportive of this priority and agree that this should be a key area of focus for the PSR.

89. We also recognise that that competition within our payment systems is critical. This will, in turn, help to promote competition between systems. To support this, we will continue to focus on promoting competition within the NPA value chain as it is developed, pursuing a thin core so as to maximise the part of the ecosystem in which there is ongoing competition with participants and users free to choose their suppliers. We will ensure our rules around access and other technical aspects ensure all overlay and other providers can engage in fair competition.

90. There are a number of areas in which the NPA will contribute to this priority. We consider that the NPA proposition of real-time payments at point of sale is an important innovation in providing competition in the market, although it is important to note that this proposition is still under exploration, including its technical case. New opportunities brought about by the NPA and the use of ISO20022 will also create new markets in which competition can thrive. The access requirements of the NPA, and increased interoperability through the use of common messaging standards, will allow for increased participation and development of new functionalities and markets. This means new markets in which competition can thrive and innovation for the benefit of customers can occur.

91. We are keen to facilitate competition between those who use the NPA and the card systems, through our aspirations to enable payments at point of sale through our systems - enabling the transfer of funds is only one aspect of the establishment of a compelling retail alternative to cards. We appreciate the support of the PSR in this aspect of the NPA. This will build on the competition that already exists between services that use card systems and services that use our systems. It will be important for the PSR to ensure that there is a level playing field to further facilitate this over time.

92. When considering the potential for us to offer competition in the retail space, we need to keep in mind that the card schemes currently operate fundamentally different business models to Pay.UK. We will need to work through the implications of Pay.UK, as a not for profit UK organisation, enabling competition with the global, for profit, card schemes. This will need a significant further analysis.

93. Given the network effects that characterise payment systems we agree with the PSR that there will likely be some cases where solutions to consumer detriments are reliant on collective uptake and where consideration should be given to central intervention to support delivery. Such intervention could be in the form of a central mandate to implement a solution or wider incentives to drive collective uptake. To take a recent example, Confirmation of Payee (CoP) began as a competitive market offering, however the PSR have since intervened in this space to ensure prompt uptake and that the benefits of CoP are realised for service-users. To ensure the most effective approach for other cases that arise, discussions should be undertaken – likely on a case-by-case basis - between Pay.UK, the PSR and other stakeholders – but great care should be taken not to create any unnecessary cost through such action. As covered

within the next priority, it will also be important to consider who is best placed to provide any agreed coordination or mandate function in circumstances where collective uptake is deemed necessary, and that the boundaries between Pay.UK and the PSR are clear.

94. Priority 4: Ensure the renewal and future governance of the UK's interbank payment systems supports innovation and competition in payments: We are surprised that this priority is solely focussed on interbank payment systems rather than all payment systems that are under the PSR's remit. This may limit PSR's flexibility to respond to developments elsewhere in the payments landscape over the next five years. The outcomes the PSR has proposed relate to all payments; however, this priority only focusses on Pay.UK and does not look to any other payment operator or system. As previously noted, to ensure the priorities are flexible and adaptable to reach the outcomes set out, the PSR should consider how other payment systems would be encompassed within this priority.

95. Nonetheless, the creation of Pay.UK and our independent governance was driven by an ambition to support greater innovation and competition in interbank payments. Within our own strategy, we have recognised the need to strengthen aspects of our governance arrangements including in the areas of funding, API requests and enforcement and support through the PSR's identification of these areas as a priority is welcome. We will need to improve to reflect the platform leadership role we are aiming for in our own strategy - we want our new governance, including our ability to make rules and standards, to enable us to drive forward with resilient, efficient payment systems which facilitate innovation and choice in the interests of all users. We are taking steps to make progress on these issues and will take into account the appropriate timetable and sequencing of issues to best align with the delivery of the NPA.

96. More stable, higher funding is aligned with our own strategy, and may lead to greater success. This also facilitates the ability of Pay.UK take appropriate, managed commercial risks, aligned with the expanded leadership role we see for ourselves going forward. Our core funding relies on the continued use of our systems by our participants and therefore it is important that decisions with significant cost implications have their support, and that an appropriate governance and decision-making process supports this. In addition, we remain mindful that there may, in future, be a broader range of funding streams available to us beyond the revenues raised via transaction fees.

97. In considering our own governance, we must also think about how it fits in with the rest of the industry, and take into account the interaction between our customers' governance and our own. For example, whilst we deal with changes in the centre, these will impact on our customers through needing to ensure the necessary budget and resource to deal with the associated changes that they must make in their own systems. This will be impacted by the investment cycles and governance of each individual institution.

98. We are supportive of more innovation around payment systems and having a greater range of firms able to participate in the payments ecosystem – we know that appropriate governance mechanisms will be needed to support this. We will also need to consider the increased risk this could bring, risk capabilities and the greater variety of firms that are involved within the ecosystem as it grows. Our approach to assessing changes to rules, standards, and core

technology in support of new products and services is important for the success of the NPA, and something we are assessing.

99. We have put in place the Standards Framework, approved by our board in April 2019, which sets out the governance and decision making to develop standards for the safe and effective operation of the retail payments ecosystem. In November 2018, we set out how standards could extend the use of data enhancements to serve specific, well-defined participant and end-user outcomes; specifically, that a standard could act as a basis to introduce competitive services enabled by the NPA that would be open to any participants that chose to adopt them. For example, this could include a service for the exchange of complex remittance data, alongside the payment, to enable business-to-business payments and supply chain management.

100. We see clear benefits to our Standards having further reach across the ecosystem and will need to assess whether our rules need to apply to the same organisations. We do, however, think that the scope of activities covered by our rules should mirror the activities we are held accountable for. We are keen to continue to lead in this work and development of related governance mechanisms.

101. To ensure that we are able to deliver the above in an effective manner, we agree that having a stronger enforcement position will be beneficial to Pay.UK. It is important that we are able to credibly seek enforcement of our rules against any of our participants. As a part of this, we must consider how we would undertake monitoring and additional activities required to be able to seek such enforcement. This is an important consideration in an increasingly automated environment. The impact this could have on our compliance risk is also something we must assess.

102. Similarly, it is important for us that we have the ability and legal tools to drive forward and effect change, in any expanded role, and in any coordination role. This is key to our own strategy, to ensure that we are able to be an effective leader for the industry and drive change it is needed, and maintain a positive reputation.

Consultation question #5

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.

103. The strategic priorities the PSR have set out in its proposed Strategy give a clear indication of the issues which the PSR is aiming to tackle over the next 5 years.

104. It is less clear how this will translate into the choices the PSR will make, however, because the proposed Strategy is currently set at a high level. For example, priority 3 looks to promote competition in markets and protect users where that competition is not sufficient – however, it is not clear what the PSR will consider as sufficient, and therefore not clear in what circumstances the PSR would chose to intervene.

105. We anticipate that in the detailed work that the PSR does to follow through in its strategy, the PSR will undertake careful evidence-based decisions and proportionate approaches to taking priorities forward. We note that "how" the PSR would regulate was a significant focus of its

"Day One Policy Statement". We see benefits of a targeted approach to the PSR's regulatory approach, with hard and soft regulatory intervention being appropriate in different circumstances.

106. As previously noted, there is focus on the interbank systems through the actions the PSR have set out to meet their priorities. Focusing on interbank systems to the exclusion of other systems in the PSR's strategy could mean that there is not flexibility for the PSR in its actions or interventions should there be developments that need to be addressed in other areas, and it is not clear what the PSR would do in these circumstances since currently those areas would fall outside the stated strategy.

107. We also see the focus on interbank payments, and specifically the actions of Pay.UK, creates uncertainty on where the PSR intends to act, and where it expects or assumes Pay.UK will act. As we have identified throughout our response, there are a number of areas which have been highlighted throughout the PSR strategy which are also aligned with our own strategy. The programme of work to deliver our own strategy is currently being developed, and will take into account the expectations of the PSR.

108. We are keen that we are able to continue with the leadership of these pieces of work, so we are able to identify the best route forward for Pay.UK. This includes the appropriate sequencing and timing for the consideration and delivery of the different elements of our strategy. The NPA and maintaining the resilience of our systems is our current priority and therefore we must ensure we balance delivery of our priorities to enable us to effectively achieve our aims.

109. Pay.UK maintains independence from participants in our decision making, and clear boundaries between us and our regulators are equally important. This is important both so that there is not a replication of effort in respect of those tasks that are ours to deliver and also so that we are not inadvertently pushed into a 'quasi-regulatory' role that ought to fall to the PSR

110. Given the alignment in our strategic direction, we think it will be important to maintain open and transparent communications so we can work together to mitigate and address any risks to delivery of better outcomes for customers.

111. As the PSR moves to operationalise some of its priorities, it will be essential for Pay.UK, and our participants to understand the timetable for particular workstreams. This is important so that we are able to appropriately resource our engagement with the PSR, other regulatory expectations which are upon Pay.UK and the industry more broadly, and also so as not to create difficulties with our critical path in successfully delivering the NPA. The Regulatory Initiatives Grid, maintained by the FCA, is a good example of how the PSR could provide this timetable. The Grid, in setting out the key initiatives, their expected milestones and touchpoints, is beneficial supporting internal planning and resource.

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

Consultation question #6

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.

112. We think the measures the PSR have identified are broadly appropriate. It will be important for the PSR to ensure that they have a holistic view of the areas it aims to assess through the measures it has set out. For example, with regards to APP scams, to ensure that a full and balanced picture of PSPs efforts in tackling scams is reached, it will be appropriate to consider a full range of fraud prevention data alongside fraud resolution rates.

113. As previously raised in our response, there is a focus on interbank payments throughout many of the PSR's priorities, and therefore this is reflected in its measures. This is particularly the case with priorities 2 and 4, where measures are focussed upon Pay.UK and the NPA. The PSR may wish to consider how it can incorporate other payment systems into this priority and its corresponding measures to ensure it is able to meet its outcomes.

114. It will be important for the PSR to keep it's measures under review to ensure that any new areas of interest are appropriately measured, for example other conduct issues.

115. We recognise that we may have useful data to help the PSR in measuring whether it is achieving its strategic priorities and note the PSR's intent to gather more data from payment systems, and about the use of payments, than it has done in the past. Whilst it is important that the PSR have a clear understanding of the payment systems that it regulates, we would caution the PSR against large ongoing data requirements that are peripheral to the PSR's ability to meet its strategic objectives. We are concerned that additional data requests could also create unintended consequences for us, for example, by utilising resource assigned to other pieces of work, or the need for additional resource to meet such data requirements which would in turn create costs for participants. We would be keen to discuss how to share data with the PSR in an efficient manner to enable the measurement of its strategic priorities.

116. The richer data facilitated by the NPA and the introduction of ISO 20022 is likely to be of support to this, and may provide further insights beneficial to understanding the progress towards meeting the PSR's goals.

117. We also see that there could be an overlap with the role of Pay.UK in measuring the achievement of the strategic priorities – as noted in answer to question 5, we would be keen to discuss this with the PSR to ensure clear boundaries between the PSR and Pay.UK and there is not a duplication of effort.

118. It is important that the PSR fully assesses the data it requires and where it can be collected – the PSR should be aware of the resource it may spend on collecting and analysing data which other organisations may already have. A comprehensive approach to this data will be key.

Santander

[redacted]

PSR Consultation on the proposed PSR Strategy

Santander (UK) Response

Overview

1. Santander UK (hereafter Santander) welcomes the opportunity to feedback on the PSR's proposed five-year strategy plan.

2. Santander supports, and has provided input to, the UK Finance response to this paper. However, we wish to emphasise a number of points below.

3. Please note that we do not consent to the publication of this response, either in whole or in part, without prior discussion. We would be happy to discuss our comments with the PSR and can be contacted at [redacted] to arrange or with any further queries.

Summary of key points:

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.**

   We note the trends identified by the PSR and agree that the market has evolved over recent years to bring more competition and awareness of payments, including the opportunities and threats that exist. It is fair to reflect that there has been a lot of effort and energy to make this happen across a wider group of individuals and institutions to build up the momentum needed to further the changed needed.

   Rightly, consumers are at the heart of the PSRs focus, but there is a need to ensure that the wider customer base is engaged and supported – corporate and business entities in particular need to be led through the envisaged change to ensure the payment services available are adopted and embraced. Confirmation of Payee (COP) and APP Scams are critical to maintain consumer confidence in making payments; however, the bulk of payment volume comes from Corporate entities and if we want new payment models to remain in the Pay.UK schemes, and their needs need to be rightly prioritised.

   On a wider ecosystem focus, the digital-world has driven further change that reflects the positive momentum, and the evolution of Open Banking is starting to shape new ways of customers interacting in data and payment services. Open Banking highlights the evolution of how trusted parties interact, and the secure exchange of data brings an opportunity to embrace new ideas around how the payment landscape should evolve.

[redacted]

Regulator collaboration has improved over the recent years, but it is critical that this direct and regular engagement is maintained and enhanced. The need for alignment on top level strategy is very important to ensure that the various strands of leadership understand the opportunities in the different segments. Payments evolution, coupled with Open Banking, and recognising the changing shape of focus within Government as well as other regulators (be it Open Finance and Smart Data or BEIS Digital agenda) means a joined up approach will only benefit future models.

Although there have been many positives, there are also a few points of reflection to consider. New Payment Architecture (NPA), in particular, is a current topic that needs to addressed to ensure that the experiences to date do not continue to hamper progress. Pay.UK has entered a new phase of its strategy, having delivered scheme consolidation as their priority, but the new leadership team need to embrace the constructive engagement the Industry offers to further build on the recent momentum. As time has moved on, replication of old models seems less likely to be the right approach. Pay.UK role in the ecosystem also needs clear focus – for example should it be anything more that the Payments Standards and Policy body for the UK; or are others now better equipped to define and drive strategies or complex programmes for the longer term. To ensure interoperability of standards across different service providers, the PSR will need to continue to support and promote coordination amongst service providers where it thinks it is needed but not happening.

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.

We strongly support the need to ensure that the user of payments is at the heart of the decisions made and the ability to meet the needs for today, as well as readying the services for future demands. Without User trust, the continuity and stability of payments is under-minded, equally the services need to remain simple, and with appropriate and consumer expected friction to help protect users.

Payments can be simply broken down into two keys components:

i. The data within a message from one trusted party to another; and
ii. the settlement of that message (where financial value is exchanged).

As ISO20022 evolves, the various connected participants will be able to exchange data in a structured approach that allows users to send across what is needed to meet a payment request. The demands from the User base will differ depending on who they are (albeit simplified by groupings):

- **Retail customers** generally want to be able to send money to an intended recipient – this might be as single one-off payment, a recurring payment, a Direct Debit, or a card payment – as well as receive funds, whether this is their salary, government benefits or a lottery win. But generally, the demand for information from a consumer perspective in that message is relatively limited.

- **Corporate customers** often want the ability to be able to send and receive payments in bulk forms, their banking partner will be able to provide many of these services, or they will look to software integrated into other processes to make this happen. There is often demand for the ability to send and receive more data than they can today, with many identifying that if they had the ability to expand information sent on a "Pay my Invoice" request they would be able to innovate in services offered in the future.
- **Business customers** want to have the flexibility to send and receive payments, and their demands will vary on size of entity, but generally the ability to send and receive payments, preferably with information that helps them identify what it relates to will help the book-keeping functions they may use in Open Banking connected services.

Considering Competition and Innovation in isolation to other propositions could well constrain the ecosystems' ability to evolve, or more critically drive further fragmentation to the extent that volume drives out of the Pay.UK services.

ISO20022 brings the ability for interoperability to truly evolve, both in local and international payment solutions which will be important to various customer groups.

Enriched data sets will also enable greater consumer protection models. As you are aware Santander has long championed the need for greater consumer protection, and the extension of COP to include other data elements is in our view a key protection layer that needs to be embedded.

Resilience of service remains at the heart of users' expectations. Always on has become a minimum of expectation, and we know from customers that any unusual delay drives concern, so stability of supply is key.

From a strategic perspective, the ecosystem is demonstrating that it can self-evolve, as well as be led into change. As the market continues to evolve at pace, the need for formal regulatory direction should focus on consumer protections to avoid detriment and leave the evolution to the trusted parties. Pay.UK within its Standards responsibilities needs to adapt to enabling innovation in a controlled way but measuring the need for pace appropriately. This then leaves those responsible for the user channels (e.g., banks, Third Parties or Software suppliers) to evolve the customer experience and leverage protection measures to simplify processes and improve customer experience.

[redacted]

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.**

   We agree the strategic priorities are relevant and will help the Industry achieve the anticipated outcomes. But as with any strategies, there needs to be enough flexibility to evolve at pace as the landscape evolves. If we could go back five years it is unlikely, we would have anticipated many areas of the payments evolution – be it the accelerating use of contactless, the evolving nature of Wallets, the growing impact of Open banking and the constant evolution in economic crime that causes consumer harm.

   Rightly there is a clear focus on the consumer in much of the strategic priorities, and the attention to protection mechanisms is clearly of critical importance.

   However, there does need to be a clear balance brought to the needs and demands of the Corporate and business payment user community.

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.**

   The priorities provide clarity on the aims, and we understand there will be occasions to consider points of intervention. However, collaboration across the ecosystem is critically important and it should only be as a last-resort that the PSR formally intervenes in change or innovation. There will be circumstances where the ecosystem has a choice to make, and there is always a need to bring a balanced view to what can be delivered and when, safely. The scale of innovation in the ecosystem now encourages us that the consumers are at the heart of decisions, and the positions taken are helping to support that evolution.

   It is of equal importance that the PSR takes onboard feedback from all sides of the ecosystem, to maintain a clear balance. Although the short-term objective of using a Direction for example is seen as a start, it can lead to challenges from others in the ecosystem, as COP has demonstrated.

   It is recognised that intervention can take time, and as such we would encourage continued active engagements and enabling discussions so that change can happen at a pace, where intervention might hinder.

[redacted]

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.**

Priority 1 – Access

It remains key that safe & secure access to Payments Systems for users continues to be a priority. Stability and trust are critical functions of the evolving payment solutions available to all users, and it must remain a priority that those connecting to the services can deliver for end users.

Priority 2 – Consumer Protection

Santander UK remains committed to improving the customer solutions we offer, and in a safe and controlled way. As the PSR rightly points out, APP Scams has brought considerable harm to many users and remain committed to driving change within the Industry to evolve better solutions for customers, particularly through the work UK Finance is leading.

Priority 3 – Promote Competition

We recognise the concern about ensuring effective competition remains, and the ecosystem needs to consider how it can evolve to embrace the different payment rails that exist. Focus on NPA is of the highest importance to support the product evolution path. Although the infrastructure today can continue to enable, there will be a point when new activity will need to focus on NPA. Cross-border payments, can for example, evolve to allow more cross-system interoperability using ISO20022 as the message standard. The PSR has the opportunity to allow the ecosystem to manage and deliver in conjunction with various contributors to define the strategy in more detail, which should effectively include Card schemes as well as the inter-bank services.

Priority 4 – Renewal and Governance

It is right to call out effective governance around payment systems as important, and as a critical function for the UK we cannot have a risk to this continuity.

