PSR Payment Systems Regulator

Annual report and accounts 2022/23

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The Payment Systems Regulator Limited

Annual report and accounts 2022-23 (for the year ended 31 March 2023)

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Foreword

Aidene Walsh

Chair

Welcome to the PSR's 2022/23 annual report and accounts. This document provides an opportunity to look back at the important work we have undertaken in the first year of our five-year Strategy, ensuring we are fit for the future in our delivery focus.

Our work is really important, affecting how we live our day-to-day lives, the society we live in and how well our economy performs. As the PSR reflects on the past year, we have measured our success in terms of how well we have furthered our strategic priorities of making sure that: payment systems meet people's needs; users are protected; there is effective competition in payments; and the UK's payment systems are efficient.

While we met all of the commitments we set out in our 2022/23 annual plan, we are fully aware that many of these were building the foundation for continuing projects that will transform end-user protection and enable a new footprint for the future of UK payments. A number of these will come to fruition in the next financial year.

There are now better protections for people and businesses targeted by fraudsters, and those who fall victim are more likely to get their money back. We also developed and set out our bold new proposals for the next step in fraud prevention and protection, including our plan for payment firms to publish their fraud statistics – which will happen for the first time this year.

Our measures to inject more competition into how businesses take digital payments have come into effect, making it easier for businesses to shop around and make comparisons for their card-acquiring services – something that is helping merchants, particularly smaller ones, across the UK.

We also saw significant steps forward on two of our projects to unlock innovation and competition in the future. The procurement of the infrastructure provider for the UK's New Payments Architecture, which will replace Faster Payments, passed a key milestone with the competitive bidding process completed. In parallel with the Bank of England, we can now focus on the next step of regulatory clearance, ahead of contract award and project delivery.

Open banking also took a major step forward. We set out our plans – working with the Financial Conduct Authority and other members of the Joint Regulatory Oversight Committee – for the future of open banking and how we will look to unlock its full potential in payments.

The organisation also took important steps forward, so that we can play our full part in leading and shaping the future of payments in the UK at pace, and it is reassuring to see that the work the PSR is doing is attracting more good people to join us. We have a new organisational structure in place, with key hires appointed, putting us in a good position to deliver efficiently against our 2023/24 business plan.

The board will continue to challenge and support the organisation to be bolder, and to increase our focus on unlocking the full potential of payments in support of a vibrant and innovative future for individuals, businesses and the economy as a whole. It fully appreciates and acknowledges the hard work and dedication right across the PSR team in pursuit of this. We will, of course, need the support of all of our stakeholders to achieve our strategic outcomes, and we will continue to build on the work we have done to engage with you openly.

In the last year, I was appointed Chair of the PSR. I am looking forward to continuing to work with the PSR board and colleagues in delivering on our ambitious plans for the year ahead.

Aidene Walsh
Chair

Foreword (continued)

Chris Hemsley

Managing Director

The last year was one of significant delivery for the PSR. We took action against some immediate priorities, and also on the work needed now in order to deliver against our five-year Strategy.

Our work on preventing fraud is having a big impact. The account name-checking service Confirmation of Payee and the Contingent Reimbursement Model (CRM) Code have helped dramatically improve the level of protection – and the manner in which victims of scams are looked after.

Looking to the future, we recently set out the next steps to tackle authorised push payment (APP) fraud. This includes how we'll introduce better protection for victims, and require firms to publish data on how well they're handling APP scams so people have a clearer understanding of how likely firms are to look after them. It puts the power in the customer's hands, and creates an incentive for payment firms to do better.

As Aidene highlights, we also made changes to help merchants get a better deal on card-acquiring services; continued our oversight of Pay.UK's renewal of our interbank payments infrastructure; and set out our plans to unlock the full potential of open banking to improve choice, control and competition in payments in the future. This work is an important part of our existing project to make greater use of our account-to-account payment systems to support a wider range of payments, including retail transactions.

In the last year we've also taken a number of further steps to prepare for the future. The Treasury designated the Sterling Fnality system for our regulation, which is developing plans for a new wholesale payment system using distributed ledger technology. We continued our work on identifying ways to help more people make use of digital payments, while also carrying on our important work regulating the LINK cash machine network.

This focus on the future remains an important one. Reflecting this, we've been increasing our engagement with stakeholders on the future of payments – helping us identify risks and opportunities on the payments horizon and make sure we're ready to take the right action at the right time.

Today's outcomes also matter. You can see this in the work we're taking forward to review card fees, and in the importance we've placed on enforcement. We completed two further enforcement cases, addressing failures to comply with the requirements of the Interchange Fee Regulation. Taken together with our previous action under both sectoral and general competition law, this underlines our commitment to making sure that firms comply with their legal obligations. This remains important as we secure compliance with the changes that we are making to industry rules to unlock competition and improve protections for users. The creation of a separate Supervision and Compliance Monitoring division within the PSR reflects the importance we see in securing good levels of compliance with our directions, as the number and breadth of these directions increases.

This work is reflected in this annual report, which shows that we delivered against all the commitments we made in our 2022/23 annual plan. We also took on and delivered a significant amount of unplanned work during the year. This, of course, came at a cost. We also saw an increase in staff attrition as we came out of lockdown. In response, we chose to protect our delivery of work by drawing on external consultancy support. This is the main reason why our spend last year was over our original budgeted level.

We worked hard last year to step up our recruitment, allowing us to move quickly away from our reliance on consultants. This resulted in around 40 new joiners during the year, and a further 16 people since the start of April 2023. Overall, our headcount increased by a third, helping us continue moving forward with our ambitious work programme.

Last year was also a significant one in reshaping the organisation, ready for our future challenges. We completed an organisation redesign – leading to the creation of the new Supervision and Compliance Monitoring division – and a refocusing of our ways of working to improve our effectiveness.

We are also welcoming new members of our Executive team in the summer of this year: Natalie Golding as Chief Operating Officer, Alex Olive as General Counsel, and Oliver Hanmer as Head of Supervision and Compliance Monitoring.

Foreword (continued)

Taken alongside the appointment of Aidene as the first dedicated chair of the PSR, two new senior advisors and 40 or so new joiners, this all serves to highlight how the organisation is now set up to deliver against our ambitious Strategy.

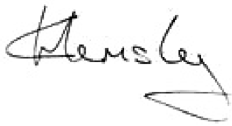
This is also the first year we report against our Strategy, including in our first Strategy outcomes progress report. This improves the transparency around the work we're doing and, importantly, the impact we are having.

What this all shows is that the PSR has achieved a lot in the last year. We're tackling some important and pressing challenges affecting payments today. We're also delivering work that's shaping the future of payments – making sure that payment systems, and the markets they support, are competitive and innovative, and protect the people and businesses that rely on them. The changes we've brought about – be they through using our powers or our influence – have made a positive impact on people and payments in the UK.

I'm very proud of what we've achieved in the last year, and excited about the opportunities that lie ahead. I'm also grateful for my team at the PSR – both my Executive team and the wider organisation – who work so hard to deliver our important agenda, and for the ongoing support and challenge of the board.

I have also enjoyed and taken a lot from the engagement we've had with you, our stakeholders, as we've shared our latest thinking and tested our ideas. You've helped us to understand better what matters to you and how we can help.

This collaborative, engagement-led approach is the best way to build on what works in payments and to take the necessary steps to build for the future. I look forward to it continuing into 2023/24.



Chris Hemsley
Managing Director

Our vision, objectives and Strategy

With over 40 billion transactions every year, payment systems are a vital and ever-evolving part of our economy. Our job is to make sure they continue to work well for everyone. We have three key statutory objectives that underpin everything we do. The way we pursue those objectives is guided by our five-year Strategy, which sets out the outcomes we want to see and the priority areas we'll focus on to achieve them.

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Our vision

Payment systems that are accessible, reliable and secure, and represent value for money.

Our statutory objectives

The PSR was created in 2014 under the Financial Services (Banking Reform) Act 2013 (FSBRA). FSBRA requires us to advance one or more of these payment systems objectives when we use our general functions under FSBRA:

- **Our service-user objective:** Ensure that payment systems are run and developed in a way that takes account of and promotes the interests of those that use, or are likely to use, the systems.
- **Our competition objective:** Promote effective competition in the market for payment systems and markets for services provided by payment systems in the interests of those who use, or are likely to use, them.
- **Our innovation objective:** Promote the development of, and innovation in, payment systems in the interests of those who use, or are likely to use, their services.

With certain exceptions, such as our power to require information, our regulatory powers under FSBRA apply in relation to participants in payment systems designated by the Treasury – the 'regulated payment systems'.

The regulated payment systems under FSBRA are Faster Payments, Bacs, CHAPS, LINK, Mastercard, Visa Europe, Cheque and Credit/Image Clearing System and Sterling Fnality payment system.

Our Strategy

We published the Strategy in January 2022, setting out the outcomes we want to see in payments – and the priority areas we'll focus on to achieve those outcomes.

What we want to see: the outcomes we're aiming for

We have four key strategic outcomes.

- Everyone can make and receive payments in ways that suit them.
- People and businesses are protected when they make payments.
- Effective competition in payments leads to better services for everyone.
- Payment systems are efficient and commercially sustainable.

When we design our policies and make decisions, we ask how our actions will contribute to these outcomes, whether in the short or long term.

What we'll do: our priority action areas

We've set four strategic priorities. These are the areas where we can make best use of the resources we have to achieve the outcomes we want. All of our work is linked to one or more of these priorities.

Protection

Ensure people and businesses are sufficiently protected when using the UK's payment systems.

Competition

Promote competition between and within payment systems, and in payment services.

Unlocking account-to-account payments

Act to ensure the interbank systems provide infrastructure, rules and incentives that foster innovation and competition.

Access and choice

Ensure users can use the payment services they rely on and have effective payment options.

How our work programme fits with our priorities

Access and choice	Protection
	Authorised push payment (APP) scams
	Confirmation of Payee (CoP)
Account-to-account payments	
	Card-acquiring market review
ATM network regulation	
Digital payments	
New Payments Architecture	
Cryptoassets, stablecoins and central bank digital currencies	
Strategy, intelligence and analysis	
Regulatory enforcement	

Competition

Unlocking account-to-account payments

Card fees

Progress on our Strategy

In our Strategy, we identified a number of indicators that could help to assess progress against our strategic outcomes. At this early stage, many of our related projects have not yet completed, or are at a stage where there isn't enough data yet to assess their impact. As we committed to at the outset, we'll conduct a full review of our Strategy at its halfway point in 2024, to determine whether we're on track. We'll look at whether the strategic outcomes, priorities and actions remain appropriate, and, if not, how we should adapt them.

Here we summarise our findings at this point, and the current status of each strategic outcome. There's more detail in our Strategy outcomes progress report, which we've published alongside this annual report.

