

Payment Systems Regulator Panel Annual Report 2022-23

Chair's Foreword

This year has been very active with many important matters that required the Panel's attention. The eroding trust of the public in payments fueled by the rise in various forms of online scams and social engineering continued to be a key concern and driver for action for both the PSR and the PSR Panel.

The Panel provided guidance on the PSR's annual work program, where many new issues such as App scams had to be considered. In particular a focus on more innovative ways to communicating with the broader public was discussed and the Panel provided different ideas, insights and the offer to support communication flowing through their own networks to reach as many payment users as possible.

With the PSR's Strategic and Monitoring Division in place in autumn 2022 the Panel was able to advise on data gathering, analysis, alternative data sources and the role of data in providing robust evidence basis for policy action and the like.

As part of the Panel's annual risk review a key focus was placed on the incredibly rapid pace of change in technology innovation and market developments as well as the increasingly uncertain economic and political environment. All of these require the PSR to be agile and outcome focused with the right levels of consultation and intelligence.

The Panel also spent time on assessing the PSR's Card-acquiring market review remedies, emphasizing the need for swift delivery, given the speed of market developments. Sharing practical advice, the Panel also underlined the importance of clear stakeholder communication and signposting of information.

The area of Account-to-Account payments as part of the Open Banking market evolution was another important pillar of the Panel's work this year. Creating adequate consumer protection to underpin this evolving ecosystem is central to creating trust and allowing the market to develop. Providing choice and flexibility in that regard were considered important building blocks by the Panel. These discussions worked hand in hand with the evolution of the 2022 Digital Payments Initiative implementation, where as a next step, barriers to digital payment access should be identified and potential incentives for billers to switch to account-to-account payments should be highlighted. The Panel continues to support the PSR in its work on flexible recurring bill payment options and support to move away from cash.

The Panel spent time in reviewing the PSR's approach to App scams, emphasizing the importance for the PSR to be connected into the broader set of regulatory activities as well as discussing the pros and cons of adding more friction into the payments process.

Of course, the delays in delivering the New Payments Architecture were another topic on the Panel's agenda, which received progress updates from Pay.Uk and encouraged continued communication and emphasis on ongoing stakeholder engagement.

Dr. Ruth Wandhöfer

Chair, Payment Systems Regulator Panel

Introduction

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

The Panel has a diverse membership drawn from across a wide range of payment user and payment provider interests. Members represent different constituencies of service users, including consumer representatives, large and small corporate customers and the Government (as a user of payment services); and on the provider side, members include senior experts from payment account providers, suppliers to payments, and Open Banking/digital payments.

During 2022-23, the Panel continued to encourage PSR staff to make full use of the Panel, both by seeking collective Panel input at an early stage in policy development, and by tapping into the expertise and experience available from individual members. The Panel has four main meetings a year, which are complemented by a number of ad hoc workshops on specific topics. The main meetings tend to focus on issues with a strategic cross-sectoral impact, and each meeting is followed by a report from the Chair providing advice and feedback directly to the PSR Board. The Panel's workshops tend to be more informal - providing an opportunity for Panel members to work closely with PSR staff in exploring evidence and ideas in more detail than a formal Panel meeting would allow.

The Panel attaches great importance to maintaining an open line of communication with the PSR Board, Chief Executive, Executive Committee and staff – not just through exchanges of papers and formal written reports but also through regular contact. To facilitate these links, the Panel has continued to welcome senior PSR staff to join Panel meetings to observe exchanges directly and engage in detailed discussions where appropriate. The PSR Head of Policy has been appointed as the PSR Panel Sponsor Director and works with the Panel to consider where it can add most value to the PSR's policy development and strategy.

Strategic issues

One important focus during the year was the Panel's participation in the early stages of the **PSR's annual work programme** and we welcomed the opportunity to provide input into the ahead of its publication. The team asked for our views on the proposed narrative and messaging of the work programme. We advised the team to consider who its stakeholders were and develop an innovate communications plan to reach them effectively. For instance, we suggested that the annual event ought to be held on a hybrid basis, as had been done in the past, to make it accessible to all stakeholders across the country. The consistency of communication would also be important, and we encouraged the PSR to continue an ongoing dialogue and feedback loop with stakeholders beyond the annual event.

On the prioritisation of the work programme, we discussed the importance of indicating where milestones can be expected, particularly in projects that have been ongoing for a number of years, such as CAMR. Members urged the team to include more detail on what has been achieved to date, what further progress is needed, and how the PSR will measure success in achieving those outcomes, with clear milestones along the way. Within this, we also considered the importance of interconnectedness and making clear how workstreams relate to each other.

In October 2022, we received an update from the PSR's new Strategic Analysis and Monitoring (SAM) Division. The Panel were supportive of the PSR's core data vision and framework to help monitor its strategic outcomes. We encouraged the PSR to go directly to schemes for the most accurate and granular data and to gather data from as broad a field as possible to understand the current state of the market and where it could be in the future. The Panel also agreed that data gathering would need to be pragmatic. Explaining why data was being collected and doing so in a robust and efficient way would seek to encourage industry participation and provide clarity on the PSR's usage of data.

Key **risks** that the Panel highlighted during the year included the continued rapid acceleration in the pace of change and the PSR's agility to take action, the fragility of trust in the payments system, the uncertain macroeconomic and political environment, the risks associated with declining cash acceptance and the impact of further delays in delivering the New Payments Architecture (NPA). The Panel also highlighted the need for the PSR to be confident that it has the right levels of consultation and intelligence in place to understand the changing payments environment and offer agile solution-based outcomes.