Pay.UK has been evolving into its role over the past 3 years and is itself establishing a new strategy. We are of the view that Pay.UK has a critical role to play in defining the standards and policy around interbank payments for the UK, which is an element to future innovation and service enhancements with clear definition of what must and can happen in the payment messages; this will then enable system users to develop their own strategy and focus. We continue to monitor the changes within Pay.UK to understand how this will support the evolution of their role. It is therefore too soon to consider whether further funding and investment in the organisation will generate the perceived outcomes in this priority. Other organisations, like UK Finance and Emerging Payments Association as examples, have demonstrated value in their outputs with targeted funding and investment.

[redacted]

Santander

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?

The PSR needs to remain open to the ever increasing pace of change in the Industry. As with other Regulators we encourage the PSR to actively embrace and encourage collaboration with other bodies to ensure the Payments strategy is well understood, how the other strands of focus like Open banking and Open Finance can be embraced in new ways of operating. Collaboration between the Regulators is also of importance to ensure there is minimum overlap and consistency in the demand placed on the ecosystem, and awareness of the direction and requirements of other regulators.

7. Do you know any existing sources of data we can use to assist our metrics?

Santander UK remains committed to supporting the PSR as effectively as we can, and where relevant data is available, we will continue to help and share.

Sentenial (NuaPay)

From: [redacted]
To: [redacted]
Subject: Consultation CP 21/7 - SENTENIAL (NauPay) Response 10092021
Date: 10 September 2021 21:54:07

****This email has come from an external source. BE CAREFUL of links and attachments and report suspicious emails****

Please find attached some comments on the strategy document. Apologies that pressure of work has meant that I have only responded to some of the points.
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.
It is accepted that the world of payments is changing and that the rate of change seems to be increasing. This speed of change does not seem to have impacted the way the UK is going about addressing such change. The PSF defined a route forward for UK payments which seems to have been largely ignored. On the PSF time line NPA would be operational now whereas it seems we are still trying to work out what it should look like. This contrasts with progress elsewhere, take for example the development of TIPS in Europe which in principle has the same aims as NPA and yet it has been conceived, developed and delivered within the timescale that the UK has just been talking about it.
Clearly some progress has been made but nothing that fundamentally moves the UK to being a global leader in payments.
There are fundamental questions around the structure of payment provision in the UK that don't appear to have been debated, it seems the assumption is we just need to tweak what we have. More advanced countries, in terms of payment processing, have taken very different routes. China is dominated by schemes developed by private companies such as Ant Financial who have grown to a point of being significant players on a global scale. In contrast India has developed and deployed systems centrally and effectively mandated their use. Again this process has worked well and delivered services beyond those available in the UK. Europe adopts a competition model going further in this direction than the UK for example the equivalent to Bacs can be delivered by any commercial organisation that wants to and the same applies to their equivalent of NPA.
On this theme we can question the structure of Pay.UK. PSF proposed a structure where NPA would be delivered as a thin processing layer with consumer level users being supported by way of overlay services delivered by the market. Pay.UK seem to be doing both. If competition is deemed desirable isn't the SEPA model more appropriate where the scheme owner has no responsibility for its delivery and the platform layer can be provided by any commercial venture that is interested.
Looking at Appendix 1 I would make the following comments.
Consumers, or any payment user, will opt for a service they consider to be most convenient for them, convenience seems to be the dominant driver. Payers are not interested in how a payment is made, just how easy it is. The competition lies around delivering the best experience to users. Remember the mantra that payments should be invisible, instant and free.
PIS is not making the level of progress originally anticipated. It works and performs well but only in a specific range of applications, it is not the technology that will revolutionise the entire payments landscape. This is not to be confused with the general use of APIs which are now the standard mechanism for linking computer application together and should figure strongly in any delivered future system.

Consumer protection often gets discussed as an all-inclusive requirement but there are many facets of protection that can be provided and the need varies considerably from application to application. Many forms of protection make the payment process more expensive and thus care should be taken to make the protection appropriate to the actual application. We have current projects where any protection over and above cover for technical failure is not required and its imposition could unnecessarily lead to increase in costs in the delivery of the services.
There is a suggestion that the inclusion of customer protection could increase the acceptance of a payment scheme. This will be true in some cases but is not universally the case. By way of example the Dutch iDEAL system is by far the dominant online payment mechanism in that country but offers no consumer protection. Coming closer to home it can be argued that the indemnity mechanism used on the Direct Debit scheme for consumer protection actually harms adoption. Because of its structure many organisations either cannot legally of will not accept the risk of originating Direct Debit even though this would be an appropriate service for the payer
There is evidence where the open market can generate good innovation e.g. the card schemes themselves or Ant Financial but equally there are examples where a centralised approach has succeeded e.g. UPI in India or iDEAL in the Netherlands. At present the picture looks undecided, why spend ages consulting with everybody in the world if the future is going to be met by the open market which was the stated intent from PSF. The market players should have a good understanding of the needs of the sector they intend to operate in. A role here for the regulator could be to make sure all required sectors are covered possibly to the point of being able to initiate schemes that are considered necessary for UK PLC.
Quoting Steve Jobs badly, if you want to innovate don't talk to your customers. At the moment the reverse approach seems to be being adopted. In many examples I have seen contributors to such debates promote options that are for their benefit rather than looking at the benefit for the community as a whole. There is also the risk that seeking the views of current players just ends up with the same thing just going a bit faster rather than reviewing completely different solutions. By way of a small example encountered in a few working groups I came across a view that we need to retain the Direct Debit scheme and thus we should look for ways to enhance it. A counter view is that what we need to provide is a service that can deliver the experience of using Direct Debits with this just being a subset of a scheme that offers payers many more options depending on their preferences.
Some countries have political ambitions for payment systems such as the EU's desire to minimise the dependency on systems controlled from outside of the EU. It could be difficult to rely on the market to achieve such ambitions which feeds in to the option of schemes being centrally defined and implemented. A current example of this is the Open Banking initiative which is a mixture of Government defined needs, legislation and mandated delivery to a Government defined time scale.
The current schemes, in particular Bacs and Faster Payments, have not been updated technically for many years. This contrasts sharply with global leaders where, for example, Ant Financial has a technology refresh every 4 years. Whilst considerable levels of investment have been made, this has not been applied to improving the core infrastructure.
Care has to be taken when comparisons are made with other areas around the world as development status and cultural differences. This even applies across Europe for example debit cards dominate in the UK online payment world whereas in Germany or Holland they are very much a minority and then if we look at China the dominant mechanism is wallets. Similarly Direct Debits are extensively used in Western Europe but are non-existent in Scandinavia or Eastern Europe.

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.
There are comments about payment system adoptions that may be misconstrued. A particular example is the statement that it is not expected that payroll will move from Banks to Faster Payments. We know of projects underway that do not support that assumption but more importantly one needs to understand why all payroll applications do not use FP. I have worked in a payroll bureau and supplied payment systems to payroll operates of all sizes. I have never encountered any operator that would not like more time to carry out their processing. The issue of moving to Faster Payments is not one of desire but more to do with the limitations of the systems available in particular high costs and poor access mechanisms.
There are comments made about the inevitable growth in the use of debit cards which seem a bit short sighted. There is no reason why the process cannot be completely reengineered to run on, say NPA, rather than using proprietary card networks. The same user interfaces could be used so plastic cards, contactless payments etc. can all remain but the delivery can be simplified, costs reduced (hopefully), and security considerably improved. A development in this direction could have a huge impact on the UK payment environment. Note that this can almost be achieved with Open Banking at the moment but is hampered by the high cost of Faster Payments, inequitable distribution of costs.
Discussion is made around the differences between payment systems and services. Mention is not made to the European model where there is greater separation between the two and competition is supported for the services which is currently absent in the UK. In Europe the equivalent to Bacs is provided by a number of interlinked commercial offerings and the equivalent of NPA is currently delivered by two interlinked services, one being the European Central Bank. Any organisation can provide the service which removes the need for central funding. Payment systems are defined by a separate organisation who has no responsibility for the delivery of the service.
Who pays for what should be defined within any payment scheme that is release, at least the basic structure with the actual values left to market pressure. The platform can be charged to the scheme at a wholesale rate. Charging consumers is down to the organisation supporting the consumer. By way of an example consider the replacement of debit cards with a PIS payment. At present the paying bank will receive interchange fees and the merchant is charged at a rate to cover the PSP's fees, the card schemes fees and the interchange fee. If the process is moved to an Open Banking transaction the merchant is charged very little but the paying bank now incurs the cost of a Faster Payment so moving from a position of revenue generation to one of cost.
Technological changes are taking place at speed. Currently the major shifts have been the ubiquity of the Internet along with the use of APIs and apps and a move away from batch and file processing. These changes have not been well addressed by the current UK payment schemes. These technologies have changed the way the world works as we move from a situation where a 'dumb' user is talking to a computer to a situation where we have considerable computer power at each end of the wire. Technologies such as distributed ledgers are unlike to have such an impact, they are more to do with the design of the underlying platform. If a social network offered payments the chances are that they would appear as overlay services sitting on top of local platforms. That said the disrupter would be if the process was based on a non-fiat digital currency.
Mention is made of the gaps in the current services with CoP being used as an example. CoP has some applicability but is not the only, or necessarily the best way to solve the APP fraud. A mandatory requirement for CoP at, say, the Faster Payment layer would unnecessarily burden

applications that do not need that functionality, for example standing orders in the case of Faster Payments. NPA's functionality should be kept to a minimum but be sufficiently flexible to allow schemes to introduce measures as and when needed.

The use of cash is declining and this trend is likely to continue. In line with comments made above, there is no reason why NPA can't be used to provide the clearing and settlement elements to support an ATM given that an overlay service would be required to deal with the customer identification, e.g. to use an EMVCo standard card for this.

We are currently working on a project which supports an ATM but uses Open Banking and Faster payments to provide the payment functionality. This project is operational but a better user experience could be achieved if more specific functionality for transferring the funds were available.

Regards

[redacted] Sentenial
1 Primrose Street, London EC2A 2EX
[redacted]

Transpact

From: [redacted]
To:
Subject: Consultation CP21/7 TRANSPACT Response 08072021
Date: 08 July 2021 21:55:59

****This email has come from an external source. BE CAREFUL of links and attachments and report suspicious emails****

Dear PSR,

I am writing on behalf of my firm in response to the PSR's Consultation - CP21/7 - Our proposed PSR Strategy – see https://www.psr.org.uk/media/gpkfu3kz/cp21-7-proposed-strategy-consultation-document-june-2021.pdf.

This reply is non-confidential.

a) The PSR has missed making anti-money laundering (AML) a fourth pillar of its core strategy.

AML is a core part of every payment that takes place in the UK, and the plumbing of the UK payment systems must take account of AML at a root process level and not as an afterthought, as occurs now.

The PSR is the body responsible for the plumbing of the UK's payment systems.

As a result, the PSR now and in the future is not ensuring the design and configuration of the UK's payment systems will be resilient against money laundering.

The PSR is not responsible for anti-money laundering – that is the FCA's role.

But the PSR is fully responsible for ensuring that the UK's payment systems are designed in a way that makes them easiest and most convenient to prevent and eliminate money laundering.

In particular (but not only for this reason), the development of the NPA should have AML as a core decision-influencing factor at every stage.

The failure to do so is damaging.

The PSR's strategy should be changed to include AML as a root strategic objective and consideration.

AML should likewise be one of the PSR's listed priorities for the next 5 years – for the regulator of the UK's payment systems not to have this as a priority is a serious error.

b) No mention is made in the consultation of the critical role in retaining at least one payment method that is not subject to chargeback (so no percentage fee for the payment).

At the moment, this payment method is bank transfer (Faster Payment, BACS or CHAPS).

These payment methods do not suffer from a fee which is a percentage of the payment made, and are not subject to chargeback. There is not a requirement for any party to insure such payments (which would cause a percentage fee to be imposed on the payer or payee).

By contrast, credit card and debit card payments do have a percentage fee applied to them, to cover the chargeback costs that may be caused by the payment.

It is critical that payers and payees continue to have the unhindered choice to make non-chargebackable payments with no percentage fee – as these are critically required in commerce.
Removing the availability of such payments (with the aim of providing increased consumer protection) would have devastating repercussions to the UK economy, as an essential payment mechanism (no percentage irrevocable payment) would be withdrawn from the economy. Many sectors in the UK depend on such payments.

Although consumer protection is critical, damaging the UK economy by withdrawing a crucial payment rail – that of non-chargebackable payments with no percentage fee (such as bank transfer) would be devastating to UK PLC – and cannot be allowed to occur.
This should be mentioned in the consultation as one of the PSR's required outcomes.

c) Several times in the consultation, the PSR implies that Pay.UK is an independent organisation that fairly represents consumers and business.
As a result, the PSR on more than one occasion advocates ceding policy development and administration and process to Pay.UK, to have Pay.UK perform the PSR's work in developing their area of payment systems.

This is a fatal mistake, as Pay.UK is a Quango and not an unbiased payment regulator like the PSR.

I have been involved in several Pay.UK involved projects, and Pay.UK is staffed by banking system insiders and cannot escape from being bank-centric.
Decisions that Pay.UK make are centred around the banking sector, and are not made from a broader consumer/business perspective – the perspective that the PSR makes decisions from.
The management and objectives of Pay.UK do not allow it to take on the responsibility of representing all sides in the payment sector. However much this is desired, Pay.UK will remain the champion of the banks and their representatives, and policy and process made by Pay.UK will not be suitable from a PSR point of view.

The PSR must now allow Pay.UK to make choices that the PSR should itself be making.

An example of this effect can be seen in Pay.UK's decision to exclude PISPs from Phase 2 of Confirmation of Payee (CoP).
We believe that Pay.UK made that decision outside their remit, and for the benefit of the banking sector – not for the benefit of all PSPs and certainly not for the benefit of UK PLC.
It would benefit all (except large banks) to allow PISPs to participate in CoP Phase 2, and Pay.UK had no right to exclude them. But because Pay.UK has the keys to the rule-making of CoP, it was able to wrongly exclude this tranche of PSPs.
In fact, Pay.UK went even further and wrongly and for no reason banned from CoP Phase 2 any PSP which does is not an 'Account Holding PSP'.
Thus, a PSP which is not an Account Holding PSP and which makes payments, has no access to CoP due to Pay.UK's needless decision. And thus needless fraud will occur (indeed, these PSPs will be an open target for criminals seeking to take advantage of this new fraud vector). And this decision has benefit only for the large banks, and not for UK

PLC.
Pay.UK's priorities are not the same as the PSR's, and for the PSR to advocate (as it does in the consultation) handing over decision making to a Quango with significantly different priorities and management positioning is a mistake that needs to be corrected.

d) It is worth pointing out also that the Lending Standards Board through their supervision of the CRM (Contingent Reimbursement Mechanism) and the Open Banking Authority through their supervision of part of Confirmation of Payee, are both additional Quangos which are effectively creating policy and regulation through their process rules. These bodies are also performing the PSR's work for it, without having the same priorities or regulatory standpoint as the PSR, and therefore the PSR cannot be effective in seeing its goals met under this regime.
One of the PSR's priorities should be ensuring that all bodies which make effective regulation under its space (such as Pay.UK, The Lending Standards Board and the Open Banking Authority) do not make any effective sector regulation or process without the PSR's involvement.
If this is not done, the PSR will have abrogated its core strategy and goals.

e) Whilst the PSR talks in its strategy consultation about ensuring innovation and competition, the PSR is ignoring the largest fundamental problem that is preventing innovation in the UK today.
As a result, the strategy consultation is flawed.

Regulation 105 of the Payment Services Regulations 2017 requires the FCA to ensure that UK high street banks provide bank accounts to innovators in payment, unless the bank has a POND (Proportionate, Objective and Non-Discriminatory) reason not to offer a bank account.
Now the majority of payment innovators have flawed anti-money laundering processes, and the UK high street banks are 100% correct to refuse to offer these innovative firms standard bank accounts, as those accounts would be used for money laundering and/or terrorist financing and/or sanctions evasion.

But there exists a minority tranche of FCA regulated payment innovator firms who have good AML procedures, and there are no POND reasons for UK high-street banks to refuse a bank account to these firms.
However, the UK high-street banks are refusing to open bank accounts for these firms for vested reasons – as payment innovation is not favourable to the established banks (unless performed by those banks themselves).
And the FCA are permitting the UK high-street banks to do so, by refusing to perform their duty under regulation 105.
So genuine innovation offered by AML-safe innovators is being stifled.

Our own firm, which due to the unusual nature of our business (escrow) has eliminated the threat of money laundering, etc. entirely (we are much less risk to any bank than even a standard UK restaurant or shoe importer), has been unable to open new vanilla standard business bank accounts with the UK high-street banks, with no POND reason given. And our complaints to the FCA have been met with no effective response.

Until the FCA implements its legally mandated duty under Regulation 105 of the

Payment Services Regulations 2017 to ensure that the established banks do not block such account opening, for the minority of payment innovators who do have full and proper AML, etc. processes, then the PSR's strategy document will be irrelevant and misguided. So the PSR need to ensure Regulation 105 is carried out by the FCA.

f) In order for a firm to become a direct participant in payment systems in the UK, the UK payment systems require the firm to become a SWIFT participant.
SWIFT by its very nature is a monopolistic organisation with monopolistic pricing and procedures. This is never acknowledged openly, but is the reality.

As a result, there is an exceptionally high and unnecessary bar on innovators from directly joining UK payment systems.
For example, apart from the SWIFT related costs, there is a need to operate a special dedicated data phone line to connect to SWIFT – something which city based large firms already do, but something which is prohibitively expensive to innovators based outside the City of London.

There is no conceptual need for UK payment innovators to be forced to become a member of an international body SWIFT, and the PSR should include this within its strategic thinking for the forthcoming future.

g) The PSR priority of ensuring that users are sufficiently protected is highly desirable.
But there is a common longstanding defect in the current payment systems that prevents users from being sufficiently protected – with an emphasis on the word sufficiently.

Debit card chargebacks under Visa and MasterCard are a swamp of ambiguity and chance for consumers.

Consumers and businesses need to have clear rules that are understood by all, with respect to consumer protection.
But at this time, debit-card chargebacks (and credit card chargebacks where S.75 of the Consumer Credit Act does not apply) are a hopeless mess for consumers.

Consumers have no statutory right to a Chargeback – Chargebacks are scheme rules accessible only to participant PSPs involved.
There is no written record available to card users of the chargeback scheme rules, and therefore no way for card users to know whether they will be covered or protected in a particular transaction.

So when the card schemes have been advertising (as they have recently) promoting their chargeback protection, it is quite possible that a consumer or business card user will discover that they were not covered by that protection in their purchase due to hidden scheme rules only when they make a complaint and try unsuccessfully to obtain redress.

Operating a Kafkaesque chargeback scheme where rules are not allowed to be revealed to end consumers is not a method where consumers are sufficiently protected.

I am a payment expert, but I am and others like me do not know if and how any particular purchase with a debit card (or credit card if using chargeback) will or will not be protected under Chargeback scheme rules.

This is an intolerable situation, and something the PSR could and should have addressed long ago.
The PSR should at this time as a priority be focusing on correcting the debit-card Chargeback system with respect to consumer protection (and where chargeback is appropriate credit-card), so that consumers have clear access to and understanding of the protection the schemes offers and when protection is not offered.
This needs to appear in the PSR 5-year strategy as an explicit item, as its size is so great.