Outcome 1: Payment systems meet people's needs

Cash usage

- **Although cash usage is falling, it remains one of the most used payment methods.** The percentage of payments made using cash decreased from 55% in 2011 to 15% in 2021.[1]

- **A significant minority of people still pay regularly[2] using cash. Elderly people and people living in deprived areas are more likely to pay using cash.** Across the country, 26% of people report using cash at least as much as other payment methods. However, this rises to 37% of people living in deprived areas and 41% of people aged over 65.[3]

- **Most people still have good access to cash, although the total number of free cash machines has gone down.** 96.3% of the UK population live within 2km of a free cash access point, and 99.8% are within 5km of one[4], despite a 13% decline in the number of free-to-use ATMs between 2019 and 2022.[5]

- **To preserve free access to cash, and ensure good geographic coverage, LINK has protected more ATMs.** LINK designates an ATM as protected if there are no free-to-use ATMs within 1km. The number of protected ATMs increased by 5% between August 2021 and December 2022.[6]

- **Many users have been to shops that do not accept cash.** 37% of people surveyed said they'd visited a cashless store in the past month.[7] However, this proportion has decreased from a peak of 44% in 2021, potentially due to stores relaxing the precautions they took due to the COVID-19 pandemic. Despite many people having encountered cashless stores, the Financial Conduct Authority (FCA) reports that 98% of small businesses have said that if a customer needed to pay in cash then they would not refuse them.[8]

Digital payments

- **There are still barriers to the adoption of digital payments.** In April 2022, the PSR Panel published its summary report as part of our Digital Payments Initiative, identifying several factors that prevent more people using digital payments.[9] These include: digital exclusion; lack of awareness and understanding of digital payment options; digital payment options not meeting people's needs; and digital payment options not meeting small businesses' needs.[10]

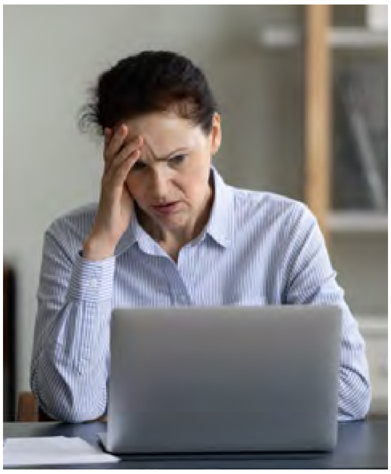
- **Merchants have benefited from innovations in card acceptance, and we've taken action to improve card acceptance service offerings.**[11] Over the past few years there has been significant innovation in ways to make and receive card payments, with widespread adoption of contactless payments and mobile wallets.

Outcome 2: Users are protected

Levels of fraud

- **The value of reported authorised push payment (APP) scams[12] has seen a slight decline in 2022 after dramatic increases over the last six years,[13] while the value of reported card fraud has slightly increased in 2022.** Between 2020 and 2021 there was a 39% increase in reported APP scams value, followed by a decrease of 17% in 2022.[14] The total value of reported card fraud[15] increased by 6% in 2022.[16]

Fighting fraud



We're driving forward a package of proposals that will give payment firms strong incentives to do more to tackle APP fraud.

- **Confirmation of Payee (CoP) now covers the vast majority of Faster Payments transactions.** 92% are now subject to CoP checks,[19] which makes it harder for criminals to commit fraud.
- **Awareness of consumer protection is improving, and users appreciate stronger authorisation methods.** For example, 94% of users agree that strong customer authentication (relating to card transactions) gives them confidence that their payments are safe and secure.
- **More victims of fraud are being reimbursed.** Since the introduction of the Contingent Reimbursement Model (CRM) Code in 2019, there has been a 66% increase in victim reimbursement for reported APP scams.[20]

Outcome 3: Effective competition in payments

Usage of different payment methods

- **Debit cards are the most used payment method, while cash use has been in consistent decline for more than a decade.** Debit card payments numbered approximately 20 billion in 2021, and cash payments approximately 6 billion. Faster Payments and credit card payments each accounted for approximately 3.5 billion payments.[17]
- **Debit cards remain particularly prominent in retail payments.** In 2021, 64% of spontaneous payments were made by debit card. Cash was the next most popular method, accounting for 20%, followed by credit cards (11%) and Faster Payments (3%).[18]
- **The high concentration of debit card clearing services continues to create a risk to competition.** Card issuers typically determine whether current accounts offer payments via Mastercard or Visa (but do not offer this choice to their customers). Unlike many other countries, the UK does not have a separate national debit card system. In our Strategy we identified opportunities for competition from other payment systems, particularly interbank systems.

Outcome 3: Effective competition in payments continued

Current outcomes for payment system users

- **Consumers appear largely satisfied with their payment options.** In 2021, 83% of people surveyed by the FCA's Financial Lives Survey said they felt that they had a range of payment methods which allow them to pay securely.[21]

- **Merchants report increasing costs for accepting retail payments.** A survey of large merchants by the British Retail Consortium (BRC) found the cost of accepting debit card payments has increased in recent years, reaching 0.27% in 2021.[22]

Entry, and adoption of alternatives to card-based payments

- **Use of new and innovative payment methods is growing, but they tend to be based on traditional card payment systems.** Of the new ways to make payments, mobile wallets have seen particularly rapid adoption: 46% of people report using them in 2021, up from 13% in 2017.[23] Buy-now-pay-later services have also become more common: around 12% of people report using them in 2021.[24]

- **Some providers are using open banking to develop services focused on expanded payment choices.** As of December 2022, there were at least 74 firms with a live-to-market open-banking-enabled business proposition focused on expanded payments choice, and expanded payments choice is the second most popular business proposition after improved financial decision-making.[25]

- **Usage of payment initiation services has increased, but adoption remains low compared to card-based systems.** In the six months to March 2022, there were 21 million open banking payments, compared with 6 million in the same period the previous year.[26] However, the total number of open banking payments remains small compared to debit card payments (which numbered approximately 20 billion in 2021[27]).

Outcome 4: Efficient payment systems

An update on the NPA programme

The New Payments Architecture (NPA) programme is progressing and has passed key milestones. In March 2023, we announced our non-objection to Pay.UK's procurement of additional functionality in its NPA central infrastructure services (CIS). We continue to monitor the programme closely and we look forward to further progress over the coming year.

Commercial sustainability

The payments industry is undergoing a lot of change, which presents both opportunities and risks. The NPA is one of many programmes and innovations that will change the payments industry in the next few years. We recognise that such a large scale of change brings both opportunities and risks. In that context, it is important for us to consider how this will affect payment firms' commercial sustainability. Our current work programme addresses these challenges in various ways across the systems that we oversee. When we assess whether to use our formal powers, we will continue to consider value-for-money principles.

1 UK Finance, *UK Payment Markets 2022*, page 27.
2 'Regularly' means that people pay with cash equally to other payment methods or use cash to pay for everything/most things.
3 FCA, *Financial Lives Survey* (May 2023).
4 *Access to Cash Coverage in the UK 2022 Q2*.
5 LINK, LINK Statistics and Trends, LINK ATM Numbers (year-end).
6 LINK, Monthly Reports (November 2021 and February 2023), paragraph 6.
7 Bank of England, *Quarterly Bulletin 2022 Q3*, Chart 5.
8 FCA, *Cash Acceptance within SMEs*, page 2.
9 *Summary Report of the Digital Payments Initiative* (April 2022).
10 In 2021 we launched the Digital Payment Initiative to assess barriers to the take-up of digital payments and identify potential solutions. See *Summary Report of the Digital Payments Initiative* (April 2022).
11 *Market Review into Card-Acquiring Services Final Report* (November 2021), page 44.
12 APP scams occur when fraudsters trick someone into sending a payment to a bank account controlled by the fraudsters.
13 PSR analysis of various UK Finance annual fraud reports: UK Finance, *Annual Fraud Report 2022* and *2023* and *Fraud: The Facts 2018*, *2019*, *2020* and *2021*.
14 UK Finance, *Annual Fraud Report: The Definitive Overview of Payment Industry Fraud in 2021* (August 2022) and *Annual Fraud Report 2023* (May 2023).
15 Card frauds are a form of identity theft in which a criminal uses a victim's credit card information for the purpose of charging purchases to the account or removing funds from it.
16 UK Finance, *Annual Fraud Report: The Definitive Overview of Payment Industry Fraud in 2022* (May 2022), page 13.
17 UK Finance, *UK Payment Markets 2022*.
18 UK Finance, *UK Payment Markets 2022*.
19 CP22/2, *Confirmation of Payee: Requirements for further participation in CoP* (May 2022).
20 UK Finance, *UK Payment Markets 2022*, page 51.
21 FCA, *Financial Lives Survey 2022*, question: 'How much do you agree or disagree with the following statements? I have a range of methods that allow me to make payments securely.'
22 British Retail Consortium, *Payments Survey 2022*. The Payments Survey is an annual publication of the British Retail Consortium (BRC) that measures the sales volumes and values of different payment channels employed by retailers across the UK. The data for the 2022 survey was gathered in 2022 and covers the 2021 calendar year. The survey was completed by retailers that represent just under 40% of UK retail annual sales turnover, which in 2021 was £421 billion.
23 FCA, *Financial Lives Survey 2022*, question: 'In the last 12 months, have you used a mobile or digital wallet to pay for goods or services?'
24 UK Finance, *UK Payment Markets 2022*, page 16. The 2021 level went up by 1% from 0.26% in 2020.
25 Open Banking Implementation Entity, *The Open Banking Impact Report* (March 2023), section on Outputs (Availability). In more detail, 45 are fully regulated firms and 29 are firms acting as an agent of a regulated provider. For reference, the total number of fully regulated firms (number of agents of a regulated provider) with a live-to-market open-banking-enabled business proposition was 159 (172) in December 2022.
26 Open Banking Implementation Entity, *The Open Banking Impact Report* (March 2023), section on Intermediate Outcomes (Adoption). Figures refer to total payments, encompassing both retail and business users.
27 UK Finance, *UK Payment Markets 2022*.

Our impact in 2022/23

Key projects and activity during the year

May 2022

Annual Plan Event

We shared and discussed our plans for the year ahead with over 100 stakeholders.

Fined NatWest group £1.82m

We fined NatWest Group for overcharging interchange fees on credit cards.

July 2022

2021/22 Annual report and accounts publication

We published our annual report and accounts for 2021/22, setting out our achievements over the financial year.

September 2022

Tech sprint with FCA

We worked with the FCA and industry to develop innovative tech-led ways to help identify and prevent APP fraud.

APP fraud reimbursement consultation

We proposed measures to make reimbursement mandatory for scam victims.

October 2022

Terms of reference for two market reviews of card fees

We set out the next stage for our market reviews of scheme and processing fees and cross-border interchange fees.

Confirmation of Payee expanded

We directed 400 more PSPs to implement Confirmation of Payee, increasing its coverage to 99% of transactions.

Directions to improve merchants' options for card-acquiring services

We required card acquirers to give merchants more information about their services, and prompt them to compare services at the end of their contracts. We also limited contract lengths for point-of-sale terminals.