Priority Issues for the Panel

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

Card-acquiring market review (CAMR) remedies

The Panel agreed that the CAMR remedies proposed by the PSR were best way to address the features of concern identified. We highlighted that the market had continued to evolve significantly since this work first began and stressed that remedies would need to be delivered quickly to have the desired impact. Members highlighted the importance of working at pace to introduce a simplified summary box on merchant statements that could be developed and refined over time, adopting an 80/20 approach rather than aim for perfection in one go. This was another area where stakeholder communications would be vital and we suggested that the PSR provide a timeline to merchants to signpost this introduction and encourage progress.

Open Banking: Account-to-account programme update

We welcomed the opportunity to provide input into the account-to-account rules and standards project at an early stage. While we were supportive of putting in place a multilateral agreement that provided for basic standards to govern retail transactions as a way to offer more payment choices being made available to consumers, we continued to emphasise the importance of ensuring that consumer protection underpinned this process before the focus moved towards growth and innovation. This would prove crucial if consumers were to have trust in a system which was already starting to take off. However, the system also needed to be flexible enough to distinguish between payments where protection is important and where it is not – this would not necessarily require a complicated technical solution as one option might be for consumers to self-select whether they are, for example, making a payment to a trusted friend or paying for goods or services.

New Payments Architecture (NPA)

We were pleased to welcome Pay.Uk for an update on the progress of the NPA. The Panel expressed concerns over the risks associated with further delays to the execution to the NPA. The team indicated that encouraging industry participation to the NPA would be a key factor in the next phase of its programme delivery, and the Panel suggested that the PSR could offer support to Pay.Uk in this regard. We encouraged Pay.Uk to continue its stakeholder engagement plan to provide clear and consistent messaging across the industry. The Panel also encouraged continued communication with Pay.Uk as their work progressed.

APP Scams proposal and stakeholder feedback

In January 2023, the team asked us for our views on the PSR's proposals and the analysis of stakeholder responses received to the APP scams proposal consultation. We encouraged the PSR to continue considering this work within the wider fraud ecosystem and remain connected with the other regulatory activity ongoing in this space for its work to have maximum impact.

Some Members expressed concerns about the possibility of increased friction put in place by PSPs if they have 50% liability, as that could in turn slow down innovation and pace in this area. However,

Members also acknowledged that some friction would be appropriate, to provide adequate protection for consumers. We agreed that shared liability could incentivise banks to increase their fraud controls.

This may cause more fraud and friction in the short term but could evolve and react to new challenges positively in the longer term. We welcomed the PSR's intention to put controls in place to be able to intervene if necessary, if controls are not being delivered or are not producing the intended behaviours.

Digital Payments Initiative (DPI): Next steps

We received an update from the PSR on the work done since the publication of the Panel's DPI report in May 2022. We discussed the two further pieces of work the PSR are considering, the possibility for the take-up of flexible recurring bill payments options and the take-up of card by cash-reliant consumers. When discussing request-for-payment services as a more flexible bill payment option, we discussed that the existing product is too costly for billers and re-engineering systems to offer this service would also have a significant cost element. We reiterated the suggestion made in the DPI report that introducing a mechanism in bank accounts where consumers can make payments may be a solution. Billers may be less sceptical about using request-for-payment services if all consumers had access to it.

Overall, we agreed that data should lead the next steps of this initiative. An analysis would need to be undertaken to ascertain what the barriers are to making digital payments accessible to all, and what the incentives may be for billers to move from one payment method to another. The Panel was of the view that that more focus needs to be spent in the upcoming year on next steps from the Digital Payments Initiative.

Appendix 1 - Members of the PSR Panel between 1 April 2022 – 31 March 2023

Ruth Wandhöfer (Chair)	Independent Banking Expert
Robin Abrams	Chair of Banking & Finance Policy, Federation of Small Businesses
Natasha De Teran	Journalist and consumer representative
Andrew Hewitt	Director of Payment and Data Solutions, FIS
Jeff Moody	Commercial Director, British Independent Retail Association
Mark O’Keefe	Founding Director, Optima Consultancy
Jo Oxley	Director, Government Banking Service
Anne Pieckielon	Founding Director, The Inclusion Foundation
David Canavan <i>(from 1 March 2023)</i>	Senior Director, UK and Ireland Commercial Development, Visa Europe
Christopher Ainsley <i>(from 1 March 2023)</i>	Head of Fraud Risk Management, Santander
Clare Pearson <i>(from 1 March 2023)</i>	Director – Open Banking and Payments, EPAM
Stephen Wright <i>(from 1 March 2023)</i>	Head of Regulation and Standards, NatWest Group
Otto Benz <i>(from 1 March 2023)</i>	Payments Director, Nationwide Building Society
Neira Jones <i>(from 1 March 2023)</i>	Independent Payments Consultant
Ciaran O’Malley <i>(from 1 March 2023)</i>	VP Financial Services and ecommerce/Country Manager, Trustly
Matthew Hunt <i>(until December 2022)</i>	Chief Operating Officer, Executive Director, PAY.UK
Flora Hamilton <i>(until March 2023)</i>	Head of Financial Services, CBI

Appendix 2 - Payment Systems Regulator Panel Terms of Reference

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

Scope

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

The Panel's Duties

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

Membership

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

PSR and Financial Conduct Authority Duties

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

Accountability

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