Note: It is important to contrast the consumer protection provided by Credit Card purchases which benefit from Section 75 of the Consumer Credit Act – which is most but not all credit card purchases over £100 (unless certain exclusions apply). This consumer protection is bullet-proof and gold-standard for consumers, and provides the consumer with the best possible consumer protection.
Consumer ignorance and confusion over the difference between debit-card chargeback protection and solid Section 75 credit-card protection makes the appalling lack of proper debit-card chargeback protection all the more dangerous.

Please let me know if you require any clarification or further information on the above.
Best Regards,

[redacted]
[redacted] Transpact.com

[redacted]

UK Finance

PSR: Our proposed PSR Strategy

UK Finance Response

Date: 10 September 2021

Address: Payment Systems Regulator
12 Endeavour Square
London
E20 1JN

Sent to: [redacted]

UK Finance is the collective voice for the banking and finance industry.

Representing more than 250 firms across the industry, we act to enhance competitiveness, support customers and facilitate innovation.

Introduction and Strategic Alignment

- We welcome the opportunity to respond to the PSR's proposed strategy and note in the consideration of the key themes expressed in UK Finance's pre-consultation input on the draft strategy, particularly the importance of managing the implementation of the NPA by Pay.UK and the commercial nature of the competitive payment ecosystem.
- The PSR's consideration of UK Finance's Future Ready Payments 2030 report is also noted and we are supportive of the alignment of themes and objectives expressed in that report and the PSR's proposed strategy. Similarly, the alignment with the outcomes agreed by the UK Finance Payments Product and Service Board (PSB) is also significant. We comment on these in more detail later on in this response.
- The PSR's strategy refers to initiatives or priorities that will require industry engagement and consultation. We would encourage the PSR to lay greatest emphasis on the outcomes of their strategy rather than the specific actions articulated. We believe that the changing payments ecosystem may reveal alternative means to achieve the PSR's policy priorities and that engagement with the industry in a proactive manner can deliver more effective routes to beneficial outcomes. This includes developments in propositions such as central bank digital currencies (CBDCs) and digital identities.

Competition and Choice

- Our members operate in a highly competitive market that supports an array of payment options and methods unmatched by any previous period. These methods include Bank of England bank notes, Royal Mint issued coins, card payments, e-money accounts, payments initiated by mobile phones and other wearables, open banking payment initiation services, national and international bank transfer systems (including SEPA, Faster Payments, Bacs and the SWIFT network), cheque payments and, more recently, payments made via digital coins.
- Outcomes for consumers and businesses across these payment methods remain positive. The industry is proactive in supporting their customers in ensuring resilience, reliability, crime and fraud prevention and supporting inclusion. UK Finance has regularly been able to assist regulators and industry to come together to collectively solve consumer detriments in

a pro-competitive environment; for instance, through our work on the APP CRM code, the development of Access to Cash pilots, collective responses to airline insolvencies and the implementation of SCA and Confirmation of Payee.

- We believe the diversity of available payment options, and the diversity of business models that collectively support the availability of these payment methods to UK businesses and consumers, demonstrates the highly competitive, innovative and commercially driven nature of the UK's payments ecosystem. In light of this, we believe that the commercial nature of this ecosystem is essential for the PSR to consider over the next five years.
- We are supportive of the PSR's efforts to increase competition in the industry; although traditional distinctions between interbank and card rails are blurring. For instance, in the card acquiring market, we have seen these firms diversify to support acceptance of other payment types and promote interoperability. This change has the potential to support greater diversity of payment acceptance for businesses and greater choice of payment for consumers. The PSR has already observed within 3.24 to 3.37 the increasing competition between payment systems.
- This competition needs to take place within the right framework and we believe that greater competition between operators within a commercially sustainable market is the optimal mechanism to deliver the benefits of competition to the UK.
- UK Finance's own work in support of open banking payments, the development of new forms of digital money and our engagement with Pay.UK indicate to us that new payment systems are already in development, and increasingly likely to be developed by the commercial market. Stimulating additional change, such as in consumer protections, should be socially and economically beneficial and may require industry collaboration and co-ordination. These innovations often rely more on distributed business models that can deliver additional benefit to consumers at pace rather than through the implementation of central infrastructure and centralised schemes.

Regulatory Focus

- Our members have expressed concerns that the PSR's strategy relies too much on the actions of Pay.UK to deliver change to the industry.
- Our members are supportive of the delivery of the NPA and its fulfilment of regulatory outcomes. We believe that Pay.UK should increasingly operate to facilitate market led initiatives as directed by industry. We are seeing an increased demand for API driven services in the market and consider that other bodies may also be able to facilitate innovation in the market.
- We believe that any structural change to Pay.UK should enhance industry stakeholder input into its actions while ensuring that it has the right funding and incentives to deliver on the NPA and catalyse the development of new payment services. We believe, as Pay.UK considers its own strategy, that it has an opportunity to consider these changes in consultation with its participants.
- The PSR should recognise in its strategy that Pay.UK is one of many payment system operators in the market. Other stakeholders necessary to deliver industry change include card providers, fintech payment platforms, international payment networks and wholesale payment infrastructure.
- We believe that enhancing Pay.UK's responsiveness to the market would help to deliver on wider industry change initiatives, such as Digital ID. This initiative, in particular, could assist payment firms, and the wider market in general, to support enhanced fraud detection and protection as well as deliver more streamlined onboarding processes.

Competing Priorities

- We think that, specifically in reference to question two, the PSR has not tackled instances where it will have to balance the competing priorities in the fulfilment of its objectives. These conflicts are inevitable and we would like to see the PSR adopt transparency in its development of policy so that the industry may understand the impact of policies on other objectives of the PSR, other regulators and the industry. Specifically we consider the below are worthy of further consideration by the PSR:
    - While we recognise the work that the PSR has undertaken to outline the respective roles of other regulators of payment providers, we do not consider that the PSR's strategy has effectively outlined how the different roles of the FCA and the Bank of England impact its own objectives and the fulfilment of its fellow regulators' objectives.
    - Our members suggest that the PSR works with the payments community at the end of its consultation process to map ahead its contribution to the wider regulatory space. This could consider the next stages for access to cash, consumer protections and cross reference any items of conduct relevant; such as the FCA's Consumer Duty.
    - We would like to see the PSR consider how it handles conflicts between its objectives and industry's need for trust, safety, security, reliability and resilience.
    - There are some inherent conflicts in the articulation of the PSR's proposed outcomes. For example, how it enhances competition in the market while introducing policy initiatives which will incur direct costs to all participants.
- Choice for consumers is paramount and it is important for UK consumers and businesses to feel supported in their financial lives and have appropriate education of their options to enable informed decision making on their use of various payment types. The PSR's strategy appears to put disproportionate focus on the needs of the consumer without always acknowledging that businesses and payees (e.g. merchants) should also have choice.
- We value the PSR's consideration on how the industry may fairly and proportionately retire systems and services supporting payment methods that are no longer in wide usage; for instance, the use of cheques continues to decline despite substantial industry investment in this payment method. The competitive impacts of any decisions to reduce the investment costs of payment methods are manifold and the PSR's engagement will be essential for the industry to reach an effective agreement on these processes. We note the good work of the PSR's Digital Payments Initiative as an example of how industry and regulators can co-ordinate together to ensure that the benefit of pro-competitive industry outcomes can be delivered to consumers.

If you have any questions relating to this response, please contact [redacted]

[redacted]

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.**

- We agree with the PSR's summary of the key trends impacting the UK payments markets today. Particularly the growing competition between payment systems and the increasing competitiveness both of payment services between each other and the facilitation of existing payments infrastructure to enable new, diverse and competitive services to customers and businesses. These observations appear somewhat at odds with the PSR's later conclusions regarding risks to competition in retail payments.
- Competition between payment service providers is perhaps more important to our members. While competition between payment systems may provide greater facilities upon which market participants can build end-to-end solutions, there are greater opportunities for competition in the provision of services to payment users.
- The PSR outlines trends that primarily relate to the consumer. We would welcome further consideration of trends affecting commercial and business payments. Building on this, the PSR has primarily focused on industry driven changes in payments. Payments are a two sided market and changing payment user preferences can be more dynamic in driving change. Existing preferences, such as businesses preference to make salary payments by Bacs due to its low cost and predictability, may influence the use, growth and decline of payment methods. We believe there needs to be greater recognition of the benefits and drawbacks of various payment methods in the UK and that the decisions made by businesses, from a volume perspective alone, will have a greater impact on payments markets than decisions made by individual consumers.
- We welcome the PSR's consideration of a number of new and innovative payment methods and systems that are in development or are expected to be developed by the industry.
    - Firstly, the growing interest by central banks and regulators of CBDCs and wider stablecoin initiatives. HMT's recent consultation, and the Bank of England's recently concluded call for views have provided an opportunity to consider this important issue. Engagement on these topics is rightly being led by the Bank and HMT and we agree that the PSR's engagement on the introduction of new forms of digital money will be essential. It is important that the benefits of a robust regulatory environment are provided for these payment methods and that opportunities for regulatory arbitrage are not introduced. As far as possible, the PSR could assist the Bank and HMT in the development of new forms of digital money to help ensure that they are designed to promote competition both within their design and in relation to other available payment methods.
    - Secondly, the development of open banking payments as a competitive alternative to other forms of payment has been a welcome innovation for the payments industry. UK Finance has already begun working with the industry to understand how open banking payments can be enhanced for the industry, ensuring that they are commercially sustainable for all parties.
    - The development of 'overlay' services on other payment methods is a tried and tested method for developing competitive services within payments. We look forward to such services being developed both on existing payment infrastructure and any additional provision within the NPA.
- We want to recognise the PSR's observed overlap across the membership of most payment systems, both the card clearing systems and interbank clearing systems. Industry participants often have an incentive to access as many payment services as possible, and

offer their customers a convenient range of payment methods, to ensure their ongoing commercial sustainability while merchants, and corporates will often be able to make use of multiple types of payment. We have seen this most clearly in the evolution of the card acquiring market which has changed so much that industry experts have begun referring to this market solely by moniker of the 'acquiring market' as these firms are diversifying into accepting interbank payments, card payments and other payment types.

- This demonstrates the level of competition already present within and across different payment infrastructures. We believe this 'diversification' of payment providers accessing different strands of the payment 'supply-chain' will help to deliver the benefits of competition to UK businesses and consumers.

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.**

- We believe that the outcomes that the PSR have articulated are helpful and appropriately outline the key concerns, not just of the PSR, but also that of the wider payments' ecosystem.
- The UK Finance Payments PSB agreed in early 2021 the following strategic outcomes with our members:
    - Interoperability – Seek greater interoperability through standards, locally and internationally
    - Richer data – Use enhanced data and intelligence to better inform users
    - Open access – Open access to payment systems and services to those that want to use them while ensuring appropriate risk mitigations and oversight are in place
    - Resilience – Reliability and resilience must be maintained
    - Enhanced customer experience – Deliver greater choice, control, confidence and ease of use
    - Protecting customers – Prevent, deter and detect fraud and tackle economic and financial crime to ensure payments are safe and secure to use
    - Environmental sustainability – Reduce customers' environmental footprint
    - Value for money – Ensure payments are cost effective and efficient.
- We believe that these outcomes are central to achieving better products and services for the market. We see an effective and competitive market delivering against these outcomes.
- There is significant alignment between the PSR's outcomes and those articulated by UK Finance members. Open access and enhancing customers experience of payment services are essential to deliver payments services that meet the needs of users; we agree that there is a need for payment providers to protect their customers; competitiveness within the industry will be delivered through greater interoperability and greater access; ensuring the efficiency of payment systems can only be delivered through ensuring that payment services are delivered in ways that deliver value for money.
- Our outcomes for richer data are important for greater competition and innovation in the payments sector, as well as uplifting the variety and quality of services available to consumers. The ongoing implementation of open finance initiatives will also help encourage greater competition and innovation.
- While the PSR note their consideration of environmental impacts within their strategy, we do consider that this is something that the industry as a whole will collaborate on. Though not specifically of relevance to the PSR's role, where opportunities present themselves for

the support of these endeavours over the next five years, we expect the PSR to act in support of relevant initiatives.

- Our members consider that there is a perceived focus on consumers, particularly as payers in the PSR's strategy. We noted earlier that UK businesses can sometimes have a larger impact on payments markets than consumers and the needs of payees should not be overlooked. Delivering on the interests of both businesses and consumers will be important to deliver good outcomes for UK businesses and consumers.
- We note our members' objectives to deliver benefits to their customers. The importance of competitive markets to these objectives has already been taken as read; however, there are instances where the PSR strategy does not articulate the beneficial outcomes to consumers and businesses of its measures to promote competition and innovation. To effectively deliver benefits to end-users, promoting competition is the means that is justified by the ends – it is not an end in itself.
- We have specific comments on the outcomes below.

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

- We agree with the PSR that ensuring users have access to payment services that meet their needs is an essential function of the industry and note the alignment of this outcome with our own outcome articulated for open access to payment systems and services.
- We note two points of tension between this outcome and two other outcomes articulated by the PSR:
    - We do not believe that access to payment systems can be considered in isolation. Payment systems, such as cheques, have exceedingly low volumes and relatively high processing costs. This can drive inefficiencies in the business models of providers of these services, impacting their commercial viability and, ultimately, the value of services that they can offer to their customers – with reference to the PSR's fourth outcome. As the PSR note, the continued availability of cheques is important to some groups of users, however, we value the PSR's consideration on what other factors might be considered in relation to the proportionality of efforts to maintain access to this, and other less frequently used, payment types. Should the industry reach a point of commercial unsustainability in the provision of these services, we would value the PSR's consideration of how it would support market participants in reducing the availability of these payment types. It is possible that action to support the processing of cheques may be necessary in the next five years.
    - There may be circumstances where the availability of, for example, consumer protections across all payment methods may reduce the choice of payment methods for significant payment use cases. To ensure a commonality of experience, it may be more effective to restrict attention to a smaller sub-set of payment methods. We welcome the PSR's consideration of how it will handle this tension in its strategy. As an example, opportunities to confidently identify a merchant as a payee through the use of Digital ID or ISO merchant codes would require widespread market adoption to realise the benefit. Ensuring ubiquity for such a solution could restrict the number of participants able to offer payment services.

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

- We recognise the importance of ensuring user protection when making payments and note the agreement of the Payments PSB of a similar outcome to prevent, deter and detect fraud and tackle economic crime.
- The relative incentives for users to adopt particular payment methods may differ depending on the type of institution, individual or participant and what role it is playing within a payment chain.
- The importance of consumer protection is recognised across the industry. Particularly where there is demonstrable consumer detriment. The scale and nature of this protection must be commensurate to the detriment observed, must be sustained by a viable commercial model, deliver incentives to the right firms to facilitate implementation and manage the balance of competing priorities; such as demand for free-in-credit banking services and the unique features of different payment systems as designed to fulfil specific use cases.
- Operationally digital payments are often complex to process. Meeting the interests of all parties within a payment, from a payment initiator, any financial intermediary and the recipient itself is a difficult balancing act. A good commercial and governance structure to deliver change, including in consumer protections, will provide incentives to the key actors in these chains. This should also consider the relative needs of both merchants and consumers.
- In support of the above narrative, we wish to highlight two points of convergence with the PSR's other outcomes:
    - For the PSR's third outcome, the delivery of consumer protections by industry can have significant competitive outcomes for the industry. We value the PSR's consideration of the ways that consumer protections can sometimes be in the competitive interest of industry participants and, in other circumstances, a matter of pro-competitive collaboration.
    - The importance of ensuring that a consumer protection environment is commercially viable is essential to its success. We value the PSR's consideration of how its fourth outcome may help to enhance its assurance of the protection of payment service users.

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

- Members of UK Finance support the vast majority of payment systems in their operation and operate within a highly competitive ecosystem which has the hallmarks of consistent product innovation for end users. This can be seen from the diversity of payment methods available to consumers and businesses in the UK, from cash payments, digital wallets, mobile banking payments, card payments, direct debits among others.
- Across all of these payments methods, access is essential to drive effective competition and the Payments PSB agreed outcome for open access reflects this similar point.
- The PSR identify the ability for firms to gain income from payment systems as a key contributor to the level of innovation and change these systems can support. Payment networks are complicated systems and not all parties are motivated by specific revenue streams. Indeed, for different parts of a single business, the same payments networks may be a cost or source of revenue. Different business models of parties within an ecosystem may also impact their relative investment priorities. While large retail banks can have a

large impact on payment services, their businesses are often not reliant upon income from payment services – lending and savings products may be far more significant for them. This may distinguish them from other payment providers, whose business model may be entirely reliant upon revenue generated from payment services.

- We believe that there are benefits to a diversity of commercial models supporting the provision of payment services in the UK, both for central infrastructure based services and for commercial constructs and commercially negotiated access to services. This means that the different needs and the different business models of payment participants are able to co-exist in a mixed economy. This can deliver greater diversity of payment products, enhance the resilience of the ecosystem to changing market conditions and provide greater opportunity for innovation.
- Similarly, we recognise the PSR's observation that different payment systems do not offer the same or, necessarily, competing payment services. Our members consider that there are benefits in payment providers offering services for specific use cases as these services can be tailored to that specific use case.
- Changes in payment markets take time; the technical capacity to facilitate a payment via a particular method does not mean that this change will have an immediate impact on customer use cases. Consumers and businesses are historically slow to take advantage of new payment methods. The introduction of contactless cards to the UK was in 2008 and, after seven years of growth, infrastructure investment and the adoption by Transport for London of contactless cards to pay for transport fares instead of conventional tickets, contactless payments comprised just 6.6% of total card transactions. This is a useful test cases for the PSR as it considers the success of its strategy.
- While the PSR is correct in surmising that the introduction of PISP services has yet to make a significant impact on the use of interbank systems for retail purchase transactions, our own work with industry on barriers to adoption of open banking payments has highlighted a number of areas that require industry engagement to resolve. We also refer to the previous point and consider that we should not necessarily expect open banking payments to make a large and immediate impact.
- Beyond this, the interbank rails support a number of overlay services, with recent developments including Confirmation of Payee and Request to Pay – along with future innovation around enhancing APP fraud data sharing. The industry has supported these alongside undertaking one of the most significant redevelopments of retail payment infrastructures in the UK through the NPA programme, while supporting the Bank of England in their RTGS renewal programme and the implementation of open banking. These last three will, or have, significantly increased the transfer of data within the payments ecosystem that is a dramatic step change from previous infrastructures.
- Given the benefits of a mixed economy of payment services, it is unclear whether the PSR's conclusion that changing commercial models for payment systems will deliver effective results. Particularly as the potential implications of any changes are not insignificant. They could dramatically alter the costs of services offered to UK consumers, significantly altering the relative cost or income to paying/receiving banks, and be perceived as an exploitative move by consumer advocates.
- We do note that there already exist mechanisms for businesses to offer retail payment propositions under existing payment structure. Members of UK Finance such as PayPal and GoCardless both operate retail payment functionality, including point of sale payments and online payments, built on existing interbank payment mechanisms. These schemes may include features to meet the customer protection requirements.