Kate Fitzgerald appointed as Head of Policy

Following her interim position, Kate took the post permanently, leading the development and delivery of our policy projects.

November 2022

Memorandum of understanding with the Lending Standards Board

We agreed the framework for cooperation and communication, primarily in regard to our respective work on APP fraud.

December 2022

Fined Barclays £8.4 million

We fined Barclays for failing to comply with the Interchange Fee Regulation (IFR) because it didn't give retailers full information about the costs of its card services.

Consultation on our regulatory fees

We consulted on changes to the way we allocate our fees, to ensure they remain appropriate in the current payments landscape.

Joint Regulatory Oversight Committee statement on the future of open banking

We published a joint statement with the FCA, the Treasury and the CMA, providing an update on the committee's progress.

February 2023

Aidene Walsh appointed as Chair

Following her interim position, we confirmed Aidene as our Chair for a three-year term.

March 2023

Two new senior advisors

We appointed Tessa Lyndon-Skeggs and Rob Kenny to provide advice and challenge, helping us understand issues and decide how best to intervene to improve outcomes for people and businesses.

Consultation on revisions to our penalty statement

We proposed changes to our penalty statement, to help firms understand how we determine the amount of any penalty we impose.

Specific direction on publishing APP fraud data

We directed 14 of the largest PSP groups to give us data on their APP fraud performance. We and the PSPs will publish the data regularly so that customers can compare PSPs' performance.

Legend

- Policy
- Engaging with others
- Our organisation
- Enforcing our powers

Strategic report

Section contents

Strategic report

During 2022/23, we delivered some major changes that will benefit people across the UK. We also took decisive action to hold the payments industry to account, imposing significant fines on two of the biggest payment firms in the country.

Our work on authorised push payment (APP) fraud is already improving how payment firms tackle fraud. However, we need to change the culture in the industry to give firms the right incentives to tackle payment fraud. Our clear and bold new requirements will do just that.

We have used our powers so that the largest banks and payment firms will now have to publish data about fraud performance. This will make it easier for customers see how well firms are doing and help them make sure that they use firms that offer them the level of protection they want.

We also laid the groundwork for requiring minimum standards of reimbursement, so that all payment firms will have to protect their customers if they get scammed. These measures represent a step change in the incentives on banks and other payment firms to raise their game in the fight against fraud. We accelerated our work so we would be ready well ahead of the anticipated legislative requirements, and the rules will be ready when Parliament passes the relevant legislation later in 2023. Alongside this, we worked closely with other regulators and government departments to coordinate on actions that can make our proposals as effective as possible, and on what can be done in the wider fraud ecosystem to minimise APP fraud.

This year we also issued directions to expand Confirmation of Payee coverage from 92% of Faster Payments transactions to more than 99% – meaning nearly everyone in the country will get this crucial name-checking service when they set up payments, which will reduce fraud and misdirected payment even more.

As well as protecting everyone from criminal activity, we've shown again that we'll take strong action when we find payment firms breaking the rules we oversee. This year, we issued significant fines to NatWest and Barclays for breaching the Interchange Fee Regulation. Our action here sends a clear message to firms about the importance of complying with our rules and other legal requirements. This is all the more important as we make greater use of our powers of direction to protect people and businesses, and to promote competition.

Competition is a key part of our work on card payments, where we made sure smaller merchants could get a good deal for the services they need to accept cards. We're now looking at another part of the cards market, with two market reviews examining fees for card payments to make sure merchants and shoppers alike get a fair deal.

Meanwhile, the payments landscape continues to change. People are using cash less and digital payments more. Part of our work is to make sure no one gets left behind as new payment methods become increasingly popular. We've protected access to cash across the country, and begun looking at how we can remove the barriers to people using digital payments.

There are more changes under way, and we're playing a central role in making sure they result in good outcomes for people and businesses using payment systems. Promoting the use of open banking and account-to-account payments in retail will increase the likelihood of effective competition in these markets in the future, including by giving people a genuine alternative to cards. This is another area where we took on additional work during the year, to support the Joint Regulatory Oversight Committee and the opportunity that it presents to unlock the next phase of open banking.

The New Payments Architecture (NPA) is another part of unlocking these full benefits, and will see a fundamental revamp of account-to-account payments to prepare for the future. It will update our infrastructure and bring further benefits in terms of easier access to these systems, greater potential for innovation, more choice and continued high standards of resilience and security. Having intervened to increase the capability of Pay.UK and to de-risk the NPA programme, we've continued to oversee Pay.UK's work on the programme. It has now passed an important milestone, having completed the main, competitive elements of the tender.

And there are yet more developments that we're working on, such as the increase in crypto-based payment options – including preparations to regulate a distributed ledger payment system for the first time (Sterling Fnality).

Beyond the work programme we committed to, we also delivered additional work, such as our input into discussions around a potential digital pound and our work on the new measures included in the Financial Services and Markets Bill.

We've increased and enhanced our Strategy and Intelligence division to make sure we understand all these developing factors, further enhancing our horizon scanning as we deliver our Strategy.

How we met our commitments

This page shows the progress of each commitment we made in our annual plan for 2022/23. This year, we met every commitment.

Projects	Annual plan commitments	Progress
Authorised push payment (APP) scams	Require directed payment service providers (PSPs) to publish APP scam data, to provide greater transparency and more incentives to prevent scams.	●
	Continue our work to drive industry to improve intelligence-sharing arrangements between PSPs about the riskiness of payments, to strengthen efforts to improve scam prevention.	●
	Once the law is changed to allow it, consult on requiring reimbursement for APP scam victims, to improve reimbursement protections.	●
	Look into the appropriate balance of liability between sending PSPs and receiving PSPs. Consider how the Lending Standards Board can enhance the Contingent Reimbursement Model Code to further improve reimbursement outcomes. Look at how best to coordinate voluntary action by Pay.UK and PSPs. Work with other regulators to coordinate actions tackling APP fraud.	●
Confirmation of Payee (CoP)	Examine if we needed to take further action to direct more institutions to implement CoP, so that a wider range of consumers are safer when making electronic bank transfers. This included deciding whether to require Phase 1 PSPs to implement secondary reference data (SRD) capability.	●
Account-to-account payments	Take steps to address any barriers to the widespread take-up of account-to-account retail payments that we find through our assessment. Work with the Competition and Markets Authority, the Financial Conduct Authority and the Treasury on the future regulation of open banking, which plays a critical role in account-to-account retail payments.	●
Card fees	Examine the basis for card fees and consider the impact of recent changes. If we identified any issues causing harm, consider what action we might take, including any shorter-term action if appropriate.	●

Key

All commitments met — Some commitments met — Commitments not met

Projects	Annual plan commitments	Progress
The New Payments Architecture	Engage with Pay.UK and bidders to understand how they intend to comply with our regulatory framework, and to make our expectations clear.	
	Seek assurance from Pay.UK about certain aspects of the NPA before it signs the central infrastructure services (CIS) contract.	
	Monitor Pay.UK's compliance with our Specific Direction 3 and decide whether to object to any additional functionality (beyond our prescribed 'minimum scope') that Pay.UK proposes to include in the CIS contract.	
ATM network regulation	Make sure our role in cash access remains aligned with our Strategy by working with the government as it develops its legislation.	
	Consider our long-term approach to regulating the elements of cash in our remit.	
	Continue to engage with industry to support and monitor industry innovations in cash access, including the initiatives announced by the Cash Action Group.	
Digital payments	Publish our response to the Digital Payments Initiative, setting out how we intend to support the digital payments transition.	
Card-acquiring market review	Consult on our provisional decision on the remedies, based on the evidence we had gathered and analysed at that point.	
	Develop a final set of remedies to improve merchants' ability to compare and switch between card acquirers.	
	Publish our final decision on the remedies, so that relevant parties in the card payments industry implement our decision.	
	Once the remedies are implemented, monitor compliance and take any corrective action where appropriate.	

Projects	Annual plan commitments	Progress
Cryptoassets, stablecoins and central bank digital currencies	Work alongside the Bank of England and the Financial Conduct Authority to monitor developments in the cryptoassets market, both domestically and internationally, to understand the implications for the UK.	
	Contribute to the development of the UK's approach to cryptoassets and stablecoins as part of the Cryptoassets Taskforce.	
	Continue proactively contributing to the Treasury and Bank-led Central Bank Digital Currency (CBDC) Taskforce as needed.	
	Develop guidance on how we might regulate new payment systems in accordance with our objectives.	
Treasury-led reviews and regulatory reform	Contribute to the Regulatory Initiatives Grid, which presents the timelines for cross-authority pieces of work.	
	Continue to engage with the Treasury in its consultations on payments reforms, collaborating closely to ensure we have the right regulatory framework for payments in the UK.	
Sector intelligence and analysis	Continue to improve our identification and analysis of trends in the payments sector and how these affect our policy-making and regulation. This will help us embed our Strategy in our work programme.	
	Continue to engage with stakeholders to understand and analyse how trends in payments might affect consumers and businesses.	
Enforcing our powers	We expected the majority of our regulatory investigations to conclude in 2022/23.	
	Open further regulatory enforcement investigations if, during the course of our monitoring and compliance work, we identify suspected failures to comply with the Interchange Fee Regulation, the Payment Services Regulations 2017, the Payment Accounts Regulations 2015 or measures under the Financial Services (Banking Reform) Act 2013.	

Authorised push payment scams

We are radically changing the way the payments industry fights and responds to fraud. Our interventions have already protected people from millions of pounds' worth of scams – and our work this year will see significant improvements in how the sector prevents APP scams and looks after victims.

We directed the biggest banks and payment firms to show everyone how well they deal with APP fraud, helping people make informed decisions about who they bank with. Those that don't look after their customers will risk losing them. We also laid the groundwork for firms to fully reimburse APP fraud victims, as soon as legislation allows.

The background:
what happened before April 2022

Authorised push payment (APP) scams remain a major problem in the UK. Every year fraudsters trick thousands of people into sending them money, with many victims losing life-changing sums. In 2022, reported APP scam losses totalled £485 million. The actual figure is likely to be even higher.

We've been working to combat APP scams since 2015. Our work led to the industry launching the Contingent Reimbursement Model (CRM) Code in 2019. Before the Code, victims were reimbursed around 19% of the value of scams; within a year of the Code operating, this rose to just under 50%, for the firms that signed up. These rates continue to increase and reimbursement by value in 2022 was up to 66%. However, payment service providers (PSPs) could do more, in particular those who have not signed up to the Code.

Since 2020, we've also directed PSPs to implement Confirmation of Payee (CoP), the name-checking service that helps people see when payee details aren't correct ahead of making payments across Faster Payments and CHAPS. This has also helped prevent some types of APP scam (see page 42).

In November 2021, we consulted on three measures to take the fight against APP fraud further:

Measure 1: Requiring 14 of the largest PSPs in the UK to **publish data on their APP scam performance**.

Measure 2: Getting PSPs to improve the way they **share intelligence** about risky payments, to help prevent scams.

