

# Payment Systems Regulator Annual Report 2016/2017

No.17/4

We've published our Annual Report for 2016/17, covering our activity in our second operational year. It shows how we've created new opportunities for access to payment systems, and for competition and innovation across the payments industry, in line with our statutory objectives.

## What we've delivered in our second year

We've made a difference and seen progress in a number of areas.

### Improved access to payment systems

Payment service providers (PSPs), such as banks and building societies, now have a wider choice of access options at a lower cost.

- More participants are joining payment systems – last year Raphaels Bank, Metro Bank, Starling Bank, ClearBank and Monzo became the first new joiners to Faster Payments (FPS) since it launched in 2008.
- The cost of direct access is coming down, with new joiners telling us it cost them £1.2 to £2.5 million, compared to £2.5 to £4 million in 2015.
- Payment system operators (PSOs) have reduced the time and complexity for new PSPs to become direct participants of regulated payment systems by improving their joining processes. For example, one direct PSP joined FPS in just seven months. In 2015, it took on average 12 to 18 months to become a direct participant in a payment system.

These changes should improve competition in payment services, indirect access services and retail banking – resulting in wider choice and better quality for consumers, businesses, charities and other users of payment systems. We expect progress to continue and up to ten new PSPs to gain direct access to interbank payment systems by the end of 2017.

### Market competition

Since 2015, we've issued general directions on direct access and completed two market reviews, one looking at indirect access services and the other examining the provision of infrastructure.

- We found that there's no effective competition in the provision of central infrastructure for three interbank PSOs – Bacs, FPS and LINK. That's why we're requiring the industry to implement two remedies: **competitive procurement of central infrastructure** and **common international messaging standards**. Users should start seeing the benefits of our remedies from 2020.
- We're satisfied that Mastercard's acquisition of Vocalink will address the competition issues around ownership we initially identified, and have decided not to impose a divestment remedy.
- We will continue to look at the most appropriate and proportionate ways to open up access to payment systems to new providers and innovators.



# Factsheet

## Collaboration across the industry to drive innovation

We set up the Payments Strategy Forum to deliver innovation through industry collaboration.

- Published in 2016, the Forum's Final Strategy proposes new services for users, including confirmation-of-payee and request-to-pay. These solutions will meet users' needs for greater control over their payments.
- The centrepiece of the strategy is a proposal to create a new payments architecture (NPA). This will simplify the way payments operate, making it easier for alternative participants to plug in and offer new competitive and innovative services.
- The strategy also proposes to consolidate the operators of Bacs, FPS, and Cheque and Credit Clearing into a new PSO by the end of 2017. The consolidation aims to enhance the PSOs' capabilities and to simplify access by providing a single point of contact for potential participants. The new PSO will also be responsible for implementing the NPA from early 2018.
- We announced a package of work to address the concerns surrounding authorised push payment scams. It consists of: industry-led actions, a PSR project exploring the potential role of operators in minimising consumer harm caused by APP scams and FCA-led work.

## EU legislation

- We've been developing our approaches in relation to relevant EU legislation, including the Interchange Fee Regulation for card payments, and elements of the Payment Accounts Regulations (PARs) and the revised Payment Services Directive (PSD2).
- Under the PARs we designated the Current Account Switch Service as an alternative switching scheme, to make it easier to switch current account providers and help drive competition.
- We published our proposed approach to monitoring and enforcing our functions under the Payment Services Regulations, which implement PSD2.

## Looking to the future

The structure and technology of the payments industry is developing at a fast pace. To ensure that the regulatory framework adapts to these changes, we've identified three key areas in the payments market to focus on in the year ahead: **consumer protection** issues in payments, use of **payments data**, and **changing competitive dynamics**. We will scope out the relevant issues and determine what role, if any, we should play within the scope of our remit in each thematic area. You can find out more about this work in our annual plan for 2017/18.



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