Payment systems are efficient and commercially sustainable

- The PSR's assessment of costs to payment providers is a very useful summary of the various business models and considerations that factor into the investment and development choices of firms offering payment services to the market. It is absolutely essential that the PSR remains alive to the business cases for change in the market, the commercial interests of the firms they engage with and, fundamentally, the direct and indirect cost to UK businesses and consumers of the costs of change in payments markets. For international players it should be recognised that investment and participation decisions will be driven by strategic considerations and market developments extending beyond the UK.
- The outcomes of the Payments PSB partially reflect this through the articulation of the importance of value for money in payment services.
- Appropriate governance controls and commercial pressure will help ensure organisations continue to deliver benefits to UK consumers and businesses.
- As highlighted by our Future Ready Payments 2030 report, common and open standards are a core mechanism through which we believe payment systems will continue to be able to grow in efficiency and provide a foundation of interoperability and resiliency for the UK market. Pay.UK's work in establishing their Standards Authority is appreciated, as is their collaboration with the Bank of England in developing a Common Credit Message for the UK based on the ISO 20022 standard. UK Finance, through its Standards Strategy Group, has begun to engage with these parties to understand how this collaboration can continue to deliver benefit to end users, and how extending this collaborative process to other infrastructure providers such as Mastercard, SWIFT and Visa can further enhance the benefits afforded by greater standardisation.
- Similarly, the PSR rightly highlights the difficulties associated with the differences between business standards and technical standards. We note the PSR's identification of a gap with no one agency well placed to establish minimum standards governing the interaction between counterparties etc. Broad collaboration across a range of stakeholders is vital, beyond the confines of Pay.UK. As a point of co-ordination with our members, UK Finance has a capability to convene industry and we have worked closely with them both through our Open Banking Payments Working Group and our Standards Strategy Group. Both of these groups have been able to articulate key barriers to industry progress that can be overcome by pro-competitive collaboration as well as being forums through which the industry can explore possible solutions.
- Our members are supportive of the PSR's observations of potential requirements for change to the governance of Pay.UK; we believe that the PSR should accelerate transparency in the current governance, set a clear expectation for a function driven framework for Pay.UK, promote improvements in how Pay.UK communicates and engages with stakeholders of all types and ensure that industry input on key investment decisions is heard.
- Proposals to reinforce the role of Pay.UK by changes to regulation are concerning. Pay.UK, as a not-for-profit entity, currently exists as one among many payment service firms in the market, that includes card providers, fintech payment platforms, international payment platforms and wholesale infrastructure. Depending on what the PSR mean to change about Pay.UK's structure, there may be concerns about the impact on the competitive market from overly instituting the role of one particular organisation in the retail payments ecosystem.

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.**

- We have used this section to compare the approach and actions laid out by the PSR in their strategy with the proposals made within UK Finance's Future Ready Payments 2030 report.

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

FRP#	FRP Recommendation
1	The industry will continue to work with regulators, government and key stakeholders to ensure that cash remains free and widely accessible for those personal customers that continue to need it.
2	The industry will further explore potential customer journeys that might enable more consumers to benefit from digital payments and identify any opportunities to take collaborative action to address them.
3	The industry will continue to, within the context of an already highly innovative and competitive market, to actively enable new digital services, methods of payment and other innovation that meet the evolving needs of all end-users in the UK.
8	A key ambition for the industry over the coming years will be to promote customer access to digital payments. The industry will work together where necessary to identify opportunities to enhance digital inclusion for its customers and address any issues.
9	In order to achieve our vision for digital payments, the industry will consider ways in which to support existing initiatives and research on digital inclusion to ensure a coordinated and transparent approach to identifying and understanding consumer needs.
20	Payment market infrastructure providers to continue setting clear standards and utilising modern connectivity technology, such as the use of cloud services and APIs, in order to ensure that future developments align with interoperability principles, as well as meeting market requirements for resilience, safety and security.
22	The Regulatory Initiatives Forum should continue to develop the Regulatory Initiatives Grid (RIG) to provide the industry with a pipeline of planned interventions. It should reduce regulatory overlap and clarify the respective roles of each regulatory body, including which takes the lead where shared responsibility for initiatives continues. To promote alignment with industry initiatives, it is important that the government and regulators clarify and confirm what they want from the payments industry through HMT's Payments Landscape Review and Future Regulatory Framework (FRF) Review, as well as the PSR's strategy.
23	The government should extend to payments regulators its FRF Review proposals for a clear allocation of responsibilities between Parliament, HMT and regulators, with the latter subject to enhanced transparency, scrutiny and accountability. We believe this model will make the most of independent regulators' expertise and flexibility in setting regulatory standards while at the same time ensuring they take full account of broader public policy issues and priorities when designing those standards.

24 A coherent, future-proofed framework should subject the same activities and risks to the same regulation - with the same consumer protection - irrespective of the nature and legal status of the service provider.

- We believe there is strong alignment between the actions proposed by the PSR with regard to this priority and are supportive of the PSR's endeavours in this respect.
- The PSR's actions in these respects appears to focus on the existing requirements for access. We have already articulated the changing nature of payments in the UK and the development of new methods of payment and the increasing likelihood of additional methods to be developed in the future. We believe the PSR needs to consider how the payment ecosystem will change and how access requirements for consumers and business may change over the next five years. The PSR could take a wider view on payment access in the light of changing international conditions, such as SEPA access; new forms of digital money, such as CBDCs and stablecoins; and new business models, such as PISPs and commercial issuers of new forms of digital money. The G20 priority of enhancing cross-border payments should not be overlooked.
- The articulation of the priority appears to preclude any decision by the PSR and industry on whether payment services that are no longer commercially sustainable could be removed from widespread issuance. The decline in the use of cheques by consumers is a potential area that the industry may need to work with the PSR to articulate thresholds for payment methods to be assessed to understand whether widespread issuance or acceptance remains in the public interest in the next five years; otherwise the continued subsidisation of some payment services could incur a longstanding opportunity cost to the industry. Should this be required, the PSR could work to be assured that the needs of consumers will continue to be met by the changing mix of payment methods available to consumers.
- Previously, we considered that the PSR has assessed the market trends based on industry innovation. It is unclear how the PSR will assess the changing demands of businesses and consumers to understand their needs in more depth.
- While the PSR's efforts to support existing levels of access to the cash network is appreciated in their role as regulator of LINK, HMT's recent consultation on access to cash recommends that the FCA be given overarching regulatory oversight of the retail cash system. Within these responsibilities an articulation of the FCA to "[assess] cash access needs and demands for both personal and SME business customer on a period basis" is provided by HMT. We recommend that the PSR's commitments to support the availability of cash could be focused on the opportunities to support industry in developing innovative cash distribution methods or digital alternatives for consumers who would otherwise use cash.
- We support the activities of the PSR in ensuring that the payments industry has access to mutual services that have transparent and proportionate terms of joining and that effort is undertaken to ensure that joining processes are transparent and effective.
- We agree with the importance that the PSR note in relation to vulnerable customers; particularly:
    - We agree that firms will be mindful of the needs of vulnerable customers when designing and implementing services, based on an analysis of the needs present in their existing customer cohorts and target markets.
    - We agree that firms should respond to the needs of vulnerable customers at the point of interaction, if vulnerability is disclosed or identified.
    - We trust that firms' alignment to the FCA's expectations, as conduct authority, regarding Fair Treatment of Vulnerable Customers will meet the PSR's concerns in the areas they have articulated.

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

FRP#	FRP Recommendation
4	We would encourage the regulators to provide leadership and coordination to ensure policy initiatives deliver the right outcomes for consumers and businesses, and avoid unintended consequences, through a framework that will produce clear, effective, fair and commercially viable outcomes. Respective regulators' responsibilities should be clearly understood and aligned, to avoid duplication of effort and conflicting outcomes.
5	Undertake further work, including via Pay.UK's Consumer Protections Working Group, on potential enhanced protections for different business models and journeys and across different payment types. This work will include how protections are funded. We expect this activity to be in support of the work the PSR are planning in this area.
6	The industry will further promote customer education and other possible actions to improve awareness of current payment protections. Industry players should understand and consider the societal differences in users of payment types, and consumer confidence to seek a refund, including identifying the barriers to educating customers on protections at the point of transaction.
7	Pay.UK will continue its tracking of international markets, to identify any accelerators or barriers to the take up of real-time customer-to-business payments, as well as alternative approaches to consumer protection. This research can help inform its policy work to explore if, and how, Pay.UK can use its rules and standards to enhance consumer protections.

- We note the similarity of concern raised by the PSR on consumer protections as made within the UK Finance Future Ready Payments 2030 report and note the expected response from the PSR on its call for views later in 2021.
- Members of UK Finance pride themselves on their services to their customers; meeting their needs and ensuring that disputes and errors in financial matters are resolved quickly and effectively is a central part of their business models and the trust that their customers have in their services.
- Pay.UK's governance of the interbank rules is a potential mechanism to deliver consumer protections where this introduction can be commercially sensitive and proportionate to the consumer harm identified. Where more granular consumer protections are recommended, the PSR could look to work with firms that already provide retail payment services incorporating consumer protections atop the interbank payments network to understand how alternative forms of consumer protection could be delivered. The input and participation of other business areas, including merchants and corporates, may also be required in order to effectively deliver protection across retail and corporate use cases. It will also be important to ensure that the scope of application of any requirements is made clear at the outset, recognising that payment service users comprise both consumers and businesses and that some PSPs serve only consumers, businesses or a mix of both.
- The use cases that the likes of Bacs, Faster Payments and the Image Clearing System (ICS) fulfil for members of these schemes are varied and introducing a generic customer protection scheme across these use cases may not be the optimal method to protect customers.
- We believe that choice and competition can be effective in delivering an appropriate level of protection and that, where collaboration is required, it should be proportionate to the level of

consumer harm, be sensitive to commercial drivers and not adopt a 'one size fits all' approach.

- The use of the interbank rails for consumer retail payments to merchants and for the purposes of purchasing other goods and services remains small. However we, with the PSR, expect this to grow with rising numbers of open banking payments. We suggest that Pay.UK should move forward to some Proof-of-Concept proposals to handle the consumer protection concerns for their platforms; and other organisations should be encouraged to do the same for their respective points of co-ordination in the payments' ecosystem.
- Our own work on open banking payments has highlighted opportunities for payment arrangements to operate and it is possible that they could provide a granular mechanism to deliver customer protection schemes, rather than requiring changes to central infrastructure.
- The importance of protecting consumers when things go wrong is a principle that extends beyond financial services, and can be supported by regulation as well. The reform of the ATOL scheme is a good illustration of how other industries can help to ensure that consumer protection issues can be handled effectively. In this case, these adjustments were made without recourse to central infrastructure or payment scheme change.
- Issues for consumers caused by the increase in APP scams remains significant for industry. There has been progress through the formation of the APP CRM code and the work of the Financial Ombudsman Service. These mechanisms for redress in the event of APP fraud are beneficial for UK consumers. However, despite this work, APP fraud continues to rise and the industry has identified opportunities to help to limit this fraud in future. UK Finance is working with its members on a proof of concept to permit greater sharing of payment data between payment agents supporting more effective fraud decisioning. This could provide the industry justification for investment in wider fraud information sharing networks. We are working closely with our members and Pay.UK on this initiative.
- Inevitably, there are various models by which this additional data can be shared; whether through a Confirmation of Payee (CoP) style pre transaction peer-to-peer overlay or directly included in a payment message. It is vital that the PSR and PSPs share a value driven approach to the delivery of any solutions. CoP illustrates the point well – we need to make sure we're devoting resources to the most harmful detriments as we lever the potential of this foundational technology.

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

FRP#	FRP Recommendation
3	The industry will continue to, within the context of an already highly innovative and competitive market, to actively enable new digital services, methods of payment and other innovation that meet the evolving needs of all end-users in the UK.
14	Regulators, central banks, and industry bodies to support global initiatives to enhance cross border liquidity management.
15	The Bank of England and industry, with the support of UK Finance, should continue existing work to improve liquidity efficiency in the renewed UK payment systems. They should also explore potential further innovations in the future including options

for improving liquidity efficiency between and across multiple payment and securities settlement systems.

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20 Payment market infrastructure providers to continue setting clear standards and utilising modern connectivity technology, such as the use of cloud services and APIs, in order to ensure that future developments align with interoperability principles, as well as meeting market requirements for resilience, safety and security.

- As our recommendations within the Future Ready Payments 2030 report outline, there is much that can be done to ensure the competitive landscape of the UK payments ecosystem. We provide these as context for additional innovation that we believe should be supported by the competitive market as tangible outcomes for the industry.
- We believe that the continued functioning of the competitive ecosystem for payments is an important enabler for future innovation and that the development of common standards and co-ordination across the market within existing forums and new environments is key to ensuring that the payments industry continues to deliver innovative services to UK businesses and consumers.
- It is not immediately clear to us that there is long-term risk to competition in retail payments as articulated by the PSR. The PSR's evidence appears to be dominated by a specific analysis of the cards market and does not consider the wider landscape of payment methods available to payment service users. We believe that the PSR need to be clearer on the negative outcomes this perceived competition risk is causing to consumers and businesses, and how any proposals to mitigate this risk will reduce this detriment. Without a clear articulation of the specific detriments and expected benefits to UK businesses and consumers, it is difficult to understand whether the PSR's proposed actions will have material benefits for UK businesses and consumers.
- The PSR highlights the long-running concerns about pricing for cards transactions. Given their recognition that costs of providing payment services must be recouped by providers, it is unclear whether any change to the charging mechanisms of payment firms will avoid all potential detriments of a firms chosen commercial model. Given this, the industry is keen to understand what elements of commercial models could be adjusted to deliver greater access or other benefits to consumers and businesses.
- It is unclear at this time whether alternative business models are more appropriate. Indeed, we understand that the (volume variable) flat fee per transaction that Pay.UK charge for some of their payment services also presents difficulties for the commercial sustainability of some payment services, particularly the growth of open banking payments.
- If the cost of payments is the key detriment that the PSR one member has observed that, in their experience, participation in the UK payments system is notably more costly than elsewhere, which would suggest the payment system's operating costs should come under greater scrutiny. Competition between payment services could help to deliver this cost control, under the right circumstances.
- The mixed economy of the existing payment ecosystem includes both cost-recovery not for profit organisations and commercial entities offering different pricing models for the industry. Commercial firms have been able to build retail payment capability within both ecosystems (with reference to both Google and Apple pay, as well as PayPal). UK Finance is not in a position to review its members' pricing models and the potential impacts that

changes to these models could have on the industry in detail and it is not clear how the PSR's strategy will handle such analysis moving forward.

- The practicalities of offering payment services necessitate costs. The resilience and reliability of infrastructure in payment services is paramount to ensuring that a safe and reliable service can be provided to consumers and avoid the loss of availability which can have a significant impact on vulnerable individuals.
- Additionally, we note that there is a significant product offering gap between interbank payment mechanisms and other 'point-of-sale' payment methods, such as cards. The PSR's comments on the specialism of certain payment methods to particular market segments or types of payments are apt. If the interbank systems were to provide greater competition in 'point-of-sale' use cases, we would expect there to be some degree of uplift in services, such as supporting refunds and other dispute resolution mechanisms. This would come at a cost to the market.
- This is not to say it is impossible to configure a sustainable level of protection for some interbank payments but it needs to be tailored to reflect the optimum service, risk and cost balance and would not necessarily emulate protections on cards, for example.
- Further innovation, such as the delivery of the NPA and the implementation of new forms of digital money could help to deliver a greater variety of payment options to the market and we expect that additional products and services will be built by industry participants to take advantage of these.

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

FRP#	FRP Recommendation
10	UK Finance will work with its members and Innovate Finance to establish a Taskforce to explore use cases and develop views on standard frameworks that could support interoperability. The industry will input into the Department for Culture Media and Sport's Digital Identity Trust Framework taking into account the wider regulatory and legislative agenda (including data privacy and cyber security considerations) to help ensure the Framework delivers for payments and financial services providers.
11	UK Finance will continue to work with industry stakeholders and regulators in 2021 to consider how to enhance and adjust Strong Customer Authentication (SCA) to further reduce digital fraud and enhance the payment experience outcomes while encouraging innovative approaches to deliver this.
12	UK Finance will work with members to consider mechanisms to improve data sharing within and beyond the financial services sector. This includes the sharing of data in real-time to help identify threats to customers and the industry. This can only be achieved through an appropriate legal and regulatory framework provided by government and regulators.
16	UK Finance has established a cross-industry group to consider opportunities for coordinating the development and governance of payments standards across inter-bank, cards and Open Banking; with appropriate consideration of the international standards landscape.

18	The industry will work with the Open Banking Implementation Entity, UK Finance, Pay.UK, the Bank of England and other stakeholders to ensure that the Open Banking API standards are developed in line with wider adoption of ISO 20022. The aim of this work is to support a wide range of payment types and ensure interoperability with underlying payment formats.
21	Further collaboration with industry, government, the Bank of England and other stakeholders on the possible use cases for Central Bank Digital Currency in payments including exploring what functionality it would deliver as well as how the build and run costs would be met.

- As our Future Ready Payments 2030 report outlined, there is much that can be done to ensure that payment systems are efficient and commercially sustainable and we invite the PSR to consider how the innovative elements of this vision can be articulated in a positive and constructive method.
- We agree with the PSR of the transformative power of common and open standards supporting interoperability. We noted in our response to the previous question UK Finance's own work to collaborate with Pay.UK and other infrastructure providers, such as SWIFT, the Bank of England, Mastercard and Visa. Our expectation is the work of the UK Finance Standards Strategy Group will be one of many ways by which the industry can collaborate and co-ordinate on important initiatives where market buy-in can be established.
- We noted in our opening remarks the concerns our members have of the PSR appearing to prefer the activities of Pay.UK as delivering change to the payments' ecosystem. There are stakeholders beyond Pay.UK who will be able to assist the industry in delivering an efficient and commercially sustainable payments ecosystem. We believe that the PSR's lack of reference to entities such as the OBIE, the Bank of England, infrastructure providers, the vendor community and members of the payments ecosystem that offer the commercial services that the nation relies upon is concerning and should be adjusted.
- While we are supportive of the PSR's objectives that the NPA is appropriately funded and that Pay.UK has sufficient autonomy to support market investment in innovative services, a common concern for our members is how the ongoing costs of the NPA can be appropriately controlled. We believe that any structural change to Pay.UK should be accompanied by mechanisms that ensure that the primary funders of any innovation, whether they be primary users of Pay.UK or participants engaged in other funding formats, have opportunities to test the level of investment that Pay.UK are making into specific product areas. Transparency and improved communication with stakeholders is needed. We appreciate that this perspective is represented in the PSR's latest consultation on the NPA.
- Our members have noted that further industry engagement on changes to the governance and enforcement capabilities of Pay.UK will be required to ensure that these changes deliver beneficial outcomes for the industry, consumers and businesses. Members wish to be assured that the PSR's intention for Pay.UK is to maintain its role within the industry as an independent and self-determinate organisation.

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.**

- We have noted in our response to the previous two questions areas where we believe additional clarity can be provided on the choices that the PSR makes.