Measure 3: Requiring PSPs to **reimburse APP scam victims.** We issued a call for views on this in preparation for the government's proposed changes to our powers.

What we did in 2022/23

What we said we'd do

Require directed PSPs to publish their APP scam data, to provide greater transparency and more incentives to prevent scams.

What we did

We analysed the responses to our November 2021 consultation, and engaged extensively across the industry on the issues involved. We then issued two further consultations: in December 2022, we asked for views on one of the specific metrics we wanted PSPs to report on, and in February 2023 we published our draft guidance for PSPs that will have to publish their data. We also held workshops with the directed PSPs and conducted a trial data collection exercise.

In March 2023, we published our final decision. We directed 14 of the largest UK PSP groups to provide us with data. This data covers 95% of all transactions. Each group will publish its rates of APP fraud and reimbursement. We will publish the data together in one place on a six-monthly basis, with the first set coming in October 2023.

What we said we'd do

Continue our work to drive industry to improve intelligence-sharing arrangements between PSPs about the riskiness of payments, to strengthen efforts to improve scam prevention.

What we did

We've been clear with industry that we would like to see progress in developing better sharing of intelligence to prevent scams. In the last year, UK Finance delivered a successful pilot with some PSPs that provided evidence of the benefits that data sharing would have on fraud prevention. Since then, Pay.UK and PSP stakeholders have been working to agree the appropriate data standards, while the government's Economic Crime and Corporate Transparency Bill clarifies that data can be shared to prevent fraud. The current delivery plan for enhanced fraud data sets out that Pay.UK will deliver the rules and standards in 2023, with PSPs able to implement them from the end of 2023.

The upcoming reimbursement requirements will put in place clear incentives for firms to prevent more fraud, on both the sending and receiving side of the transaction. Better data sharing will be key in helping them detect fraud, and with those incentives in place we would expect to see the industry progress this initiative quickly.

How it helped

Publishing this data will give people an unprecedented view of which payment firms have the highest levels of scams, and how well each firm looks after scam victims. For the first time, people will be able to use this information to make informed choices about who they bank with.

In turn, this will give firms a greater incentive to:

- detect and prevent APP fraud in the first place, right across the fraud journey – from where the transaction is initiated to where the fraudster receives the money
- improve reimbursement

How it helped

Sharing enhanced fraud data metrics will help the industry detect and prevent more fraud. The industry is making progress, and our wider measures on APP fraud create the incentives for it to do so. Our monitoring of this work will help to ensure this is delivered, and we will consider more formal steps if necessary.

What we did in 2022/23

What we said we'd do

Once the law is changed to allow it, consult on requiring reimbursement for APP fraud victims, to improve reimbursement protections.

What we did

We decided to accelerate our work in this area, so that we can deliver our proposals as soon as possible. Much of our work has taken place before the anticipated change in the law.

Reflecting this, in September 2022 we consulted on a major set of proposals to require PSPs to reimburse APP scam victims in all but exceptional cases, so more victims get their money back. The proposals were informed by extensive engagement, including industry workshops, numerous bilateral meetings with a range of stakeholders and a roundtable with consumers to understand their experiences of APP fraud. We analysed the 73 responses we received to the consultation, and published our decision on 7 June 2023.

The timing of our requirements remains dependent on the Financial Services and Markets Act 2023 (FSMA 2023). This Act contains a clause that changes the Payment Services Regulations 2017 to allow us to take action on APP scam reimbursement. It also contains a statutory duty for us to do so within six months of when it received royal assent on 29 June 2023.

What we said we'd do

- Look into the appropriate balance of liability between sending PSPs and receiving PSPs.
- Consider how the Lending Standards Board (LSB) can enhance the CRM Code to further improve reimbursement outcomes.
- Look at how best to coordinate voluntary action by Pay.UK and PSPs.
- Work with other regulators to coordinate actions tackling APP fraud.

What we did

- In developing our reimbursement proposals, we considered the appropriate balance of liability. Our consultation included proposals for a 50:50 split between sending and receiving PSPs, recognising the role that both play in detecting and preventing APP fraud.
- We signed a Memorandum of Understanding with the LSB reaffirming the cooperation and coordination between the two organisations. We continued to engage closely with the LSB as it reviewed and refined the CRM Code. In February 2023, the LSB updated the CRM Code to require signatory firms to do more in identifying new and existing accounts at higher risk of being used by criminals.
- We worked closely with a wide range of regulators and government departments to coordinate on actions that can make our proposals as effective as possible, and on what can be done in the wider fraud ecosystem to minimise APP fraud.
- We have engaged broadly to support wider action to prevent fraud, including with the Treasury, the Home Office, the FCA, the Bank of England, the Financial Ombudsman Service, the Information Commissioner's Office, Ofcom, the National Crime Agency and the National Economic Crime Centre.

How it helped

Our policies will provide strong incentives for PSPs to detect and prevent APP fraud from happening. Where they do happen, consumers and some small businesses who are victims of APP fraud when using Faster Payments will be reimbursed in all but exceptional cases.

How it helped

- We received widespread positive feedback on our proposal to split reimbursement costs 50:50 between sending and receiving PSPs, with many respondents saying it will create much stronger incentives to detect and prevent fraud across the payment journey.
- Reimbursement rates among CRM Code signatories rose to 66% in 2022, from 51% in 2021.

Other work we did this year

We co-hosted a techsprint on APP fraud with the FCA in September 2022.[28] This was a three-day in-person event for industry to work collaboratively with us to develop innovative tech-led solutions that help to identify and prevent APP fraud. Participation was high. Many of the teams that developed proof-of-concept solutions demonstrated how better sharing of information, and using the information that already exists better, could increase the detection and prevention of APP fraud.

28 Details are available at: www.fca.org.uk/events/authorised-push-payment-fraud-techsprint

Why this matters

People are losing life-changing sums of money to APP scams. Although our work has helped slow the rise of APP scams, the number and value of scams are still going up. PSPs and others have made significant steps to fight scams, but they can do more. Reimbursement levels vary significantly across the PSPs who have signed up to the CRM Code, while many firms have not chosen to participate in this voluntary arrangement. Our work on our proposed measures should prompt PSPs to strengthen their anti-fraud measures further. This could significantly reduce the number of APP scams – and make sure there's better protection for victims.

How this work supports our objectives

This work promotes users' interests by ensuring that people and businesses are sufficiently protected when using the UK's payment systems. We also want to promote competition between and within payment systems, and in payment services. Improving protection for account-to-account payments will give people confidence in those systems, helping them compete effectively with card payment systems.

APP fraud: key publications

Our consultation on mandatory reimbursement (CP22/4).

Our consultation on publishing PSPs' performance on APP fraud (CP22/5).

Our draft guidance on publishing APP fraud data (CP23/1).

Our final decision, direction and guidance on publishing data (PS23/1).

Our Memorandum of Understanding with the LSB.

Read the Contingent Reimbursement Model Code on the LSB website.


Can we turn the tide on APP fraud?
Claire Simpson, PSR
Simon Miller, Stop Scams UK
Freddy Arthur, NICE Actimize
Det Supt John Roch, Metropolitan Police

Confirmation of Payee

Confirmation of Payee (CoP) is a major step forward in digital protection. We'd already made sure the biggest banking groups use CoP; this year we pushed harder and took steps to plug the gaps in the service, ordering around 400 more payment service providers to offer it. This means nearly everyone in the UK will have this protection – preventing millions more pounds of fraud and misdirected payments.

The background:
what happened before April 2022

CoP is now a widely used service that helps prevent fraud and accidentally misdirected payments. It checks whether the name you enter when setting up a payment matches the receiving account details.

In August 2019, we directed the six major banking groups to implement CoP. This was Phase 1 of CoP, covering the vast majority of the UK's domestic payments – but technical limitations meant that not every PSP could use it.

We then set out to expand the coverage of CoP in Phase 2, to enable more and different types of institutions to offer the service using different technology. In February 2022, we directed Pay.UK to shut down their Phase 1 CoP technology and move to the Phase 2 systems, which all PSPs can use. This created a single technical environment, ensuring all PSPs would be able to share the CoP data that makes the service work.

What we did in 2022/23

What we said we'd do

Examine if we needed to take further action to direct more institutions to implement CoP, so that a wider range of consumers are safer when making electronic bank transfers. This included deciding whether to require Phase 1 PSPs to implement secondary reference data (SRD) capability.

What we did

In May 2022, we consulted on a further direction requiring 400 more PSPs to implement CoP. Following the consultation, we issued Specific Direction 17 (SD17), putting this proposal into force.

Our direction split the requirement into two groups:

- **Group 1:** Specified PSPs have and must use a CoP system after 31 October 2023.
- **Group 2:** All other PSPs that use unique sort codes, or are building societies using an SRD reference type[29], must have and use a CoP system after 31 October 2024.

The PSPs in Group 1 are the largest financial firms. We prioritised them as their quick adoption of CoP is likely to have the greatest immediate impact on APP scams.

We worked with Pay.UK to ensure implementation of SRD capability without the need for further action. Nearly all PSPs implemented SRD capability within the agreed timeframes to comply with the Pay.UK rules. We continue to work with industry on any PSPs that have yet to fully implement SRD capability.

How it helped

SD17 increases CoP coverage from 92% of Faster Payments transactions to more than 99%. By expanding the CoP service, we are ensuring that more customers are protected from APP scams and accidentally misdirected payments, meaning they have greater protection when they use payment systems.

29 SRD is used by a PSP to identify customer accounts that are not uniquely addressable by a sort code and account number but are instead identified using an additional or secondary reference field, such as a building society roll number or another reference type.

Why this matters

Every year, thousands of people and businesses fall victim to APP scams – where they're tricked into sending a payment to a payment account controlled by a fraudster. On top of this, there are a significant number of accidentally misdirected payments. CoP is one tool to help ensure users are protected when sending payments. We want to see a reduction in this type of fraud, and in the number of accidentally misdirected payments, through the implementation of CoP.

Our analysis of Phase 1 of CoP shows some evidence that CoP has helped to curtail the increase in some types of APP scam, such as impersonation scams. It has also reduced levels of fraudulent funds received into accounts by PSPs that have implemented CoP. We estimate that extending the requirement for CoP through SD17 to PSPs that do not currently offer it is likely to reduce APP scam fraud by between £5.5 million and £9 million per year. Additionally, it is estimated that £40 million per year is lost to accidentally misdirected payments. We estimate that extending CoP will further reduce these payments by around £2 million a year.

How this work supports our objectives

Our work in this area aims to improve protections so that fewer payments are sent to fraudsters or accidentally misdirected. Alongside our work on APP scams, CoP acts to give people and businesses confidence to make and receive payments, including over interbank systems.

Confirmation of Payee: key publications

Our policy statement on closing down Phase 1 CoP technology (PS22/1), and Specific Direction 11 (closure of initial technical environment for Confirmation of Payee).

Our consultation on further participation in CoP (CP22/2).

Our policy statement PS22/3 and Specific Direction 17 on expanding CoP.

Account-to-account payments

We're working to increase the choices available to people and businesses when they make payments. Our work on open banking will unlock new ways to pay and offer an alternative to existing payment methods. This increased choice and competition will ultimately mean better prices and payment services for everyone

The background:
what happened before April 2022

In 2021, we identified that account-to-account payments enabled by open banking were the best way to increase the competitive pressure between different retail payment methods. We also identified the barriers that could stop people using them for retail payments. We used these insights to develop a set of policy principles – the conditions that we think are needed to establish a well-functioning account-to-account retail payments market. They include:

- **Functional capability:** Operational and technical standards must meet the functional requirements for retail transactions – for example, retailers must be able to support subscription payments for transactions such as bill payments.
- **Sufficient access and reliability:** Account-to-account payments must be quick and convenient, so that people and businesses feel comfortable using them. They must be widely available at retailers. Transactions must run smoothly, keeping customer dropouts at a low level.
- **Dispute processes:** People and businesses must be suitably protected if something goes wrong when making account-to-account payments.
- **Competitive pricing:** Account-to-account payments must provide businesses involved in the transaction with competitive commercial opportunities. A sustainable pricing model for retail transactions will ensure that firms can continue to invest in new products and further innovation that benefits people and businesses.

Together with the Competition and Markets Authority (CMA), the Financial Conduct Authority (FCA) and the Treasury, we agreed a shared vision for the future oversight of open banking. We published this in a joint statement in March 2022, which also set out cross-authority work through the Joint Regulatory Oversight Committee (JROC). This includes unlocking the potential of open banking payments to support account-to-account payment services, including by meeting the policy principles discussed above.


PAYMENT
PAYMENT SUCCESSFUL

What we did in 2022/23

What we said we'd do

- Take steps to address any barriers to the widespread take up of account-to-account retail payments that we find through our assessment.
- Work with the CMA, the FCA and the Treasury on the future regulation of open banking, which plays a critical role in account-to-account retail payments.

What we did

Alongside the FCA, the CMA and the Treasury, we set up the JROC to lead the transition to the next phase of open banking. The PSR and the FCA are co-chairs of the JROC. We convened an independently chaired strategic working group (SWG), which ran from August to December 2022.

The SWG brought together industry, subject-matter experts and other stakeholder representatives, including consumers and businesses, to share views and provide input into further developing open banking, the related community and the future entity (the body that will take on the activities that have been carried out by the Open Banking Implementation Entity (OBIE) to date).

In February 2023, the SWG published its report on the future development of open banking in the UK, informed by 189 written submissions.

In April 2023, as part of the JROC, we published a joint statement containing recommendations for the next phase of open banking in the UK, including a roadmap for the actions that should be completed in the next two years to support the evolution of account-to-account payment services.

The roadmap sets out three key priorities:

- unlocking the potential of open banking to promote competition and innovation
- adopting a model that can scale to encompass future data-sharing propositions
- establishing a sustainable footing for the ongoing development of the open banking ecosystem

As part of the JROC, we have also been instrumental in setting out the approach to ecosystem governance, including the design of a future entity that will replace the OBIE. These activities will ultimately be underpinned by the establishment of a long-term regulatory framework (LTRF) for open banking by the government. To enable this framework, the government intends to set up a smart data scheme via secondary legislation, under powers set out in the Data Protection and Digital Identity (DPDI) Bill. The government has committed to setting out its plans in more detail as the DPDI Bill progresses through Parliament.

How it helped

The roadmap for the future of open banking is an important step towards delivering account-to-account retail payment services that can compete effectively with card payments. This should result in new competitive pressures that increase choice for people and businesses, and also reduce the costs of accepting payments for businesses. The roadmap will help banks, fintechs and other participants in the payments ecosystem to create innovative, secure and reliable new services that are backed up with robust economic and regulatory foundations.

Working together with the other members of the JROC has ensured that our approach is coordinated. Our work also lays the foundations for our vision in the roadmap to be fully delivered when the government establishes the LTRF for open banking.

Working together

We continue to jointly lead the JROC with the FCA, working closely with the Treasury and the CMA to set the strategic direction for open banking.

Increasing competition for retail payment methods by unlocking the potential of account-to-account payments will take time to deliver. It will require joint effort and collaboration from all members of the JROC, payment service providers (including payment initiation service providers), the OBIE, the subsequent future entity, consumers, businesses, and other ecosystem participants, such as Pay.UK. We will continue to work with these stakeholders by organising workshops and sprints, where appropriate, or by supporting stakeholders' initiatives.

Why this matters

The emerging risk to competition in retail payments could affect the price people and businesses pay for goods and services and the payment services we all use.

Enabling account-to-account payments to become a realistic retail alternative to cards will strengthen competition, leading to lower prices, more innovation and increased quality for people and businesses.

How this work supports our objectives

The JROC roadmap addresses gaps in open banking retail infrastructure that could prevent people using account-to-account payments. This will support the development of account-to-account payments as a viable competitor to credit and debit cards, and improve choice for users who currently rely on cash and cards. Increased competition between payment systems could also lead to lower prices for businesses, more innovation and better services.

Effective rules, standards and incentives will ensure people and businesses are sufficiently protected when making or receiving these payments. This includes ensuring that consumer protection is proportionate and tailored to the risks involved in a payment. The design of the future entity will ensure adequate representation of the interests of payment users.

Account-to-account payments: key publications

Our joint statement with the FCA, the Treasury and the CMA, setting out our plan to establish the Joint Regulatory Oversight Committee (JROC).

The Strategic Working Group's report on the future development of open banking.

The JROC's December update.

Our JROC page on our website, containing all the relevant updates and documents.

Card fees

We're looking at whether recent rises in certain card fees indicate that this part of the payments ecosystem is not working sufficiently well for users. If necessary, we're prepared to take action to address these harms and to promote effective competition.

The background:
what happened before April 2022

Debit and credit cards are the most widely used payment methods, and we want to make sure they work well for both merchants and consumers. In 2021, we opened two market reviews, focusing on Mastercard and Visa as, collectively, these two schemes account for 99% of UK debit and credit card payments. One review is looking at the scheme and processing fees these schemes charge to card acquirers (who may pass on some of these costs to merchants) and issuers. Mastercard and Visa have raised these fees significantly in recent years. The other review is looking at increases in cross-border interchange fees; Mastercard and Visa raised these significantly for card-not-present transactions in 2021 and 2022.

What we did in 2022/23

What we said we'd do

Examine the basis for card fees and consider the impact of recent changes. If we identified any issues causing harm, consider what action we might take, including any shorter-term action if appropriate.

What we did

- Published our final terms of reference for both market reviews. These set out the work we plan to do, with timelines including key milestones. This followed a consultation on draft terms of reference, including stakeholder roundtables.
- Issued formal information notices and informal information requests to gather information from stakeholders, including Mastercard and Visa, acquirers, issuers and merchants.
- Published a working paper on cross-border interchange fees in December 2022, illustrating our current thinking and understanding of how the recent increases may be affecting UK service users.
- Published two working papers on the scheme and processing fees market review for consultation, covering two areas:
  - **Competitive constraints:** A call for evidence that also set out the initial stakeholder feedback we received on the competitive constraints that Mastercard and Visa face when they set card fees.
  - **Our approach to profitability analysis:** This sets out our initial approach to analysing the profitability of Mastercard and Visa's UK businesses, and our analysis of their company profitability at European and global levels.
- Held roundtables in March 2023 with issuers, acquirers and merchants to get feedback on the two working papers.

How it helped

Establishing our terms of reference and consulting on how we are going to conduct different pieces of analysis are the first steps to conducting fair and robust reviews. We set ambitious timelines for our reviews, seeking to ensure sufficient pace while ensuring a robust and fair process for all parties. Publishing our initial working papers has helped us gather further information, engaging stakeholders so they understand what we have heard and learned so far. This helps inform our further analysis.

This will help us deliver high-quality analysis and interim findings, and will ensure we are able to reach robust conclusions on whether there is a need for further action.

Why this matters

Cross-border interchange fees for card-not-present transactions (such as purchases on the internet) have increased approximately fivefold since the UK left the European Union. In the first half of 2022, UK acquirers paid European Economic Area (EEA) issuers £75 million to £100 million more than they would have if Mastercard and Visa hadn't increased their fees. This may be adversely affecting UK consumers and businesses, as merchants may pass the increased costs on to them (at least in part). We may need to act if we find that competition and innovation aren't working in the interests of service users.

Our earlier analysis showed that a substantial proportion of the recent **scheme and processing fee** increases aren't explained by changes in the volume, value or mix of transactions. We want to find out why Mastercard and Visa are increasing these fees, and whether the changes are justified.

How this work supports our objectives

Our reviews will examine the reasons for the increases in card fees. If we identify any concerns, we may take further action to improve outcomes.

In time, account-to-account payments should encourage wider innovation and provide greater competition for card payments. In the meantime, these market reviews will ensure that we understand how competition between schemes for domestic card transactions is working, and that businesses can pay fair prices for the services they receive.

Card fees: key publications

Market review of scheme and processing fees:

Our final terms of reference.

Our call for evidence on competitive constraints.

Our working paper on our approach to profitability analysis.

Market review of cross-border interchange fees:

Our final terms of reference.

Our working paper on the impact of UK-EEA cross-border interchange fee increases.

The New Payments Architecture

The NPA is one of the biggest changes happening in UK payments. It's the payments industry's proposed new way of organising the clearing and settlement of most UK account-to-account payments. It will renew and future-proof the UK's main retail interbank payment systems, facilitating expanded customer choice in payment options. In 2022/23, we continued to oversee Pay.UK's management of the NPA programme, including its competitive tender for the provision of new infrastructure.

The background:
what happened before April 2022

In 2021, after analysing information provided by Pay.UK, we reached the view that there were unacceptably high risks that its NPA programme wouldn't provide value for money and could delay or prevent the NPA's benefits being realised. We consulted on ways to reduce these risks and announced our decision in July 2021. We decided that Pay.UK should phase the development of the NPA by narrowing the scope of the NPA's central infrastructure services (CIS) contract, which Pay.UK must secure through a competitive tender. Our decisions provided an effective way forward, including by helping to lower risks to successful delivery by simplifying the NPA programme.


REFILL
SHOP

What we did in 2022/23

What we said we'd do

Engage with Pay.UK and bidders to understand how they intend to comply with our regulatory framework, and to make our expectations clear.

What we did

We proactively engaged with Pay.UK's bidders and regularly engaged with Pay.UK throughout 2022/23 as it developed its intended approaches and detailed plans.

What we said we'd do

Seek assurance from Pay.UK about certain aspects of the NPA before it signs the CIS contract.

What we did

As part of our monitoring of Pay.UK's programme, we continued to engage closely on key elements, including its proposed design and funding model.

What we said we'd do

Monitor Pay.UK's compliance with our Specific Direction 3 and decide whether to object to any additional functionality (beyond our prescribed 'minimum scope') that Pay.UK proposes to include in the CIS contract.