- We expect that the PSR will continue to consult on their activities and be open to alternative means to achieve its outcomes.
- As previously noted, we expect the PSR to continue to collaborate and work with other regulators and industry bodies. A greater articulation, and transparency, of the management of competing regulatory priorities is also considered beneficial to the industry. Regular publication and updates of the Regulatory Initiatives Grid by the UK authorities is a welcome development in this space.
- We observe that the PSR has priorities which support the implementation of competition within the payment ecosystem but has not specifically outlined any outcomes or priorities in relation to pursuing its statutory objective to promote innovation. While the competitive market can sometimes be much more effective at pioneering innovation than regulators, we welcome the PSR's consideration about how this objective may be considered within their strategy.
- Some members have noted their concern that the PSR has not included elements of its strategy to support its engagement on data sharing and cross-border payments. The FSB's recently closed consultation on targets for enhancing cross-border payments envisioned a deadline of 2027 for changes to be made. It is likely that these will need to be assessed and progressed within the PSR's five year timeline.

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.**

- A number of the PSR's measures for success involve the collation of data from the industry. This response has already articulated the industry's concerns that the PSR consider carefully its data collection strategy in order to reduce the impact on industry participants of multiple and changing information requests.
- Further, given that UK Finance support a great deal of data collection and analysis for the payments industry, we exhort the PSR to consider actively the ways in which existing data sources may be utilised and the way that the aggregated results of any data collection may be released to all industry participants to support beneficial business outcomes for consumers and businesses.

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

- We believe that the PSR could monitor the use of all payment options available to customers to understand the rate of transactions for each payment method and, in order to identify opportunities for collective savings, establish objective and proportional thresholds to begin discussions to outline the potential wind-down of infrastructure and alternative methods to support customers to make payments in the ways that they want to.
- Where relevant, we believe the PSR will need to consider the acceptance of different payment methods within these thresholds, which may mean it is required to source data and input from outside of its regulatory activities; for instance, commercial acceptance of cash is not an item that financial institutions can influence and is key to the ongoing supply and demand of cash.
- We noted previously concerns that the PSR will not understand what user needs exist in relation to payment services. We welcome the PSR's consideration of how it can understand both the expectations of end-users as well as the potential cost and commercial impacts of meeting those needs within a competitive market.

- The commercial market is an excellent tool for understanding what services consumers value enough to pay for; or, conversely, what services commercial organisations are willing to provide to consumers to acquire their custom. The opinions of policy professions, within and without the PSR, may not always align to the primary concerns of businesses and consumers. We believe good market data, a sensitivity to new trends and a discursive approach with industry to their interpretation will help to deliver accurate market perspectives to the PSR.

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

- We consider that, while valuable data on the number of APP scams is available to the industry, considerations on the wider impact of consumer protections, and the industry's fulfilment of this, is harder to define. While qualitative surveys can be helpful to identify potential areas of investigation, quantitative data is often required in order to fully justify changes.
- We recommend that the PSR investigate more thoroughly the current use of wider customer protections within financial services and within retail commercial environments. We believe this will be an important basis on which to base further development of consumer protections proposals by the industry.

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

- We believe that the payments ecosystem exhibits many of the hallmarks of an active and competitive ecosystem. What the PSR use to measure relative market shares, and the parties which competitive markets serve will be important aspects to consider. We recommend that the PSR publish more detailed outlines of what they consider to be the key measures of market concentration and what parties could be negatively impacted by high market concentration.
- We expect that the PSR will respond dynamically to changes in the distribution of payment methods, look to gain data when relevant on the use of new forms of digital money and seek data on payment use cases that operate above the clearing schemes that it oversees.
- Our view is that market concentration metrics are only partially effective at revealing positive and negative outcomes for consumer and business end users and that this perspective should be factored into the interpretation by the PSR of market figures.

Payment systems are efficient and commercially sustainable

- While the proposed measure of Pay.UK's rule changes could provide insight into the ongoing development of the interbank payments systems, similar measurements of other payment services and enablers could be made. For instance, the level of changes in the cards' ecosystem could be measured to understand their effectiveness in adjusting to new market demands. It is unclear why the PSR are measuring only one piece of payment market infrastructure.
- In any case, the measurement of change in rules may not always correlate to benefits to end users, or delays in changes to ongoing consumer detriment. We recommend that such measures be collected as indicative measures only.

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?**

- Some members have suggested that the PSR should monitor its cost, size and responsibilities alongside its effectiveness. It has increased substantively in size since establishment while its responsibilities have remained static or, in the views of some of our members, declined. We welcome the PSR's consideration of its internal efficiency, and how its resource is best deployed to meet its policy objectives.
- The PSR should consider the impact requests for data have on the industry. Our members have flagged to us occasions where they have been subject to multiple versions of the same data requests and where data requests have changed without clarity on what the additional data is delivering to the PSR's analysis.
- The PSR could also look beyond the UK to consider market trends holistically and to provide a benchmark.

7. **Do you know any existing sources of data we can use to assist our metrics?**

- UK Finance remain committed to ensuring that the industry and regulators have appropriate data to support the collective decision making of the industry for the benefit of all market participants.
- As and when additional data sources become available to us, we look forward to engaging with the PSR to allow these

Annex: PSR Strategy and Future Ready Payments Recommendations Comparison

Outcomes	Priority	Actions to meet this priority	FRP#	FRP Recommendation
All users have access to payment services that meet their needs in terms of functions, quality, cost and other relevant factors	Ensure users have continued access to the payment services they rely upon and support effective choice of alternative payment options	Make sure the arrangements are in place to support the development of new services that meet users' needs	3	The industry will continue to, within the context of an already highly innovative and competitive market, to actively enable new digital services, methods of payment and other innovation that meet the evolving needs of all end-users in the UK.
		Ensure that our approach to the regulation of any newly designated payment systems is robust and proportionate		
		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	2	Supporting customers - The industry will further explore potential customer journeys that might enable more consumers to benefit from digital payments and identify any opportunities to take collaborative action to address them.
			8	A key ambition for the industry over the coming years will be to promote customer access to digital payments. The industry will work together where necessary to identify opportunities to enhance digital inclusion for its customers and address any issues.
			9	In order to achieve our vision for digital payments, the industry will consider ways in which to support existing initiatives and research on digital inclusion to ensure a coordinated and transparent approach to identifying and understanding consumer needs.
		Ensure that regulatory approaches are aligned between regulators, and the division of responsibilities is clear	22	The Regulatory Initiatives Forum should continue to develop the Regulatory Initiatives Grid (RIG) to provide the industry with a pipeline of planned interventions. It should reduce regulatory overlap and clarify the respective roles of each regulatory body, including which takes the lead where shared responsibility for initiatives continues. To promote alignment with industry initiatives, it is important that the government and regulators clarify and confirm what they want from the payments industry through HMT's Payments Landscape Review and Future Regulatory Framework (FRF) Review, as well as the PSR's strategy.
			23	The government should extend to payments regulators its FRF Review proposals for a clear allocation of responsibilities between Parliament, HMT and regulators, with the latter subject to enhanced transparency, scrutiny and accountability. We believe this model will make the most of independent regulators' expertise and flexibility in setting regulatory standards while at the same time ensuring they take full account of broader public policy issues and priorities when designing those standards.
			24	A coherent, future-proofed framework should subject the same activities and risks to the same regulation - with the same consumer protection - irrespective of the nature and legal status of the service provider.
		Continue to protect access to cash for those that rely on it	1	The industry will continue to work with regulators, government and key stakeholders to ensure that cash remains free and widely accessible for those personal customers that continue to need it.
		Support and protect competition, given its potential to fulfil user needs	3	The industry will continue to, within the context of an already highly innovative and competitive market, to actively enable new digital services, methods of payment and other innovation that meet the evolving needs of all end-users in the UK.

Outcomes	Priority	Actions to meet this priority	FRP#	FRP Recommendation
		Continue to promote a range of options for payment service providers to access payment systems	20	Payment market infrastructure providers to continue setting clear standards and utilising modern connectivity technology, such as the use of cloud services and APIs, in order to ensure that future developments align with
Users' interests are adequately protected when using payment systems so that they can use systems and services with confidence	Ensure users are sufficiently protected when using the UK's payment systems, now and in the future	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	4	We would encourage the regulators to provide leadership and coordination to ensure policy initiatives deliver the right outcomes for consumers and businesses, and avoid unintended consequences, through a framework that will
			5	Undertake further work, including via Pay.UK's Consumer Protections Working Group, on potential enhanced protections for different business models and journeys and across different payment types. This work will include how protections are funded. We expect this activity to be in support of the work the PSR are planning in this area.
			6	The industry will further promote customer education and other possible actions to improve awareness of current payment protections. Industry players should understand and consider the societal differences in users of payment types, and consumer confidence to seek a refund, including identifying the barriers to educating customers on protections at the point of transaction.
			7	Pay.UK will continue its tracking of international markets, to identify any accelerators or barriers to the take up of real-time customer-to-business payments, as well as alternative approaches to consumer protection. This research can help inform its policy work to explore if, and how, Pay.UK can use its rules and standards to enhance consumer protections.
Payment systems are designed and operated to enable effective competition in the provision of payment services	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	Shift our focus to promoting competition between payment systems	3	The industry will continue to, within the context of an already highly innovative and competitive market, to actively enable new digital services, methods of payment and other innovation that meet the evolving needs of all end-users in the UK.
			20	Payment market infrastructure providers to continue setting clear standards and utilising modern connectivity technology, such as the use of cloud services and APIs, in order to ensure that future developments align with
		Support and develop the interbank systems to provide greater competition	20	Payment market infrastructure providers to continue setting clear standards and utilising modern connectivity technology, such as the use of cloud services and APIs, in order to ensure that future developments align with
			14	Regulators, central banks, and industry bodies to support global initiatives to enhance cross border liquidity management.
			15	The Bank of England and industry, with the support of UK Finance, should continue existing work to improve liquidity efficiency in the renewed UK payment systems. They should also explore potential further innovations in the future including options for improving liquidity efficiency between and across multiple payment and securities settlement systems.
		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		

Outcomes	Priority	Actions to meet this priority	FRP#	FRP Recommendation
Payment systems are efficient and commercially sustainable	Ensure the renewal and future governance of the UK's interbank payment systems supports innovation and competition in payments	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.		
		Ensure requests for new APIs or the introduction of new functionality into the core infrastructure are assessed appropriately and resources assigned to their development	10	UK Finance will work with its members and Innovate Finance to establish a Taskforce to explore use cases and develop views on standard frameworks that could support interoperability. The industry will input into the Department for Culture Media and Sport's Digital Identity Trust Framework taking into account the wider regulatory and legislative agenda (including data privacy and cyber security considerations) to help ensure the Framework delivers for payments and financial services providers.
			11	UK Finance will continue to work with industry stakeholders and regulators in 2021 to consider how to enhance and adjust Strong Customer Authentication (SCA) to further reduce digital fraud and enhance the payment experience outcomes while encouraging innovative approaches to deliver this.
			12	UK Finance will work with members to consider mechanisms to improve data sharing within and beyond the financial services sector. This includes the sharing of data in real-time to help identify threats to customers and the industry. This can only be achieved through an appropriate legal and regulatory framework provided by government and regulators.
			18	The industry will work with the Open Banking Implementation Entity, UK Finance, Pay.UK, the Bank of England and other stakeholders to ensure that the Open Banking API standards are developed in line with wider adoption of ISO 20022. The aim of this work is to support a wide range of payment types and ensure interoperability with underlying payment formats.
			21	Further collaboration with industry, government, the Bank of England and other stakeholders on the possible use cases for Central Bank Digital Currency in payments including exploring what functionality it would deliver as well as how the build and run costs would be met.
		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.		
		Support and promote coordination between payment system participants where we think it is needed but not happening.	16	UK Finance has established a cross-industry group to consider opportunities for coordinating the development and governance of payments standards across inter-bank, cards and Open Banking; with appropriate consideration of the international standards landscape.

UK Hospitality

UKHospitality response to PSR Strategy consultation

About us

- UKHospitality is the authoritative voice for over 730 companies operating around 85,000 venues in a sector that employed 3.2 million people prior to COVID.
- The body speaks on behalf of a wide range of leisure and 'out-of-home' businesses, from FTSE 100 enterprises to niche groups and independent single-site operators, as well as 6,000 affiliated operators.
- Engaging with government, the media and the public, UKHospitality works to develop a robust case on how to unlock the industry's full potential as the biggest engine for growth in the economy and ensure that the industry's needs are effectively represented.
- The sector creates £130bn in economic activity and generates £39bn of tax for the Exchequer, funding vital services.
- Hospitality represents 10% of UK employment, 6% of businesses and 5% of GDP, pre-COVID.

Executive summary

- Within the strategy, there is a lack of any real commitment to address the current issues within the card payments system, despite an increase of evidence in anti-competitive behaviour. In order to deliver on the promised economic regulation, as set out in the document, specific commitments must be made around how the strategy aims to improve the competitiveness of the market.
- The need for additional, effective regulation, is crucial in ensuring a successful card payments system that supports competition within the market and does not financially burden businesses. For the next five years, the PSR has stated that it will "consider the need… to regulate in order to protect consumers and businesses if other measures are not producing the competition outcome we seek", however there is no measurable competition outcome defined, or an established time frame. As a result, there is no deadline that has been outlined whereby the PSR would intervene in the card payments system. Stronger measures must be taken in order to deliver on the objectives the PSR has set out.
- Action on card payments is yet to be established and long overdue:
    - The benefits of legislation to reduce card fees are yet to be passed on to most hospitality businesses, and the fees levied by the card schemes have been increasing for several years.
    - Interchange Fee Regulation (IFR), introduced across the EU in 2015 has failed to cut the cost of payments that would lead to a fall in consumer prices. As noted by the PSR, card scheme fees have more than doubled from 2014-2018, after the IFR caps came into place, which is unacceptable.
    - As a result, there have been a significant increase in costs, adding to the price of goods and services paid by consumers, and therefore UKHospitality is of the view that significant reform of the card payment system is essential in preventing financial burdens to consumers and businesses.

Previously, UKH, in collaboration with British business bodies such as the British Retail Consortium (BRC), British Independent Retailers Association (Bira), Association of Convenience Stores (ACS), and Federation of Small Business (FSB) have called for action from the PSR to prevent excessive card costs. UKHospitality is supportive of these groups' response to the consultation.

Consultation questions

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.***

Card Payments System:

Costs continue to increase further for end users. As previously noted, the IFR, which promised to cut the cost of payments, only regulates some interchange fees and no card scheme fees. As a result, card scheme fees have more than doubled between 2014-2018. This is unacceptable and resolving this must be an immediate priority.

As is outlined by the PSR within the document, "the bulk of (card) payments still rely on Visa or Mastercard." Given this increasing dependency and increasing cost of card acceptance on top of already excessive charges, the PSR must ensure the protection of businesses from adverse impacts of current and future failings in Europe's largest card market.

Cash Payments System:

In 2019, 23% of all transactions in the UK were made using cash. However, as noted by the PSR, as cash declines, there will be rising costs in order to maintain the current cash infrastructure. With the vast majority of hospitality businesses accepting both cash and card, there are concerns regarding what this downward trend away from cash is likely to mean for both hospitality businesses and the UK's cash infrastructure.

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.***

Within the document, there is an absence of specific detail and time related detail, which makes it difficult to assess any success that the PSR may have in meeting its goals. Without the introduction of any measurable goals, the strategy is toothless and will fail to meet its objectives.

In addition, there is no specific detail as to how the PSR aims to improve competition within the market, with 99% of card payments accounting for Visa and Mastercard. How the strategy aims to improve the competitiveness of the market, must be set out in order to deliver the promised economic regulation.

Complex billing structures have become a powerful tool to complicate political, regulatory or legal attempts to rein in increasing abuses of the schemes' dominant market positions, which has seen scheme fees billed to merchants double since implementation of the IFR.

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.***

As highlighted above, there is a lack of meaningful commitment to address the current issues within the card payments system, despite a rise in anti-competitive behaviour. It is imperative that all users have access to payment services that meet their needs and that these enable effective competition.

With absent regulatory action, it is expected that scheme fees will continue to rise. As a result, reform of the IFR – as it now applies in the UK, is crucial in order to ensure effective regulation of wholesale payment card fees.

Significantly, two main reforms of the UK IFR are essential and the PSR should use its powers to:

- Abolish interchange fees - this is significant in order to bring regulation in line with decisions of the UK courts, and in particular, the 2020 Supreme Court judgement that Mastercard and Visa interchange fees are unlawful.
- Regulate scheme fees to bring them within the scope of the UK IFR. These fees must be subject to a 'utility-style' regulation.

As the PSR was initially established as a 'utility-style' economic regulator, UKH believes that bringing scheme fees within the scope of the UK IFR and abolishing interchange fees are within the scope of the PSR's powers, without the need for new legislation. This reform is imperative in ensuring successful regulation of payment card fees.

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.***

Within the document, the PSR notes the need to consider regulating in order to protect consumers and businesses if measures are not producing the desired competition outcome, however, how this is measured and in what time frame has not been outlined. An anti-competitive threshold must be established to identify when intervention would be necessary, in order for the strategy to make real reform.

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.***

The sole measure the PSR has proposed to help tackle anti-competitive behaviour within the card payments system is through the development of an alternative system for interbank payments. However, even within this proposal, there lacks criteria for what would be a successful competitive outcome. As previously mentioned, the PSR must set out some measurable and time-based objectives in order to effectively assess this and for the strategy to be a success.

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?***

The regulator should be notified when Visa and Mastercard make changes to their fees and track the full range of fees that the card schemes levy across all forms of payment cards and card-based transactions.

7. ***Do you know any existing sources of data we can use to assist our metrics?***

N/A

Virgin Money

Virgin Money Response to the PSR consultation – Delivery and regulation of the New Payments Architecture

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.

Virgin Money Response: We agree with the trends highlighted and that these will drive key important changes over the next 5 years

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

Virgin Money Response: We broadly agree with the stated key outcomes and that these should make up the key focus points for the PSR.

In terms of access to payment services, we agree that the users should have access to payment services that meet their needs. We do however believe that where there is a continued and substantial reduction in a specific payment service, for example cheques, leading to the point where the service may become commercially unsustainable then the PSR should support financial institutions in agreed reduction of services and promotion of alternatives.

Regarding the outcome on user interests and specifically consumer protection we agree that there is further focus required to ensure that protection available adapts to the changing payments landscape (NPA for example) and that a key aspect is the education of consumers and raising awareness of best practices.

We welcome the continued evolution of payments systems as stated in the outcome on effective competition and contribute to initiatives such as the NPA. We feel that innovation should not become a barrier to entry and that consideration should be given to providers of all sizes and not exclude smaller firms with a more limited change resource.

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.

Virgin Money Response: We believe that the strategic priorities detailed do contain the relevant factors to achieve the stated outcomes. With all elements from protection of cash to the promotion of new services and competition it is essential that the PSR continue to work closely with and solicit the view of key stakeholders including participants both directly and through UK Finance and service suppliers such as Pay.uk. As stated, the payments environment will change in the next 5 years and the priorities need to flex with that change.

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.

Virgin Money Response: We believe that the priorities do provide point in time clarity. As stated in the previous answer, as we progress through the strategy it is essential that priorities are reviewed with input from key stakeholders as the payment environment changes and grows.

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.