What we did

In December 2022, Pay.UK notified us of its intention to procure some additional functionality to allow the system to receive submissions of payments in batches. Pay.UK sought our non-objection for the inclusion of this additional functionality and we decided to not object to its inclusion in March 2023.

How it helped

We learned how Pay.UK intends to comply with our regulatory framework and were able to make our expectations clear. This helps to ensure it will deliver an NPA that benefits competition and innovation, with good outcomes for people and businesses.

How it helped

Close engagement with Pay.UK allowed us to ensure the regulatory considerations are clear to Pay.UK. This should help to ensure it will deliver outcomes that support our statutory objectives. This work is important because, delivered well, the NPA could provide better value and effective choice of payment options for people and businesses, strengthening competition and innovation in payment services and between payment systems.

How it helped

This will provide the NPA with functionality that can help some users that are currently using the Faster Payments File Input Module (FIM) and Direct Corporate Access (DCA) services migrate.

Working together

Ahead of our non-objection decision regarding Pay.UK's application for additional functionality, we proactively engaged with a range of PSPs in order to assure ourselves of the need and demand for this functionality. This helped inform our decision to not object. Our engagement involved a range of PSPs and technology companies.

We've also been liaising regularly with Pay.UK, bidders and PSPs about the progression of the NPA programme more generally, including on our NPA regulatory framework.

Why this matters

Every day, millions of us rely on account-to-account payments, whether receiving wages or benefits via Bacs, paying bills using Direct Debit, or transferring money to a friend via Faster Payments. Such payment systems are essential to the smooth functioning of the UK's economy, and allow businesses across the country to make and receive payments.

Delivered well, the NPA will provide people and businesses with a more effective choice of payment options and better value. It can also help with the fight against fraud and money laundering. The NPA's ISO 20022 messaging standard enables richer and more structured data to be included in payment messages, which can help to reduce fraud.

How this work supports our objectives

The NPA should help meet the growing demand for digital payments, and facilitate increased competition by providing a foundation for the market to deliver alternative payment services. This can benefit people and businesses by providing increased choice and protection, and potentially driving down costs.

The design of the NPA can help remedy technical and design-related issues that affect the efficiency of the UK's existing interbank payment systems. Our regulatory framework will also help to ensure that the NPA improves competition between existing and new payment services as well as enhancing resilience and security in payments.

The NPA should strengthen innovation in payments and related services by facilitating future innovation in competitive overlay services for the benefit of system users.

ATM network regulation

We are seeing a long-term decline in the use of cash, as more people switch to use digital payments. Nevertheless, cash remains critical to many people and businesses across the UK, and we've continued to work with other regulators, authorities and industry to make sure there is good access for those who want to use it.

The background:
what happened before April 2022

In March 2022, we issued Specific Direction 12 (SD12) to ensure the UK's cash system continues to be sustainable and provide good access to cash. Building on our earlier Specific Direction 8, SD12 requires LINK, the UK's largest ATM network, to continue to maintain a broad geographic spread of free-to-use ATMs in the UK. LINK has done a good job in meeting this requirement, and SD12 gives it greater flexibility to respond to differing levels of need in different geographic areas.

We also worked closely with other regulators, authorities and industry to ensure comprehensive oversight of the overall cash infrastructure across the UK, and address short and long-term issues around access to cash. These bodies include the FCA, which is proposed to take on a new role as lead regulator for cash access under the Financial Services and Markets Act 2023.


Cash out

What we did in 2022/23

What we said we'd do

Make sure our role in cash access remains aligned with our Strategy by working with the government as it develops its legislation.

What we did

We worked closely with the Treasury as the Financial Services and Markets Bill (FSMB) progressed through Parliament. As a member of the Joint Authorities Cash Strategy (JACS) Group, we collaborated with the FCA, the Bank of England and the Treasury on a joined-up approach to cash infrastructure and policy development.

What we said we'd do

Consider our long-term approach to regulating the elements of cash in our remit.

What we did

As the FCA considers its approach as the lead regulator for access to cash, we've been working to define our role in the new regulatory landscape. We'll continue to have regulatory oversight of the ATM network, a key part of the access to cash regime.

What we said we'd do

Work with the FCA to identify and address new or emerging gaps in access to cash coverage through our data-led monitoring framework.

What we did

We've continued to work closely with the FCA on this issue and our latest figures (for Q2 2022) indicate that 96.3% of the UK population is within 2km of a free-to-use cash point, with 99.8% within 5km.

How it helped

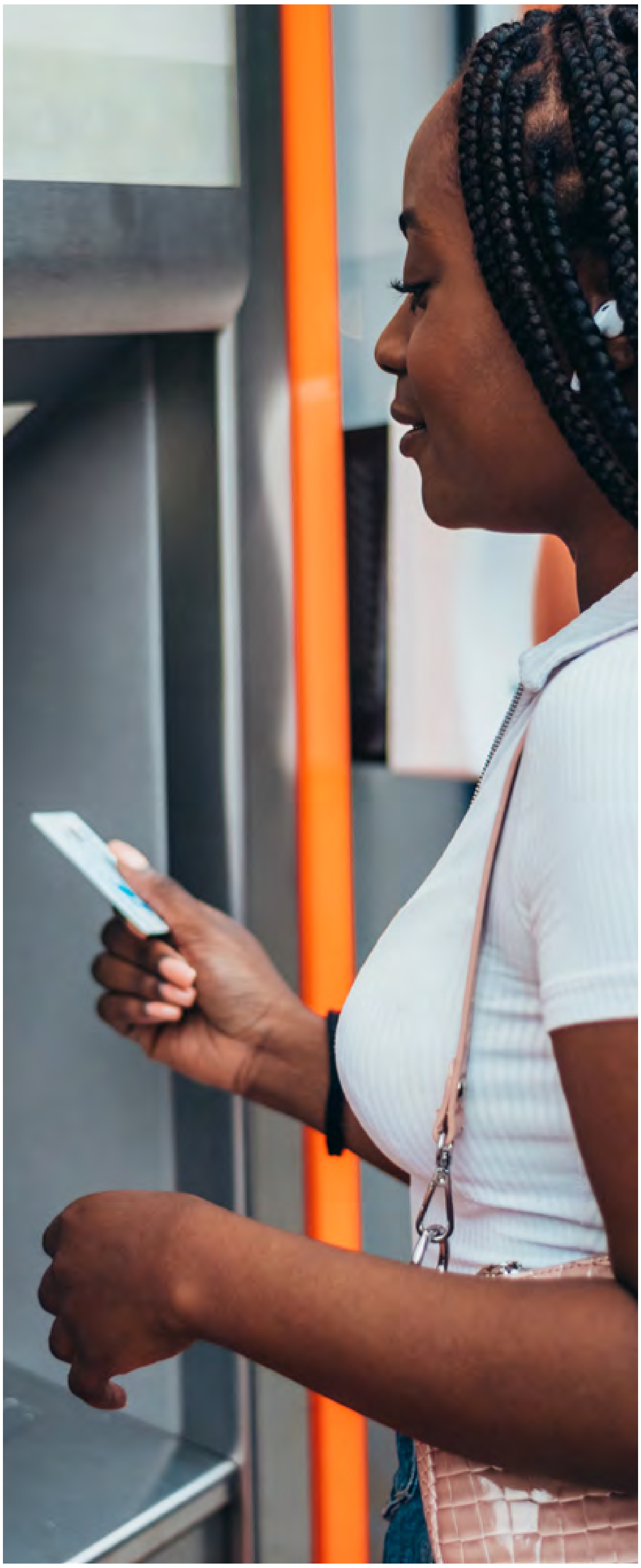
As we've retained our role as the regulator of the UK's largest ATM network, LINK, we're helping to ensure that the cash infrastructure is resilient and cost-effective, and meets people's needs as part of a range of effective payment options.

How it helped

By working to define clear regulatory boundaries between our remit and that of the FCA, we will be providing certainty for industry on its regulatory obligations while making clear who should be approached for regulatory protection. Meanwhile, collaborating with the FCA will help to ensure our long-term approach delivers on our strategic priority of improving people's choice of payment options.

How it helped

Monitoring the availability of cash helps us ensure that coverage remains stable and informs our policy making.



What we did in 2022/23

What we said we'd do

Continue to engage with industry to support and monitor industry innovations in cash access, including the initiatives announced by the Cash Action Group.

What we did

We've worked closely with industry, encouraging new solutions to protect cash access. We've also welcomed engagement from industry and consumer representatives on supporting the take-up of digital payments for people who want to use these methods of payment.

We continue to monitor industry innovation and Cash Action Group initiatives, including the announcement on banking hubs and launch of Cash Access UK Ltd. This will inform our engagement and our policy development to ensure we're able to protect access to cash.

How it helped

Our engagement with industry helps identify challenges to payment methods and informs our regulatory approach. We welcome an industry-led approach for the development of sustainable solutions to ensure communities retain good access to cash, alongside access to other payment options that work for them.

Other work we did this year

When we issued SD12 in March 2022, we said we'd review its effectiveness after 12 months. Therefore, we launched a review in March 2023. We've invited views on how well SD12 has delivered its aims of ensuring LINK fulfils its commitments of meeting users' needs and providing a broad geographic spread of free-to-use ATMs. We will publish a final report on our findings later in 2023.

Why this matters

The ability to choose a payment method that suits an individual's needs is important. Although there has been a decline in cash usage, it's still a critical payment method for many people and businesses. We need to make sure there is sufficient access for those who want to use it, while also working to lower barriers to digital payments to increase the choices available.

How this work supports our objectives

Cash is a crucial part of the range of payment options that people and businesses use today. We are helping to ensure that everyone who wants to continue using cash can easily access it.

ATM network regulation: key publications

Our Specific Direction 12, which requires LINK to maintain the broad geographic spread of the UK's free-to-use cash machine network.

Our geographic overview of cash access in the UK in 2022.

Digital payments

We're making sure more people and businesses have effective digital payment options. We've been looking at how we can remove the barriers to new digital payment services, so that people who currently rely on cash have more options to choose from.

The background:
what happened before April 2022

In 2021, we asked the PSR Panel to assess barriers to digital payments and identify what appropriate regulatory action we might need to take. We tasked the Panel to undertake further work to enable digital payments in response to last year's access-to-cash working groups.


PAYMENT RECEIVED
Done
BANK

What we did in 2022/23

What we said we'd do

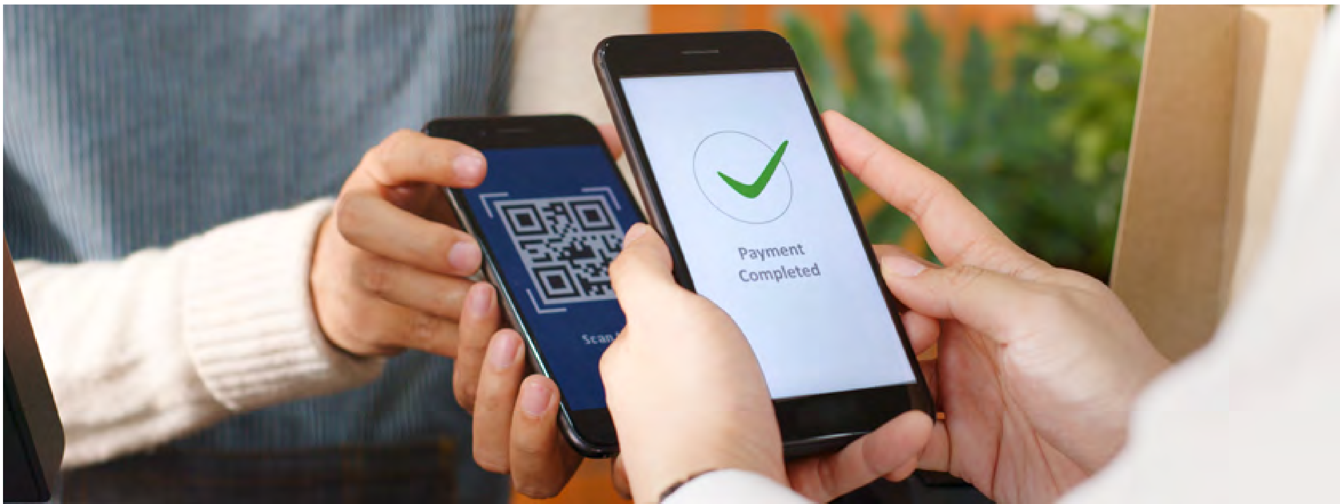
Publish our response to the Digital Payments Initiative, setting out how we intend to support the digital payments transition.

What we did

The PSR Panel published its report in May 2022, which identified potential barriers to the take-up of digital payments as well as potential solutions.

We published our response in July 2022, which addressed each of the Panel's recommendations. In the response we said we'd take forward a series of these recommendations as part of our work on account-to-account payments and open banking, and engage further with the payment schemes and consumer groups to focus our next phase of work.

In November 2022, we held a roundtable discussion, bringing together a range of consumer representatives, payment system operators and other industry representatives. This helped to expand our understanding of existing barriers to digital payments. For example, prepaid cards could be a 'near-cash' bridge to support the use of digital payments, but some barriers could prevent this from happening – such as the need for online or smartphone access, or a lack of awareness and understanding of prepaid card services. We also discussed barriers to new 'request-for-payment' services, which could give people with low and irregular incomes more control over when and how they pay bills.



How it helped

The Digital Payments Initiative, combined with our work on account-to-account payment services, will form the basis of our work to support the increased use of digital payments. This will allow people to choose a payment method that suits their needs from an improved range of options.

Building on the insights gathered from our roundtable session in November 2022, we are developing plans to deliver viable solutions to reduce barriers to the use of digital payments.

Why this matters

Digital payments are playing an increasing role for people and businesses as the use of cash declines over time. One way that we can ensure that people and businesses have sufficient choice in the future is by lowering the barriers to using digital payments.

How this work supports our objectives

We want digital options to become more accessible to people who may at present be unable to use them. Our ongoing research into barriers to using digital payments will help us develop solutions so that no one is left behind.

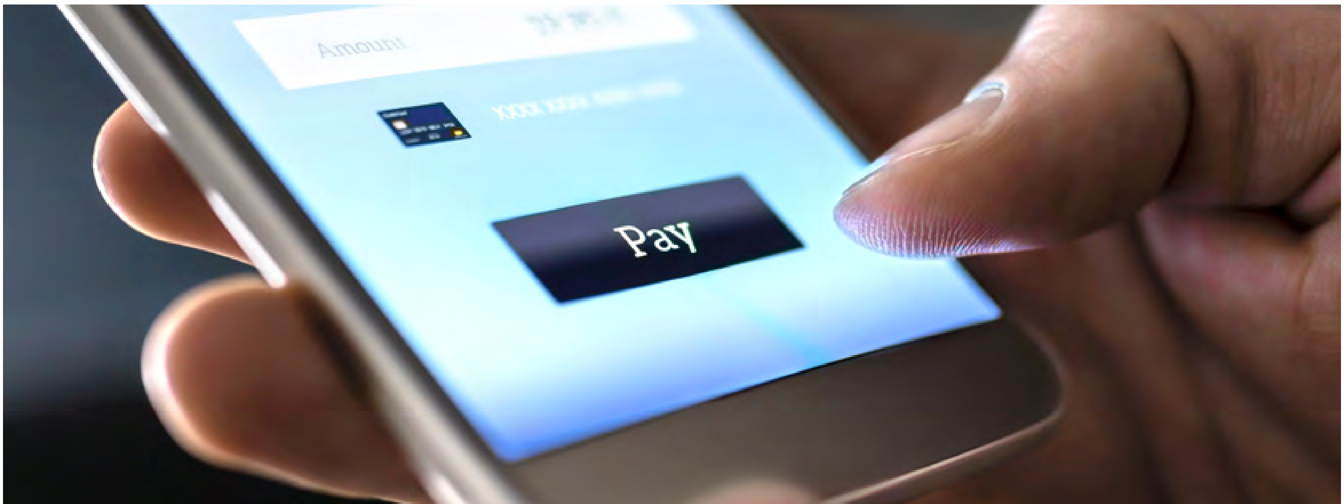
Digital payments: key publications

The PSR Panel's Digital Payments Initiative report.

Our response to the Panel's report.

A summary of our roundtable discussion on barriers to using digital payments.

Information about the access to cash working groups.



Card-acquiring market review

We’re making it easier for smaller merchants to get a good deal for the card payment services they need – by making it easier for them to shop around, compare services and switch contracts. This will make competition more effective for small and medium-sized businesses and organisations, and prevent them from being locked into lengthy contracts for their card payment equipment.

The background:
what happened before April 2022

After we published our final report in November 2021, we continued to engage with merchants, merchant representative organisations and the card-acquiring industry to come up with a set of solutions that would improve choice for small and medium-sized businesses accepting card payments.

What we did in 2022/23

What we said we'd do

Consult on our provisional decision on the remedies, based on the evidence we had gathered and analysed at that point.

What we did

In June 2022, we published our provisional decision on the remedies that addressed the features of concern, and presented draft directions for consultation.

What we said we'd do

- Develop a final set of remedies to improve merchants' ability to compare and switch between card-acquirers.
- Publish our final decision on the remedies so that relevant parties in the card payments industry implement our decision.

What we did

We have achieved this with the publication of our final statement and directions in October 2022. These apply to 14 card acquirers and their third-party representatives, covering 95% of the market.

The first of the remedies came into force in January 2023, limiting point-of-sale (POS) terminal lease agreements to 18 months. This remedy means that businesses are no longer locked into lengthy contracts of 36 months or even longer, allowing them more frequent opportunities to switch to a better deal.

The other two remedies come into force in July 2023. Merchants will receive a trigger message when their contract with a merchant is coming to an end, reminding them that they could get a better deal by shopping around or talking to their existing provider. For the first time, a summary box will include bespoke information on pricing, and an online quotation tool will offer an initial indication of the card-acquiring fees each merchant could pay, making it easier for merchants to compare prices than ever before.

What we said we'd do

Once the remedies are implemented, monitor compliance and take any corrective action where appropriate.

What we did

We're already monitoring compliance of the first remedy. The remaining two remedies come into force in July 2023, once acquirers and independent sales organisations (ISOs) have changed their systems to comply with our requirements.

How it helped

Our consultation provided a starting point for change, explaining our findings that the supply of card-acquiring services didn't work well for merchants and suggesting remedies to improve the situation.

How it helped

The industry is just beginning to implement these measures, which will help small and medium-sized businesses assess quickly and easily whether they are getting a good deal with their provider, or whether they might be better off switching to someone else. We expect this to improve choice for merchants and result in more effective competition between providers, which could result in merchants getting better deals.

How it helped

Merchants will have more user-friendly information to shop around for a better deal and we will seek to ensure that the directed parties comply with the new rules.

Other work we did this year

We've engaged with industry in bilateral meetings and workshops, and through correspondence, to explain what our directions mean in practice and to answer their questions about implementation.

Why this matters

Until now, card acquirers and ISOs did not typically publish their prices, and their pricing structures and approaches to headline rates varied significantly. Small and medium-sized businesses taking card payments suffered from this lack of transparency. Contracts of indefinite duration didn't provide a clear trigger for merchants to think about searching for another provider and switching to a potentially better deal. Our trigger message will change that by reminding merchants that they can shop around for a better deal rather than allow their contract to simply roll over.

The lengthy POS terminal contracts prevented or discouraged businesses from searching for other card-acquiring service providers and switching.

How this work supports our objectives

Our directions reduce the obstacles to merchants comparing available deals, and encourage businesses to search and switch or negotiate with their existing provider. This will create incentives for providers of card-acquiring services to offer better deals for merchants through competitive pressure as merchants become more engaged and shop around more actively with better information.

Card-acquiring market review: key publications

Our final decision on our card-acquiring market remedies (PS22/2).

Specific Direction 14 (card acquiring – provision of information (summary box)).

Specific Direction 15 (card acquiring – trigger messages).

Specific Direction 16 (acquirer POS terminal lease extent).

Cryptoassets, stablecoins and central bank digital currencies

We're starting to see new payment technologies move into more mainstream uses. This has the potential to bring significant benefits to people and businesses across the UK. To realise this potential we need to identify and manage the risks that might come with these new approaches. In this context, last year we saw an industry first: we now regulate a payment system based on distributed ledger technology.

The background:
what happened before April 2022

We've been an active member of the Cryptoassets Taskforce (CATF) since 2018, working alongside the Treasury, the FCA and the Bank of England. The CATF aims to assess the potential impact of cryptoassets and distributed ledger technology in the UK and consider appropriate policy responses. We also monitored developments in the market and proactively engaged with market participants.


BTC /USDT

What we did in 2022/23

What we said we'd do

- Work alongside the Bank and the FCA to monitor developments in the cryptoassets market, both domestically and internationally, to understand the implications for the UK.
- Contribute to the development of the UK's approach to cryptoassets and stablecoins as part of the CATF.

What we did

Alongside other regulators, we examined developments in the cryptoassets market such as asset-backed stablecoins, and underlying technologies such as the use of distributed ledgers, to understand the impact of these on the UK.

We continued to be an active member of the CATF, contributing to Treasury consultations on the UK's regulatory approach to cryptoassets and stablecoins and on the Financial Services and Markets Bill.

What we said we'd do

Continue proactively contributing to the Treasury and Bank-led Central Bank Digital Currency (CBDC) Taskforce as needed.

What we did

We worked with the CBDC Taskforce on areas of common interest, exploring the potential for a UK CBDC as well as the implications a CBDC may have for the current payments landscape.

What we said we'd do

Develop guidance on how we might regulate new payment systems in accordance with our objectives.