Virgin Money Response: We believe that the measures detailed in the document will contribute to the assessment of how well you are meeting the priorities. Requests for data directly to providers of payment services must be managed to ensure they are not over cumbersome and do not detract from the ability of institutions to contribute towards the tangible achievement of the priorities stated.

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?

Virgin Money Response: We feel that the criteria stated is sufficient

7. Do you know any existing sources of data we can use to assist our metrics?

Virgin Money Response: We would suggest that existing data sources through UK Finance, Pay.uk and others are utilised to avoid any duplicate effort and reduce the strain that could be placed financial institutions offering Payment Services

Visa

[redacted]

Visa Europe's response to the Payment System Regulator's Consultation Paper on its proposed Strategy

The UK is home to one of the most advanced payment ecosystems in the world and we welcome the role the Payments System Regulator (PSR) plays in this through making sure payment systems work well for people and for businesses by promoting competition and innovation. The PSR and the industry have a shared responsibility to continue developing a model for payments that is safe, reliable, and secure and that is in line with the unprecedented rate of change that we are experiencing.

We are proud to work in cooperation with partners and support continued growth and innovation to ensure that all participants derive value from the Visa card payment scheme. This has continued to be true over the course of the Covid-19 pandemic.

In an incredibly difficult period for the UK economy, which brought extraordinary challenges and widespread economic and social change, it is notable that digital payments have not been a pain point for UK customers and businesses and the speed of digitisation has increased. We are proud to have been part of the response of the whole payments sector to the pandemic. Indeed, over this period Visa has played a vital role in continuing to provide UK customers and merchants with the means to pay and be paid. This includes adapting Visa's offering according to the circumstances, such as the raising of the contactless payment limit, along with card's continued role in facilitating e-commerce, which has supported UK businesses and the wider economy.

Visa looks forward to working with the PSR as it continues to develop the regulatory framework with a focus on outcomes, many of which have been overwhelmingly positive for end-users of Visa's payment services such as:

- Trust, resilience, and reliability. Visa operates the most dynamic, secure, reliable payment network of technology, partnerships, and people in the world. With more 300 billion transactions processed over the past five years, Visa operates in more than 200 countries and territories, connecting over 70 million merchant locations, 15,200 financial institutions and 3.6 billion Visa accounts. We process payments in real time, on a global scale, in more countries and more currencies than any other payment system, with over 99.9999% being processed properly.
- Preventing fraud and economic crime. Our business is founded on the promise of securely processing billions of transactions and payment credentials each year to safeguard against unauthorised transactions and fraud. In recognition of this responsibility, Visa is relentless in fortifying the security, features, and soundness of transactions, utilising our brand and network, and enhancing the security of the broader payments ecosystem to best protect consumers in all aspects of the transaction. Visa's systems help prevent an estimated $25billion in global fraud annually. Despite reports of fraudsters trying to take advantage of the pandemic, fraud rates for Visa remain low. In fact, the overall fraud rate dropped 17% from March 2020 to March 2021.

[redacted]

- Supporting UK businesses, with Visa providing services to help SMEs set-up and continue operating. At Visa, we are working with our industry partners including banks, payment processors, online platforms, community marketplaces and Fintechs to support small businesses to accept digital payments. Through our work with SMEs, over two million such businesses across Europe have received support from Visa since summer 2020. This included offering tailored payment solutions and digital tools to help run the business, increasing acceptance both online and off-line and pursuing our ultimate purpose to upskill SMEs and help them thrive in the new environment. The Visa Foundation is also providing $200m through its Equitable Access Initiative to help small and micro-businesses around the world with immediate Covid-19 emergency relief.
- Promoting digital inclusion through initiatives that bring the benefits of our payments network to those who may otherwise have found it more difficult to engage with digital payments. For instance, we have achieved this through our access to cash initiative, providing incentives to retailers to offer cashback, and working with the PSR to enable cashback without purchase, which is one of several solutions that enables access to cash in the UK and ensures that everyone can pay with ease. We also look forward to further collaboration with the regulators as we look to roll out our Visa Direct cash deposit solution in due course.

Achieving such positive outcomes in payments is, in part, down to the success of a regulatory regime that increasingly focuses on these outcomes for end-users. In this context, we welcome the PSR's consideration of end-user outcomes in its proposed Strategy of supporting greater competition between payment systems

The PSR Strategy, and its regulatory priorities, provide a key opportunity to ensure a model of competition in the payment services market based on a level-playing field. This model must also deliver the right commercial incentives to drive the delivery of services that meet the end-user requirements for consumer protection, service quality and innovation, as well as well-functioning markets where choice and competition can drive good outcomes.

As part of our response, we set out four key messages in relation to the PSR's proposed Strategy:

1. An evidence-based approach on outcomes will be key to the successful delivery of the Strategy.
   We welcome the PSR's consideration of end-user outcomes in its proposed priorities. With its 'Key Outcomes', the Strategy makes clear that the focus must be on delivering payments services that meet users' needs. In our experience, consumer attitudes to cards are very positive, including around the key outcomes of trust, security, reliability, fraud prevention and digital inclusion. We support the PSR's focus on positive outcomes for consumers in their Strategy and recommend that the PSR maintains an evidence-based approach to this issue. For example, research published by the PSR suggests that consumers *"trust that the system works well"*[1] and our own research indicates that consumers are very positive about their experience with cards. Similarly, there is evidence of satisfaction and positive outcomes for

[1] Payment Systems Regulator: Consumer Research 2020, Summary report.

merchants. For example, a merchant survey commissioned by the PSR[2] found that 82% of all merchants are happy with the customer service they receive. On the other hand, the PSR has not fully explained how current outcomes from card payments are negative for end-users. We encourage the PSR to ensure that any detrimental outcomes to end-users are clearly evidenced and informed by stakeholder engagement, to ensure that its Strategy is appropriately targeted to address these. In this context, we recommend that the PSR focuses on the broad set of outcomes for consumers or merchants delivered by the market instead of, for example, using market share indicators as sole measures of success. Considering this, **we encourage the PSR to remain open-minded to and focused on evidence of outcomes for end-users as it adapts its Strategy going forward.**

2. **We recommend the PSR takes a holistic approach to competition, supported by evidence, to inform their ongoing Strategy.**
   We welcome the PSR's focus on competition to protect all end-users. When looking through the lens of competition, it is key to focus on the appropriate areas, considering all relevant dimensions; in particular, we encourage the PSR to continue to be mindful of the evolving nature of the UK payments sector as it develops and implements its Strategy. We welcome that the PSR Strategy identifies ongoing trends reflecting access to new forms of payment both at digital and physical points of sales and the switching between transaction types, which aligns with the PSR's proposed approach of measuring market shares. We also welcome the important work the PSR continues to do on promoting competition in the interbank sector through the New Payments Architecture (NPA), and the work of the PSR Panel on 'Realising the Benefits of Digital Payments'. However, we believe that PSR's view of an "emerging risk to competition in retail payments"[3] is not supported by either the market data across different segments in UK payments or the trends that the PSR itself has identified in its Strategy, which include for instance: increasing competition between payment systems, existing and potential new entry, innovation (e.g. growth in use of digital wallets), the evolving role of interbank systems and evidence of shifts in competitive positions between existing payments services providers, such as from Visa to MasterCard in the card-issuing space.[4] In addition, retail payments are less concentrated than other segments in UK payments, emphasising the need to take a broader view of the market. **We recommend that the PSR considers a more holistic approach, rather than focusing on debit in isolation.**

3. **To achieve the PSR's objectives, it will be important to consider how to deliver the interbank payments model.**
   Visa supports the PSR's focus on promoting competition between payment systems in UK payments. For a payment system to be competitive, it will need to support a wide range of services that meet end-user needs, particularly in areas such as security, reliability, trust and fraud prevention, and a clear governance framework. In this context, we welcome the ongoing

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[2] Card-Acquiring market Review: Merchant Survey results, September 2020

[3] PSR Strategy, Foreword.

[4] Paragraph 5.55 and Figure 3

PSR work to address a number of these areas, for instance in relation to APP scams and Confirmation of Payee, and the ongoing work on consumer protection. However, as recognised by the PSR, interbank will require some level of investment to be a competitive solution for making retail payments. This can be achieved by having the right incentives in place, including through an appropriate commercial model and a well-functioning competitive value-added services market. The PSR Strategy and the ongoing work on the NPA present a crucial opportunity to ensure that the interbank payments sector is fit-for-purpose going forward, especially as it has the potential to become even larger and support a growing range of payment types. **We recommend that the PSR considers all these factors as it continues to implement the interbank payments model.**

4. **A level playing field for competition is essential.**
   Visa agrees with the PSR that competition can benefit end-users in many ways. We welcome all the work the PSR has done in making interbank a viable source of competition across different payment systems, such as between interbank and card systems. It is crucial that the PSR introduces a level playing field whilst supporting the development of interbank to prevent distortion of competition between payment systems that would be counterproductive to its own objectives. It will be important to ensure that any regulatory intervention avoids "picking winners" and is considered holistically, not solely focusing on certain metrics, such as market shares. **We recommend that the PSR carefully considers the broad competitive implications across different payment systems, including considering Vocalink's ownership structure.**

   We look forward to working with the PSR as it continues to develop the regulatory framework set out in their Strategy with a focus on outcomes for end-users. A forward-looking regulatory regime focused on outcomes for end-users is key for digital payments to continue to deliver successfully. We encourage the PSR to retain this outcomes-focused approach in the implementation of its Strategy.

The remainder of this document is structured as follows:

- The next section sets out in more detail the **four key messages** Visa has raised regarding the PSR's views on the UK payments sector and its proposed Strategy going forward.
- The following section 'Responses to PSR's specific questions' directly addresses the **consultation questions** set out by the PSR in its proposed Strategy.

[redacted]

Our key messages

Key Message 1: An evidence-based approach on outcomes will be key to the successful delivery of the Strategy

In our view, an outcomes-based approach brings about the best results. Therefore, we welcome the PSR's consideration of end-user outcomes in its proposed priorities. With its 'Key Outcomes', the Strategy makes clear that the focus must be on delivering payments services that meet users' needs.

We encourage the PSR to remain open-minded to and focused on **evidence of outcomes for end-users** and to adapt the implementation of its Strategy accordingly going forward.

In the context of the development and implementation of this Strategy, the PSR has a unique opportunity to understand the specific outcomes that UK consumers and merchants are looking for. Having a clear picture of the outcomes and needs of the population of end-users is a critical step in establishing a clear vision for the UK payments sector. We encourage the PSR to continue its engagement with stakeholders and keep an open dialogue as its thinking develops.

As outlined in the Introduction to this response, we are proud of the outcomes that end-users of card payments services continue to benefit from. This is seen, for example, in relation to the many successes achieved around **trust, resilience and reliability, preventing fraud, supporting businesses, and digital inclusion.**

Indeed, consumer research published by the PSR suggests that *"there is a high level of satisfaction with the choice of payments systems available to consumers, trust that the system works well and problem are felt to be rare"* – with ***"the vast majority (93%) of consumers satisfied with the choice of payment types available to them"***.[5] In line with this, according to our research, the consumer experience of cards is very positive, with a focus on trust, security, reliability and protection from fraud and speed of payments. Similarly, there is evidence of positive outcomes for merchants . For example, the PSR research[6] found that 82% of all merchants are happy with the customer service they receive. In addition, customers and merchants continue to benefit from the ongoing innovations in the payment space. For example, the transition to contactless has enabled a speedier experience at checkout, leading to higher customer satisfaction: 44% of small businesses globally[7] believe that accepting contactless or other mobile payments is a critical area to meet their shoppers' needs and keep valuable customers coming back.

In contrast, we see no compelling evidence from the market or presented by the PSR in its Strategy to suggest that outcomes are negative for end-users. For example, in its Strategy, the PSR notes that "non-cash retail payments have been dominated by card systems in the past six years."[8] and, as discussed, specifically calls out Visa's share in the UK debit market. However, we

[5] Payment Systems Regulator: Consumer Research 2020, Summary report.

[6] Card-Acquiring market Review: Merchant Survey results, September 2020

[7] Visa Back to Business Study, January 2021

[8] PSR Strategy, paragraph 3.28.

note there is no mention of how these market metrics translate into **adverse outcomes** for consumers or merchants in the market.

As discussed in the context of our responses to the PSR's specific questions, we note that market shares should not be used in isolation as an indicator of the effectiveness of competition and we would recommend that the PSR takes a broader evidence-based approach focused on the outcomes to end users.

The PSR Strategy shows a payments market that is innovating and evolving at pace, delivering well for its end users. Where the PSR has identified potential concerns, we recommend the PSR engages further with stakeholders to understand how these concerns align or rank against its vision of the sector and the outcomes that need to be delivered.

Finally, Visa thinks deeply about and has first-hand experience of such outcomes from the market, and we are, therefore, open to engaging with the PSR on the relevant evidence going forward.

Key message 2: We recommend the PSR takes a holistic approach to competition, supported by evidence, to inform their ongoing Strategy

As we have mentioned above and in previous engagement with the PSR, the UK is one of the most dynamic payment sectors in the world, characterised by significant innovation and competitiveness, which deliver positive outcomes for customers. It is also changing at an unprecedented rate - technological innovation, the emergence of Fintech and new players, and the rapid adoption of e-commerce and new, next-generation retail experiences are all contributing to this rapid change.

This is very much aligned with the trends and features of the market in UK payments that the PSR itself has identified in its Strategy, such as:

- increasing **competition** between payment systems and *"greater overlap in the payment services they can support"*.[9]
- **entry** of payment systems that *"have the potential to bring greater choice and competition"*.[10] It is important to note that **Open Banking** payment initiation and **Faster Payments ("FPS")** are two of the fastest growing payment solutions in the market, highlighting their potential.
- the potential for **further new entry,** such as from distributed ledger technology or from a non-payment operator such as a social media firm.[11]
- the growth in usage of **digital wallets** such as Apple Pay and Google Pay.[12]

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[9] Paragraph 3.30 in the Proposed PSR Strategy

[10] Paragraph 3.34.

[11] Paragraph 3.30.

[12] Paragraph 3.7.

- the evolving **role of interbank payment systems**, including regulatory and policy work that has already taken place, such as to facilitate FPS and Open Banking to facilitate payments.[13]
- evidence of **shifts in competitive positions** between existing payment services providers, such as from Visa to MasterCard in the card issuing space.[14]

This view of the market **aligns with the PSR's proposed approach** of measuring market shares **across payment infrastructures** / rails to better reflect the fact that competition happens across different payment systems. We support such efforts by the PSR to measure outcomes in the UK payments market that are more aligned with actual competitive dynamics between payment services and would expect that, for example, this will lead to the PSR **looking at digital payments in the round**, rather than, for instance, debit or credit card payments in isolation. In this context, we have already seen the PSR take strides in this direction through the work of the PSR Panel on the Digital Payments initiative, which aims to identify areas where digital payments can offer solutions to end-users. We also welcome the ongoing PSR's work on the **New Payments Architecture** and its important focus on promoting a framework for interbank focused on competition and innovation.

However, in light of the PSR's observations and the overall outcomes in digital payments highlighted in the introductory section above, the PSR's Strategy seems to be underpinned by a view of competition in UK payments that is **not consistent** with the evidence from the market. We refer to the view that there is an "emerging risk to competition in retail payments"[15] with one factor cited being the "high degree of concentration in the provision of debit card clearing services"[16] which grows in parallel to the decline of cash.

Given the ongoing trends reflecting access to new forms of payment both at digital and physical points of sales and the switching between transaction types, the PSR should take a **more holistic approach**, rather than focusing on debit in isolation.

As outlined above, the retail payments space in the UK is highly dynamic and shows evidence of intense competition, which the PSR itself has identified. This can be seen in **the shifting of market shares** between existing players, such as recent movements in the issuing market which has resulted in shifting of volumes from Visa to MasterCard, something that the PSR also has acknowledged in its Strategy.[17]

Further, there are even **more prospects for increased competition** in retail payments going forward. As the PSR has also identified, other payment systems, such as those based on Open Banking and FPS, have begun entering the retail payments space. There are other examples of potential new entrants that we have seen entering in other markets, such as WhatsApp Pay, Swish and various Chinese payment solutions. Such entrants have the potential to rapidly change the

[13] Paragraph 3.39.

[14] Paragraph 5.55 and Figure 3

[15] PSR Strategy, Foreword.

[16] PSR Strategy, 4.44.

[17] PSR Strategy, 5.55.

competitive dynamics, as evidenced by the rapid growth rate of Open Banking (23% m-o-m in the period March 2020 to March 2021)[18] and FPS [redacted] more generally.

Furthermore, looking at market data, retail payments (when considering credit and future expected changes in the issuing market) are less concentrated than other segments in UK Payments. In segments such as B2B, regular payments, and financial payments, interbank payments make up [redacted] respectively, as seen in Figure 1 below.

[redacted]

[redacted]

[redacted]

[redacted]

In all these segments, Visa appears to have a minority share. If the PSR's main concern is around market concentration, it would also be appropriate to consider other segments where other payments services such as interbank appear concentrated.

In contrast, competition in retail payments is more dynamic [redacted]. Further, any assessment should be mindful of Mastercard's ownership of Vocalink, as set out in key message 4.

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[18] Source: OBIE.

[19] [redacted].

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

Further, some of the most recent trends in the decline of cash can, to some extent, be attributable to the exceptional circumstances and change in customer spending patterns that we have seen because of the Covid-19 pandemic, as the PSR has rightly noted in its Strategy[20]. The increase in debit payments, on the other hand, reflects the role that card payments have played in enabling end-users (both merchants and customers) to make purchases, continue doing business, and support the UK economy through the pandemic, ensuring that the payments system could continue to support the wider economy in this exceptional time of need.

We encourage the PSR to view competition through all these dimensions, and to not focus solely on market share as a metric.

Key Message 3: To achieve the PSR's objectives, it will be important to consider how to deliver the interbank payments model in a safe and secure way

Visa supports the PSR's focus on promoting competition between payment systems in the UK market. To achieve this, the PSR's Strategy focuses on supporting the development of interbank payments and mentions the development of FPS as a solution for making retail payments more competitive.

[20] PSR Strategy, 3.8

[redacted]

Developments in the UK payments space mean that customers will increasingly have access to payment services that meet their needs and which they have confidence in, regardless of the underlying infrastructure that delivers the service. This is in line with Visa's forward-looking strategy. Therefore, for a payment system to be competitive, it will need to be able to support a wide range of services that meet end-user needs, particularly in areas such as security, reliability, and trust. In this context, we welcome the PSR work on APP scams and Confirmation of Payee.

Such features are defining characteristics of Visa's card payments services, which have developed over decades of innovation and investment in Visa's payment platform. Such innovation and investment are supported by an established commercial model underpinned by revenue flows between all players in the ecosystem and arrangements that support and deliver investment and innovation. Such a commercial model reflects the **two-sided nature** of Visa's card payments platform and of payments systems more generally, something that the PSR has also recognised in its Strategy.[21]

The question of how to set up the competitive services environment to give the right commercial incentives to deliver the required investment requires a debate on the potential **commercial models** for this space. It also requires a deep understanding of the underlying economic and commercial models of payment systems more generally. This includes recognising and understanding of the two-sided nature of payment systems and the roles that different structures and arrangements, such as interchange, play in incentivising and supporting the provision of services to end-users.

In our experience, such investment and innovation, and the resulting delivery of payment services that meet end-user needs, are products of well-functioning markets where **choice** and **competition** can deliver good customer outcomes. As such, good outcomes in interbank payments – in this case, the PSR's vision of the development of FPS as a retail payments solution – can similarly be delivered by a well-functioning value-added services market, where competitive forces and commercial incentives can drive the delivery of payment services that meet end-user needs.

FPS will require some level of investment to be a competitive solution for making retail payments. This has been recognised by the PSR, which notes in its proposed Strategy document that the current interbank system has "some gaps in service and quality".[22] This reflects the riskier and less secure nature of making payments using interbank payment systems, as have been seen with APP scams. Such concerns may become more apparent if FPS becomes more widely used as a retail payments solution.

The PSR and Pay.UK can play a role in facilitating such a competitive services environment by ensuring that there is appropriate access to the underlying interbank payment infrastructure, such that end-users have access to the services that meet their needs, irrespective of the underlying infrastructure used to deliver them. In addition, the PSR should also focus its attention on how to

[21] Paragraph 3.15.

[22] PSR Strategy, paragraph 3.42.

improve the **resilience and reliability** of interbank payment systems and on efforts to reduce fraud and financial crime.

As set out in our responses to the NPA consultations, whilst there has been significant focus on several areas within payments, for example in the cards market in terms of compliance with the business rules of the IFR, there has been considerably less focus on issues relating to interbank payments today and the business and commercial structures that sit around these payments.

The PSR Strategy and the ongoing work on the NPA present a crucial opportunity to ensure that the interbank payments sector is fit-for-purpose going forward, especially as it has the potential to become even larger and support a growing range of payment types.

Visa is keen to engage with the PSR and its own stakeholders to continue progressing the thinking in this area.

Key Message 4: TA level playing field for competition is essential

Visa agrees with the PSR that competition can benefit end-users in many ways. We welcome all the work the PSR has done in making interbank a viable source of competition across different payment systems, such as between interbank and card payment systems.

Developed in the right way, interbank payments have the potential to transform the UK retail payments landscape. The PSR rightly notes that the ways in which interbank payments, such as FPS, are used, 'will continue to evolve'.[23] The design of the NPA will enable new services to compete with existing services which will encourage the growth of the UK payments sector.

In pursuing its policy of supporting the development of interbank payments, the PSR must ensure that a **level playing field** for competition *between* payment systems is maintained.

If the support given to the development of interbank payments distorts competition between payment systems, this would be counterproductive to the desired outcomes that led the PSR to support competition between payment systems in the first place.

In particular, the PSR should be mindful that support for interbank payments may strengthen the competitive position of MasterCard, through its ownership of Vocalink – the entity that operates all the current interbank schemes. Given the underlying ownership arrangements, the PSR should be mindful that supporting the development of interbank payments does not necessarily create a 'third' independent infrastructure player in addition to Visa and MasterCard's card payment systems.

It is important that the PSR considers these factors and ensures that it clearly defines a regulatory and **governance framework** for the NPA and interbank payments that is sufficiently robust, such that this ownership relationship does not result in future risks to competition (including cross-subsidisation)

[23] Paragraph 4.34.

In addition, the PSR should clearly define 'interbank payments' and carefully consider any regulatory intervention, to ensure that it does not 'pick winners' or **distort competition** by excessively favouring certain payment systems to the detriment of competition between payment systems.

In providing support to encourage competition between payment systems, we therefore urge the PSR to ensure that a **level playing field** is maintained. For instance, as discussed, the PSR should not only focus on the retail payments space but should also consider the competitive dynamics in other segments such as P2P or recurring payments spaces.

In addition, it will be important to avoid interventions that simply makes the market appear more competitive on certain metrics, such as market shares, without improving the competitiveness of interbank payments on a **level playing field** with other payment systems. This kind of approach is not in the best interests of end-users of payment systems and distorts competition. As we discuss in the context of our responses to the PSR's specific questions, Visa does not think that market shares should be used in isolation as an indicator of the effectiveness of competition.

Finally, as we set out in our responses to the recent PSR consultations on the NPA, the PSR should also examine potential risks to competition in the current configuration of interbank payment systems. In particular, this means ensuring that there is no **cross-subsidisation** between the interbank system and other payment systems which could distort competition more broadly.

[redacted]

Responses to PSR's specific questions

Views on the market

> *PSR Questions:*
>
> 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.

As discussed in our key messages, the PSR's Strategy should **take a holistic approach to competition, supported by evidence.** There is no market evidence for the view that there is an "emerging risk to competition in retail payments"[24] with one factor cited being the "high degree of concentration in the provision of debit card clearing services".[25] This is not a view that Visa recognises, and we have already set out our thoughts on this in the context of our Key Message 2.

As discussed previously in this document, it would not be appropriate for the use of debit cards for retail payments to be viewed in isolation, given the evolution of the payments market.

We broadly agree with the PSR's view that the way in which market shares are measured needs to be considered carefully, for instance ensuring that data on volumes and values relates to the set of services that firms use when competing within the same market.[26] However, we note this is at odds with the PSR's outlook to consider the market for debit card transactions in isolation.

The PSR has expressed a view that the market is trending towards fewer players providing more services across different payment infrastructures. This aligns with our view and experience of the market: going forward there will be intense competition in payment services regardless of the underlying infrastructure or rails.

Indeed, such a view is a key driver of Visa's strategy, through which we aim to connect payers and payees, supporting customer choice and favouring investment and innovation. Visa, for example, continues to invest in hundreds of Fintechs in the UK and around the world to ensure we can meet the increasingly varied needs of all groups, which is consistent with the PSR's focus on choice and open access.

Our Fintech Fast Track programme has so far helped 93 European Fintechs achieve their goals of providing their customers with better products and services, including an array of new payment solutions. We have also launched Visa Fintech Partner Connect, a programme that helps our clients meet their customers' demand for new digital payment experiences by combining our expertise and capabilities with those of carefully selected Fintech partners. In this context, the role

[24] PSR Strategy, foreword.

[25] PSR Strategy, 4.44.

[26] PSR Strategy, paragraph 6.22.

of a regulation strategy should be to facilitate this competition by ensuring common, open, and interoperable standards and access to infrastructures, such as the NPA. As we have already referred to in our Key Message 4, the PSR should take note of the ownership of Vocalink and its position across interbank and card payments and be wary of the risk to current and future competition that may stem from this.

Outcomes

PSR Questions:

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.

Visa recognises that the PSR has identified a range of outcomes that it wants to see in payments markets and is supportive of the fact that the PSR is focussed on the outcomes for end-users. As set out in the context of Key Message 3 in our main response, the challenge to achieving the outcomes that the PSR (and end-users) want in interbank payment services is that of **obtaining the right commercial incentives** to make the investments needed to improve the capabilities of interbank payments in relation to consumers' and merchants' priorities of security, reliability, and trust.

In the context of consumer protection (and in relation to PSR's Outcome 2 in particular), we think that future considerations should focus on choice and not on a 'one size fits all' approach to secure instant payments. As we look at the current and future payment landscape, consumer protection standards are continuing to emerge across different payment methods and use cases. Therefore, to achieve the outcomes that consumers want, consumer protection for retail payments will have to consider these new developments and changing needs in the use of payments. This implies consideration of the different risks associated with consumer's choices and their expectations about the payment method they use. For example, when consumers think the risks of a transaction are minimal because this is associated with a low-value payment, they may be less inclined to choose and want a particular payment method for their form of protection. On the contrary, for high-value transactions consumers are more likely to choose a payment method that offers protection on their purchase if there was a problem.

When it comes to consumer protections, we think that a common baseline to review the expected outcomes by consumers should remain a priority.

Finally, we would like to reiterate the messages outlined in Key Message 1, namely that it will be crucial for the PSR to focus on an evidence-based approach around the ultimate outcomes for end-users (both merchants and consumers) and to adapt the implementation of its Strategy accordingly.

Visa is keen to engage with the PSR and its own stakeholders to develop the thinking in this area.

Regulatory priorities

PSR Questions:

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.

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.

Given the focus of the PSR Strategy on supporting the development of interbank payments, many of Visa's views on the PSR's regulatory priorities therefore reflect our responses to the PSR's NPA consultations earlier this year on procurement and competition, where we issued a call for action to the PSR.

We continue to believe that:

- the PSR should **accelerate transparency** in the current governance of interbank systems, setting a clear expectation for a fit-for-purpose framework for Pay.UK to implement promptly;
- the principle of **'thin' CIS platform** needs to be implemented properly to enable effective access and success of the NPA; and
- these measures are required to **ensure a level playing field** between payment systems now and into the future when the NPA is in operation.

We also note that in its proposed Strategy, the PSR has, in many cases, stated that its approach is to give Pay.UK a stronger role in governance of interbank systems and the NPA (e.g., in defining rules that promote access, competition and entry of new services) and stated its intention to support and intervene where required.

However, we believe this does not necessarily give clarity to stakeholders as to the nature of the choices the PSR or Pay.UK may make in the highly important area of the governance of interbank systems and the NPA.

As set out in our response to the NPA consultation, there is an opportunity to improve existing governance processes to **increase transparency, broaden stakeholder engagement at all stages and drive clarity on existing controls**. In our view, any governance will need to ensure that there are business rules and regulatory oversight that facilitate a **level playing field**, which allows market players to compete for the delivery of value-added services and does not unfairly advantage the CIS provider.

Many players, including Visa, are ready to support the development of the NPA with their experience and innovative service solutions that can add value to all stakeholders, for example by helping customers manage and pay their bills or by helping participants manage fraud risks. We remain very committed to being engaged in the process and we look forward to continuing the dialogue and supporting the PSR on this issue as it continues to develop its thinking on the NPA.

More generally, in relation to the PSR's Priority 3 (on promoting competition), as set out in our key messages, we would reiterate our view that some of the views on competition underlying the

Strategy are not aligned with market evidence and do not reflect the dynamic and competitive nature of the UK payments sector.

Measuring success

PSR Questions:

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.

What other criteria do you think are central to measuring our effectiveness and should those complement or replace those we propose in this document?

Do you know any existing sources of data we can use to assist our metrics?

Visa welcomes the PSR's intention to measure market shares across payment systems, better reflecting competition in payment services across infrastructure and rails. Implemented correctly, such an approach will better reflect the current and future nature of competition across UK payments, where competition in services irrespective of the underlying infrastructure / rails is becoming more important.

However, we note that market shares should not be used in isolation as an indicator of the effectiveness of competition and we would caution the PSR against using such indicators as the sole measure of success. Market shares are static snapshots, which do not necessarily reflect the dynamic nature of payments markets such as prospective entrants that can grow rapidly. Market shares also fail to account for the financial intermediary space where demand can shift in lumpy and dramatic ways due to the two-sided nature of payment platforms, where market shares can grow and shrink rapidly.

In addition, we note that the PSR has highlighted its intention to collect data on price outcomes, despite recognising in its own preferred outcomes that users need access to payment services that meet other needs such as "functions, quality…and other relevant factors".[27]

Price indicators may provide limited information on direct outcomes in payment services since:

- the two-sided nature of payment services means that many users (mainly customers) often do not pay for access to services. This should not be ignored when considering price outcomes for other users, such as merchants. the system of prices across the platform should be considered in the round, reflecting the two-sided nature of the services;
- the differentiated nature of payments means price is only one aspect of payment services and may be far from the most important element, such as security, reliability, and trust which remain the consumers' priorities.

The PSR should assess outcomes in the round and incorporate a wider set of metrics outside of market shares and price, which, as noted, do not necessarily reflect the dynamic nature of the payments space or the differentiated nature of the services being provided.

[27] PSR Strategy, section 4.

[redacted]

For instance, using price metrics alone to compare the use of FPS against cards for making retail payments would ignore important factors such as the significant gap in consumer protections. This gap is not theoretical, but real, as demonstrated by APP scams and the overall superior payment experience of using cards such as contactless payments.

More importantly, it will be essential for the PSR to avoid basing its interventions to target outcomes in the metrics themselves and then consider such interventions to have delivered 'good' outcomes. Doing so risks distorting competition without making competition more effective or truly delivering better outcomes for end-users.

Finally, the PSR has stated that Visa may hold data that would support the PSR in measuring outcomes in terms of market shares and prices. As the PSR looks ahead, Visa welcomes the opportunity to work with the PSR to develop meaningful measures of outcomes in payments markets that reflect the true nature of competition and the outcomes for end-users. Visa and the industry more widely have many years' experience of understanding and measuring the changing outcomes that are relevant to consumers and merchants.

The use of data to monitor outcomes should be thoroughly designed, planned, and set out in a clear framework, and not be at the detriment of dialogue with the industry. We recommend the PSR explains its objectives; how it is planning on collecting and using data, including on the lessons learned from the industry and other regulators, and that it has demonstrated it has exhausted existing channels on sectorial trends.

We propose that the PSR should embark on a dedicated research programme in a transparent, open, and consultative manner with the industry, whilst ensuring that analytical tools and data needs are clearly specified in the context of specific outcomes. We would also invite the PSR to continue an open dialogue on this strategic issue for the industry and interactive discussion with key experts and potentially external partners. We think that this could facilitate better understanding about the outcome and impact focus of a policy and regulation.

We also note that the PSR has acknowledged that future requests for data should be proportionate[28] and we look forward to working with the PSR on this basis.

[28] PSR Strategy, 6.3

Vocalink

VOCALINK

Response to the PSR Proposed Strategy

10 September 2021

Introduction and summary

1. Vocalink Limited (Vocalink) technologies power the UK's real-time and batch payments systems, in addition to the country's network of nearly 55,000 ATMs. Vocalink is specified under Part 5 of the Banking Act 2009 as a Service Provider for the Bacs, Faster Payments and LINK payment systems.

2. This response to the consultation on the PSR strategy focuses solely on those elements which are particularly relevant for the Vocalink business. Vocalink is part of the Mastercard group and a separate response from Mastercard addresses other aspects of the consultation. From the perspective of a technical service provider to interbank payments schemes we have focused our comments to those outcomes which relate to interbank systems.

3. Vocalink welcomes the PSR initiative to set out a strategy. The strategy should guide the PSR over the next few years and enable stakeholders to understand the PSR's direction, objectives and priorities with a good degree of certainty.

4. Vocalink considers that while strategies can evolve over time, they should remain substantially stable in order that stakeholders can plan, invest and make commercial decisions with confidence. The PSR Annual Plan and Reports should be closely aligned to, and reflect the outcomes and priorities contained in, the strategy, enabling stakeholders to assess progress on an ongoing basis

5. Vocalink has no objection at the level of principle to any of the PSR's proposed outcomes or priorities, and on the whole agrees with much of the proposed strategy. Regarding the detailed content, we would highlight in particular the following four aspects where we would recommend that changes are made before the strategy is finalised:

   a. We believe that the proposed strategy underestimates the potential for significant changes in the payments landscape over the next few years and the pro-competitive effects that this will have. There is therefore a risk that the PSR intervenes too early or forces competition thereby stifling nascent competition and innovation.

   b. Despite the introduction of Confirmation of Payee, authorised push payment (APP) fraud continues to increase. Confirmation of Payee is only part of the solution. The PSR should seek to promote anti-fraud solutions more broadly and support the enhancement of the data permissions process for interbank payments.

   c. As an additional objective, the strategy should seek to promote financial inclusion and enabling as many people as possible to benefit from digital payments.

   d. Greater focus should be given to consumer outcomes, rather than competition for the sake of competition.

Market trends

Q1. 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.

6. We broadly agree with the key trends that the PSR has identified. It should not be assumed that recent historical trends will continue in a linear manner. Given the amount of change it is likely that some sections of the market could reach tipping points, experience step changes

or some form of disruptive change which resets the market. However, predicting the timing and nature of such events is difficult.

7. Market disruption has the potential to substantially drive competition, new and better services and good outcomes for consumers. When considering whether and how to intervene in markets, the PSR should consider whether its actions are likely to promote or stifle innovation and disruption. Therefore, it is important that the PSR does not underestimate the likelihood of significant changes in the market or place too much emphasis on the current situation remaining in place.

8. For example, if introduced in the UK, a Central Bank Digital Currency (CBDC) and/or private sector stablecoins could significantly change the payments landscape. The strategy does note that the PSR would have to consider how it best regulates new types of payments, but it will also have to consider how their introduction would affect whether, and to what extent, the PSR needs to change the way it regulates existing payment types.

9. The strategy correctly identifies other possible changes that have the potential to be significant, such as the use of distributed ledgers or entry by non-payment networks, including social media networks, in addition to existing global service providers. Decreasing costs of technology could facilitate new platforms to enter and compete with established ones and therefore change the network analysis that the PSR has set out in paragraph 3.21.

10. The strategy summarises the various regulators in the financial sector, but omits the Competition and Markets Authority which is the sole regulator of mergers and also has concurrent powers with the PSR in respect of other elements of competition policy. Further, changes in regulatory policy of these other regulators might have a direct effect on the PSR's strategy – for example the proposed changes to the merger regime and the proposed introduction of the Senior Managers and Certification Regime to FMIs.

Outcomes

Q2 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.

11. The strategy has to find the balance between forcing more competition and the risk of stifling changes. We consider that searching for greater competition and waiting for the NPA to solve the 'detriments' identified by the PSF a number of years ago has slowed down the rate of innovation and product development in the UK to the extent that the UK has fallen behind. For example, while Vocalink's anti-fraud solutions (such as MITS) are demonstrating good results, the industry-wide deployment of such tools has been slow and as a consequence more people could have been protected from financial crime.

12. Outcome 1: 'All users have access to payment services that meet their needs in terms of functions, quality, cost and other relevant factors.' We consider that the PSR should also seek to increase financial inclusion, and this outcome (and the corresponding Priority 1) should be amended to enable more people to access, and benefit from, digital payments and not just continued access for current users.

13. Outcome 2: 'Users' interests are *adequately* protected when using payment systems so that they can use systems and services with confidence.' We consider that the word 'appropriate'

should replace the word 'adequate', because appropriate is more holistic and can take into account the nature of the service, other protections, the costs of protection, efficiency etc.

14. A similar change should also be made to Priority 2 and the word 'sufficiently' should be replaced by 'appropriately' in the proposed priority 'Ensure users are sufficiently protected when using the UK's payment systems, now and in the future'.

Priorities

Q3. 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.

15. The strategy focus on protecting consumers is too narrow (Priority 2). The strategy should also seek to promote broader anti-fraud innovations. The current approach to obtaining permissions in relation to interbank payments in the UK is slow and costly. [redacted] Bringing innovations to market would be much quicker if the PSR promoted anti-fraud solutions more broadly and supported enhancing the data permissions process for interbank payments.

16. This is against the context that while the industry has made progress on technical measures and processes to tackle APP fraud and other types of payments-related financial crime, implementation of additional measures and capabilities has been delayed, to the direct detriment of end users, by unfounded regulatory concerns that Vocalink appears to have a monopoly on the use of payment systems transaction data and the slow and costly approach to obtaining data permissions for all providers of data analytics.

17. Indeed, Vocalink could already have delivered additional protections for consumers, corporates and FIs through enhanced services including near real-time risk profiling solutions on outbound and inbound transactions and cheque fraud analysis. These solutions would have offered direct responses to some of the APP fraud challenges in the market. Further progress could also have been made on financial inclusion-related initiatives, such as the ability to assess creditworthiness through historical payment analysis.

Q4. 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.

18. Priority 3: Promoting competition between payment systems. While the headline wording of this priority is general and does not preclude promoting competition between any payment systems, we noted that much of the subsequent discussion within the strategy unduly focuses on cards competing with interbank payment schemes. In addition, we consider that the comparison from a commercial perspective of cards and interbank payments is simplistic and partial (4.45 and 4.46).

19. We consider that greater emphasis should be given to consumer outcomes. While it is understandable that competition is the PSR's preferred method of delivering good outcomes for users, it is not the only method. Therefore, focusing on competition might mean that opportunities of better outcomes delivered by other methods may be missed.

20. Considering that the industry has significantly invested in Open Banking, and Open Banking is the potential solution for many of the proposed priorities, we would suggest that the strategy should include an additional action in relation to supporting the successful implementation of Open Banking, and once implemented to understand the effect of Open Banking on the competitive landscape before considering further regulatory intervention.

Measuring outcomes

Q5. 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.

Q6. What other criteria do you think are central to measuring our effectiveness and should those complement or replace those we propose in this document?

Q7. Do you know any existing sources of data we can use to assist our metrics?

21. The PSR, through UK Finance, should continue to measure APP fraud levels to assess the effectiveness of Confirmation of Payee and other new solutions at fighting fraud.

22. The PSR should consider collecting and analysing data on consumer outcomes, including service quality (including reliability, security, levels of fraud) and innovation (new products and services). By measuring outcomes the PSR will know if its strategy is delivering benefits to consumers. Vocalink considers that consumer education and awareness of digital payment options would further improve consumer outcomes.

23. Paragraph 5.114 states that 'the technical infrastructure providers for some systems have exclusive use of system-wide data'. As a technical infrastructure provider, Vocalink does not have exclusive use of system-wide data. Any firm wanting use of data, including Vocalink, must obtain permission from the scheme and/or participants for each data use case.

Which?

Which?, 2 Marylebone Road, London, NW1 4DF
Date: 17 September 2021

Consultation Response

The Payment Systems Regulator's consultation on *Our proposed PSR Strategy (CP21/7)*

Summary

- Which? welcomes the Payment Systems Regulator's proposed five-year strategy, which comes at a critical juncture for UK payments markets.
- We agree with the regulator's assessment that payments do not currently work well for everyone, and that more needs to be done to tackle the issues in payments markets.
- It is therefore crucial that the Payment Systems Regulator acts to urgently address key gaps in consumer protections and threats to access, whilst establishing a longer-term course of action for how it will ensure that payment systems work for all consumers.
- Which? broadly supports the four strategic outcomes that the Payment Systems Regulator has identified, and the four strategic priorities required to meet these aims (see Appendix 1 & 2 for outcomes and priorities).
- However, we raise the following concerns:
  - **Given the need for immediate action from the Payment Systems Regulator, we believe that the proposed measures would be better framed as specific, measurable objectives with clear timeframes for action.** There is an evident need for pace on pressing issues in the payments market, hence why the regulator's final strategy should detail how and when it plans to act.
  - To deliver on its strategy, **the Payment Systems Regulator must be willing, in practise, to intervene in areas of the payments market where competition between payment systems is insufficient in creating good outcomes for consumers (Priority 3).** This would require a significant shift in culture and approach taken by the regulator - changes which have not been clearly set out in the proposed strategy.
  - In particular, there are weak incentives for firms to compete on the basis of what consumer protections they offer, as many initiatives to strengthen protections require collaboration between firms. **Hence, it is vital that the Payment Systems Regulator acts to ensure that there are industry-wide levels of minimum protections for consumers (Priorities 2 & 4).** This is important

given the recent challenges that have stemmed from voluntary initiatives for consumer protection, most notably in relation to authorised push payment (APP) fraud.

- **The Payment Systems Regulator should prioritise working with the Financial Conduct Authority (FCA) to protect access to existing payment systems that millions of UK consumers continue to rely on (Priority 1).** As well as supervising the uptake of new and alternative payment methods, consideration should be given to coordinating regulatory responsibilities and actions to maintain free access to cash, bank branches, and free-to-use ATMs in order to prevent further exclusion.

The proposed measures for action would be better framed as specific, measurable objectives with clear timeframes

The Payment Systems Regulator recognises issues in the payments market that require immediate attention. For example, the strategy underscores the need for action in mitigating the devastating harms of APP fraud; an area of concern where the shortfalls of existing consumer protections are apparent. But, despite the need for pace on many issues, there is an absence of time-bound objectives in the strategy, and detail on how the regulator plans to measure the success of its work. The inclusion of specific and high-level outcomes, targets, and timescales in regulatory initiatives is now a standard that is expected of regulators. The FCA is particularly effective at incorporating these measures into its strategies and consultations.[1]

The final strategy should outline clear timeframes for when the regulator plans to act, and specific deadlines for when it could expect such issues to be resolved. It should detail the areas of concern that will require urgent action in the short term, and those which may require sustained, long-term work, allowing for the better allocation of time and resources. Moreover, it should include ambitious yet achievable targets, such as what reduction in harm it aims to achieve in the next five years. By incorporating these details into its strategy, the Payment Systems Regulator could have greater impact and be more easily held to account in its role in mitigating risk and harms in the payments market.

The Payment Systems Regulator must be willing, in practise, to intervene in areas of the payments market where competition between payment systems is insufficient in creating good outcomes for consumers (Priority 3, see Appendix 2)

[1] For examples of this, see FCA (2021) Business Plan 2021/22, available at: https://www.fca.org.uk/publication/business-plans/business-plan-2021-22.pdf, and FCA (2021) Consumer Investments: Strategy and Feedback Statement, available at: https://www.fca.org.uk/publications/corporate-documents/consumer-investments-strategy.

Which?

Competition is core to the Payment Systems Regulator's purpose: one of its three statutory objectives is to promote effective competition in the markets for payment systems and services.[2] The regulator's intent towards this translates into its strategy, where it proposes to focus on delivering improved outcomes for consumers through supporting competition between payment schemes and payment providers.[3]

Competition in the retail payments sector, in particular, has the potential to lead to better outcomes for consumers. Competition between firms in the uptake of interbank retail payments could increase affordability and access for consumers, whilst contending for the varied interests of consumer groups could promote innovation and inclusivity in the design of payment systems.

Which? agrees with the Payment Systems Regulator's assessment that, as it stands, competition in the retail payments market - especially between card-based and interbank methods of payment - is insufficient in meeting the regulator's statutory objective of ensuring that payment systems "are operated and developed in a way that considers and promotes the interests of all the businesses and consumers that use them."[4] Despite significant developments in the payment methods offered to consumers in recent years, card-based transactions continue to prevail, albeit at a lower rate: UK Finance's 2021 Payments Market Summary shows that 52% of all payments last year were made using credit and debit cards.[5] Debit cards remained the most frequently used payment method in the UK, used in over 4 in 10 payments and held by 98% of the surveyed population.[6]

In contrast, the uptake of retail interbank payments in the UK remains low.[7] In 2020, over 12.8 billion more payments were made using debit cards than Faster Payments methods.[8] Future growth is expected however, with significant uptake already being seen in Faster Payments since the pandemic: Pay.UK's Quarterly Statistical report saw a 15% increase in the number, and total value, of payments made in Q1 2021 compared to Q1 2020.[9]

This highlights that competitive forces within the retail payments market are often insufficient to ensure good outcomes and robust protections for consumers. Where competition lacks, the regulator states that it will act to protect users when necessary, "setting expectations, and collaborating with the industry and users, or using our formal powers to secure change," but

[2] Payment Systems Regulator (2021) The PSR Purpose. Available at: https://www.psr.org.uk/about-us/the-psr-purpose/
[3] Payment Systems Regulator (2021) Our proposed strategy, p.21.
[4] Payment Systems Regulator (2021) The PSR Purpose. Available at: https://www.psr.org.uk/about-us/the-psr-purpose/
[5] UK Finance (2021) UK Payments Market Summary 2021, pp.1-2.
[6] Ibid, pp.1-2.
[7] Payment Systems Regulator (2021) Our proposed strategy, p,45
[8] 15.8 billion payments were made using debit cards, and just under 3 billion were made using Faster Payments methods, UK Finance (2021) UK Payments Market Summary 2021, pp.8.
[9] Pay.UK (2021) Quarterly Statistical Report, p.4. Available at: https://newseventsinsights.wearepay.uk/media/drafcd12/pay-uk-quarterly-payment-statistics-q1-2021.pdf.

fails to articulate in its strategy how it plans to deliver the shift in culture and approach required for such action.[10] So, it is crucial that the regulator demonstrates its willingness and commitment to intervene in the payments market to address the concerns it identifies in practise.

The extent to which the Payment Systems Regulator is able to intervene is dependent on the remit and scope of powers designated to it by HM Treasury. Therefore, the regulator needs to make clear in its final strategy that it is planning to do all it can in the next five years to ensure that it has sufficient regulatory powers to address current and emerging issues, and is willing to make efficient use of its existing and future powers. It should be publicly stating the powers it requires from HM Treasury to provide a strong framework of protections and mitigate harms for consumers, and should be making the case for the Government to remove any unnecessary barriers for appropriate intervention.

In this respect, the Payment Systems Regulator should follow the example of other regulators, particularly the Competition and Markets Authority (CMA), which explicitly and publicly sets out what powers it needs from the Government to tackle issues in the short and long term.[11] For instance, in response to the pandemic, the CMA publicly made the case for more emergency powers to take immediate enforcement action against exploitative 'price gouging' practises, as it believed it lacked the right set of tools to tackle the issue in this context.[12]

In sum, the regulator must clarify that it is willing and able to intervene in the payments market to deliver on its strategic objectives. It should show consideration towards what powers it would require from the Government, how it plans to gain them, and where its existing and future powers would be used in practise.

It is vital that the Payment Systems Regulator acts to ensure that there are industry-wide levels of minimum protections for consumers (Priorities 2 & 4, see Appendix 2)

Which? strongly supports the Payment Systems Regulator's proposed priority on consumer protections. Given the lack of incentives for payment providers and systems to compete on consumer protections, and the historical weaknesses of protections in the interbank system in managing risk and harm - as the regulator notes in its strategy - it is crucial that the Payment Systems Regulator takes immediate action to institute minimum levels of protections for consumers across the payments market, enabling users to confidently engage with payment methods. In particular, we continue to see the devastating effects of APP fraud; an area where the existing framework of protections has been limited in mitigating consumer harms.

[10] Payment Systems Regulator (2021) Our proposed strategy, p.21.
[11] Which? (2020) UK lagging behind on laws to protect against price gouging. Available at: https://www.which.co.uk/news/2020/06/uk-lagging-behind-on-laws-to-protect-against-price-gouging/
[12] Osbourne Clark (2020) CMA seeks emergency powers to fight coronavirus 'price gouging.' Available at: https://www.osborneclarke.com/insights/cma-seeks-emergency-powers-fight-coronavirus-price-gouging/

It has been five years this month since Which? made its super-complaint to the Payment Systems Regulator, calling attention to the striking gap in fraud protections and redress for fraud via authorised push payments, compared to other forms of payment such as card-based methods. The regulator has since intervened by establishing the voluntary Contingency Reimbursement Model (CRM), designed to give victims of signatory firms fair and consistent redress, and mandating the 6 largest banking groups to sign up to the Confirmation of Payee Scheme, after banks and other payment providers failed to adopt the scheme on their own accord.

Yet, the partial and inconsistent implementation of these protections has meant that they have not been sufficient. We have seen the number of reported cases of APP fraud, and the level of financial loss, more than treble in the past five years.[13] Better reporting may have contributed to some extent to these increases, but there is no doubt that the threat of fraud is becoming part of our everyday lives. Our research shows that victims continue to be subjected to the devastating financial and emotional impacts of payment fraud, and although reimbursement rates have increased by signatory firms, levels remain shockingly low, to the extent that the Payment Systems Regulator itself has expressed that the CRM Code has not yet led to the significant reduction in APP scam losses incurred by victims that is needed.[14] It estimates that the overall level of reimbursement and repatriation is less than 50% of APP losses assessed under the CRM Code, meaning "customers are still bearing a high proportion of losses."[15]

Furthermore, the partial implementation of Confirmation of Payee by banks and other payment providers considerably undermines the scheme's potential benefits in helping to detect and prevent APP fraud. Which? has long called for the widespread adoption of the service by the payments industry, and whilst we have seen a small number of firms voluntarily introduce the service, the vast majority of firms using Faster Payments have not yet introduced Confirmation of Payee, and show little commitment in doing so. Consequently, the PSR's findings show starkly that fraudsters are exploiting this lack of coverage, harnessing accounts without the name-checking service in order to facilitate fraud, further undermining the potential benefits of the scheme.

In its Call for Views on APP scams, the Payment Systems Regulator proposed a measure to require Faster Payments to incorporate a reimbursement obligation into its scheme rules (Measure 3a), which Which? strongly supports instead of the regulator's alternative proposal for an updated Code that it would approve.[16] However, the regulator expressed that it faces restrictions on its ability to require payment providers to reimburse APP scam victims, and that

[13] Between 2017 and 2021, the number of reported cases and the level of losses both more than tripled: there were 143,259 cases involving customers with personal bank accounts in 2021, up from 38,596 in 2017. Fraudsters stole £388 million in 2021, compared to £108 million in 2017.
[14] See this for more detail on the emotional impacts of fraud: https://www.which.co.uk/news/2021/03/devastating-emotional-impact-of-online-scams-must-force-government-action/
[15] Payment Systems Regulator (2021) Authorised push payment (APP) scams Call for views, p.4.
[16] Ibid, p.29.

it was unable to act until the Government legislated to remove these barriers.[17] For this to happen, we emphasise our previous point on intervention. The Payment Systems Regulator must now be proactive in pushing the Government publicly for the necessary powers it requires to institute reimbursement obligations for Faster Payments. Further to this, it must push to ensure that there is a robust system of enforcement and supervision of firms.

Which? is pleased to see that the Payment Systems Regulator's proposed strategy prioritises consumer protections in the interbank payments sector for retail payments. The regulator should work to ensure that users are able to rely on a robust framework of consumer protections when using new and alternative payment methods, and have confidence in their ability to seek advice and redress if something goes wrong. This could, in turn, help foster trust in the use of payment methods such as Open Banking and Faster Payments, furthering the Payment Systems Regulator's competition objective.

The proposed strategy highlights the regulator's view to give Pay.UK a stronger role in the development of consumer protections. Whilst Which? welcomes the strengthening of protections in the interbank payments sector, we urge the regulator to consider whether delegating responsibility to Pay.UK would ultimately work in the interests of consumers.

Pay.UK would need to significantly develop its governance of interbank payments. Its Faster Payments scheme currently lacks rules or policies related to consumer protections against fraud or error, undermining consumer confidence. Other payment schemes, most notably card-based payment methods, have rules that protect consumers against fraudulent payments, such as Section 75 of the Consumer Credit Act, and the Direct Debit Guarantee. Hence, the Payment Systems Regulator must work with Pay.UK to introduce a new Faster Payments Guarantee into its scheme to protect consumers if issues arise in interbank retail payments. If implemented and enforced correctly, a Guarantee, which would include the institution of a mandatory reimbursement obligation for victims of APP fraud, as proposed in Measure 3a, has the potential to provide consumers with a reliable and robust framework of minimum protections in the retail payments market.

The Payment Systems Regulator should prioritise working with the Financial Conduct Authority (FCA) to protect access to existing payment systems that millions of UK consumers continue to rely on (Priority 1, see Appendix 2)

The Payment Systems Regulator's proposed strategy highlights that some groups of consumers do not have access to the payment methods that meet their needs. Cash, despite being in decline, continues to be an important payment method for people in day-to-day life: it was used for just under a fifth of all UK payments made last year, and was the second most frequently used payment method, behind debit cards.[18] Moreover, for many vulnerable people in the UK,

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[17] Ibid, p.29.
[18] UK Finance (2021) UK Payments Market Summary 2021, pp.1-2.

cash remains a necessity. The Access to Cash Review found that over 8 million adults would struggle to cope in a cashless society, and Age UK recently reported that one in five older people rely on cash for everyday spending, highlighting the risks of reduced access in exacerbating social exclusion.[19] Which? strongly support the Payment Systems Regulator's view to protect the interests of these consumers in payments; our longstanding Freedom to Pay campaign has called for stronger protections in the provision of cash for consumers, communities, and small businesses.

A focal point of the proposed priority is monitoring the uptake of existing alternative payment options for groups who currently rely on cash. Whilst Which? agrees that encouraging the transition to alternative payments is important, especially given the recent transformations in the payments sector and potential benefits of digital inclusion, the Payment Systems Regulator should also prioritise the coordination of regulatory responsibilities and actions to maintain free access to cash, bank branches, and free-to-use ATMs. It must act alongside the FCA to make this a strategic concern to prevent further exclusion for groups reliant on cash payments.

Which? would like to see the regulator continue measures to support the transition to alternative payment methods. We welcome the Payment Systems Regulator's launch of a Digital Payments Initiative, which seeks to understand the potential barriers and challenges for users in the take-up of digital payments, and formulate potential solutions.[20] Such findings could be used by the regulator as a springboard for collaborative action with the Government and third-sector, encouraging the creation of digital skills initiatives to increase engagement and confidence in interbank retail payments.

[19] Access to Cash (2019) Access to Cash Review - Final Report, pp.6, Age.UK (2021) One in five older people rely on cash for everyday spending. Available at: https://www.ageuk.org.uk/latest-press/articles/2021/one-in-five-older-people-rely-on-cash-for-everyday-spending/

[20] PSR (2021) The PSR and the PSR Panel Launches Digital Payments Initiative: Realising the Benefits of Digital Payments. Available at: https://www.psr.org.uk/news-updates/latest-news/news/the-psr-and-the-psr-panel-launches-digital-payments-initiative-realising-the-benefits-of-digital-payments/

About Which?

Which? is the UK's consumer champion. As an organisation we're not for profit - a powerful force for good, here to make life simpler, fairer and safer for everyone. We're the independent consumer voice that provides impartial advice, investigates, holds businesses to account and works with policymakers to make change happen. We fund our work mainly through member subscriptions, we're not influenced by third parties and we buy all the products that we test.

For more information, contact [redacted]

September 2021

Appendix 1: The Payment Systems Regulator's four strategic outcomes, as proposed in its five-year strategy

Outcome 1: All users have access to payment services that meet their needs in terms of functions, quality, cost and other relevant factors.

Outcome 2: Users' interests are adequately protected when using payment services so that they can use systems and services with confidence.

Outcome 3: Payment systems are designed and operated to enable effective competition in the provision of payment services.

Outcome 4: Payment systems are efficient and commercially sustainable.

Appendix 2: The Payment Systems Regulator's four strategic priorities, as proposed in its five-year strategy

Priority 1: Ensure users have continued access to the payment services they rely upon, and support an effective choice of alternative payment options.

Priority 2: Ensure users are sufficiently protected when using the UK's payment systems, now and in the future.

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.

Priority 4: Ensure the renewal and future governance of the UK's interbank payment systems supports innovation and competition in payments.

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