What we did

The Treasury designated the regulation of Sterling Fnality Payment System to us on 31 August 2022 – the first new payment system to be designated for our regulation since our inception, and the first to use distributed ledger technology. It's forecast to go live in 2023. We have been proactively engaging with Fnality and the Bank ahead of Sterling Fnality's launch. At launch, Sterling Fnality will be subject to the same risk-based regulation as existing systems.

We're monitoring Sterling Fnality as it enters operation and evolves its business model. We're also coordinating the dual regulation regime with the Bank.

How it helped

Understanding this emerging market helps inform our input into the developing regulatory framework. This will ultimately help us ensure that any crypto-based payment systems work well for end users.

Our focus is on cryptoassets and similar digital assets, such as stablecoins, that can be used for payments.

How it helped

The Treasury and the Bank published a consultation paper on a potential digital pound. A digital pound could improve a range of outcomes for society as well as people using payment systems.

Providing our payments expertise and perspective on aspects of the design and application of a CBDC, such as on fraud and consumer protection, will help to ensure appropriate considerations are given to all aspects of how a system may work.

How it helped

We provided additional clarity to Fnality so that it better understands our requirements and likely approach, helping it to finalise its plans.

Why this matters

In recent years, the use of cryptoassets and stablecoins has grown significantly, both in the UK and internationally. Technology firms and financial services providers are becoming increasingly active in this innovative and fast-moving sector of the payments landscape.

It's important for us to make sure people are effectively protected when they make payments using a crypto-based payment system designated for our regulation. We also want to ensure that any such payment systems have appropriate access provisions and support a competitive ecosystem. We will continue to work closely with the government to support any future designation decisions on new payment systems.

How this work supports our objectives

Crypto-based payment systems have the potential to give people and businesses more choice of payment services. They could also provide opportunities for firms to develop new services to meet people's needs. The emergence of designated payment systems such as Sterling Fnality could present alternatives to existing payment systems.

Our role is to regulate any payment systems designated by the Treasury. Alongside other regulators, we're developing an appropriate regulatory framework to protect people using crypto-based systems to make payments.

Treasury-led reviews and regulatory reform

We continued to work closely with the Treasury and other regulators to ensure our regulatory framework is fit for the future and allows us to carry out our work effectively.

The background:
what happened before April 2022

In 2019, the Chancellor of the Exchequer announced the launch of the Payments Landscape Review and the Future Regulatory Framework (FRF) Review for financial services. These reviews involved all the relevant regulators and aimed to make sure the regulatory framework and legislation were fit for the future.

We played an active role in these reviews, alongside the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA). We've provided resources, feedback and expertise on a range of payments issues.

What we did in 2022/23

What we said we'd do

Continue to engage with the Treasury in its consultations on payments reforms, collaborating closely to ensure we have the right regulatory framework for payments in the UK.

What we did

In July 2022, the government published its response to consultations on the FRF Review, setting out its proposals on how the financial services regulatory framework should adapt for the future.

In addition, following the Payments Landscape Review, the Treasury launched a consultation and call for evidence on payments regulation and the systemic perimeter. This outlined the government's proposals on how the payments regulatory framework fits with the outcomes of the FRF Review. It also proposed enhancements to our own statutory framework in the Financial Services (Banking Reform) Act 2013. We continue to support the Treasury's work to reform and improve the regulatory framework that governs payments.

During 2022, the government introduced into Parliament the Financial Services and Markets Bill (FSMB) which gained royal assent in June 2023 becoming the Financial Services and Markets Act 2023 (FSMA 2023). Among other things, FSMA 2023 implements the outcomes of the FRF Review, and is central to delivering the government's vision for an open, agile and technologically advanced financial services sector.

We worked closely with the Treasury on the development of the FSMB to help ensure it provided the right regulatory and accountability framework for our role.

We've been developing processes and policies to ensure we comply with the new accountability measures in the Act – for example, a policy statement on our approach to cost benefit analysis.

We've also worked with the Treasury on the revocation and replacement of retained EU law, particularly the Payment Services Regulations 2017, the Interchange Fee Regulation and the Payment Accounts Regulations.

We continue to support the Treasury in delivering on the reforms arising from the consultation and call for evidence on payments regulation and the systemic perimeter.

How it helped

Our ability to improve outcomes and deliver against our Strategy relies on having a legislative and regulatory framework that works effectively.

What we did in 2022/23

What we said we'd do

Contribute to the Regulatory Initiatives Grid (RIG), which presents the timelines for cross-authority pieces of work.

What we did

We collaborated with eight other regulators to complete the latest version of the RIG, which provides a clear view of upcoming regulatory work and was published on the FCA's website in February 2023. We have also used the RIG in internal planning.

Future editions of the RIG will contain updates on the government's plans for the repeal of retained EU law, along with initiatives based on the FSMA 2023.

How it helped

The RIG has helped stakeholders understand the timing of initiatives and their potential impacts, so that they can plan their resources accordingly. Collaborating on the RIG also allowed us and the other regulators to coordinate, avoiding possible duplication and preventing spikes in regulatory activity that might have negatively affected stakeholders.

Why this matters

It's likely that there will be ongoing change in the payments sector due to innovation (including in digital assets) and changing consumer preferences. Our input will help to ensure the UK has the right regulatory framework to make sure payments work well for everybody as technology and consumer behaviour changes.

How this work supports our objectives

Working to ensure the UK regulatory framework is fit for the future supports all our statutory objectives. We need to ensure we have the right regulatory framework in place so we can deliver good outcomes for users.

Regulatory activity: key publications

The government's response to its consultations on the Future Regulatory Framework Review.

The latest Regulatory Initiatives Grid.

Sector intelligence and analysis

We developed a clearer view of the future challenges and opportunities in UK payments, backed by an improved framework for collecting and analysing payments data.

The background:
what happened before April 2022

The payments sector remains fast-moving and innovative. The COVID-19 pandemic significantly altered spending habits, and made many people and businesses rethink how they make and receive payments. This accelerated some trends that had started before the pandemic. For example, the use of contactless payments and mobile wallets for over-the-counter transactions rose dramatically, as did the volume of online purchases. These changes present both opportunities and risks to competition, innovation, security, and access to payments infrastructure, as new entrants and business models emerge.

Gathering good-quality data keeps us aware of and prepared for further changes, so that we can assess the impact of our regulatory interventions – and the need for new ones.

Our data, intelligence and analysis work includes assessing:

- whether users can access payment services they rely on
- what effective payment options users have and how these create benefits
- what payments-related issues people and businesses face
- measures of competition between and within payment systems
- measures of the type and degree of innovation
- the use of account-to-account payments

Alongside supporting a number of our existing projects, this work helps us identify and understand the potential impact of the trends and events that happen in payments. It also helps us identify emerging issues, such as the rise of new payment technologies and their potential significance.

What we did in 2022/23

What we said we'd do

Continue to improve our identification and analysis of trends in the payments sector and how these affect our policy-making and regulation. This will help us embed our Strategy in our work programme.

What we did

We developed tools such as data dashboards to collect, process and analyse a wide range of data so that we can identify trends and risks promptly and respond proactively to share data insights that inform our work internally.

We progressed our work on measuring our annual progress to deliver our Strategy outcomes. We have published our first Strategy outcomes progress report alongside this annual report.

What we said we'd do

Continue to engage with stakeholders to understand and analyse how trends in payments might affect consumers and businesses.

What we did

We continue to engage with our stakeholders, including payments providers, consumer groups, and other businesses and regulators, to better understand their perspectives on the payments industry. We provided payments systems expertise to the Competition and Markets Authority (CMA)'s mergers intelligence unit when considering whether transactions warranted a detailed merger assessment.

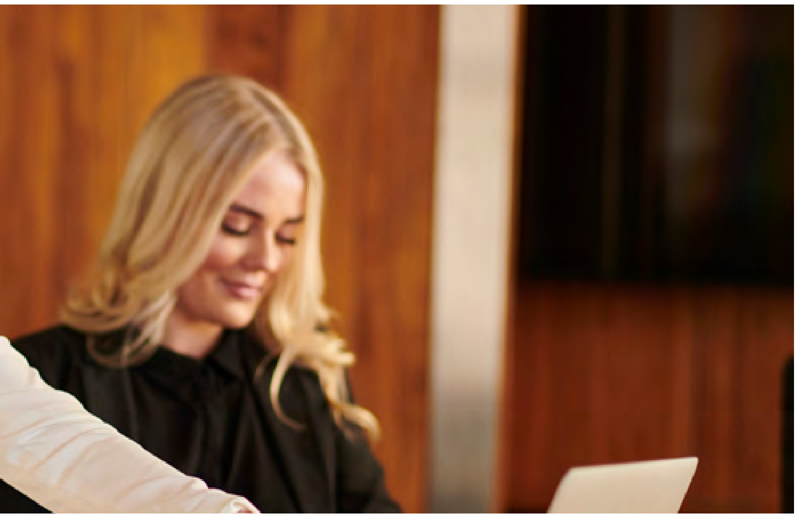
How it helped

Effective data gathering, processing and analysis help us assess issues faster and prioritise our resources more effectively.

The tools we've developed enhance our awareness of changes to the industry and their impact on people and businesses. This means we can shape our work so we intervene in the right way at the right time.

How it helped

Our outreach to stakeholders ensures that our work is informed by a wide range of perspectives. This allows us to improve data and intelligence gathering and identify areas for further investigation. Our understanding of emerging threats and opportunities in the payments landscape ensures we can continue to make sure payments work well for everyone.



Working together

We worked with regulators, such as the Bank of England, the FCA, and the CMA, and with the wider payments industry. We collaborated with multiple stakeholders to enhance our data framework and develop our information-gathering processes. We also spoke to a variety of stakeholders about existing and developing industry trends, sharing insights and listening to different perspectives to get a more informed view of the industry.

Why this matters

It's important that we understand how issues in the payments sector affect people and businesses. Our research and analysis assist in prioritising our work, helping us determine when and how best to intervene and allowing us to identify issues that may affect our five-year Strategy. Keeping pace with changes in the payments landscape helps the outcomes we want to achieve remain relevant.

How this work supports our objectives

This work helps us understand whether payment systems and payment services in the UK are closer to or further away from the outcomes we want to see, so we can assess whether our strategic priorities remain the right ones or whether we need to revise them in order to meet our statutory objectives.

Sector intelligence: key publications

Our first Strategy outcomes progress report.

Using our enforcement powers

In 2022, we showed that we'll take strong action to make sure payments work well for everyone; we took action against payment firms breaking the rules, issuing fines to NatWest and Barclays for non-compliance with the Interchange Fee Regulation (IFR).

The Financial Services (Banking Reform) Act 2013 (FSBRA) gives us certain powers in relation to regulated payment systems. The Treasury has the power to designate any payment system as a 'regulated' payment system. To date, the Treasury has designated eight payment systems as regulated payment systems. Our FSBRA powers apply in relation to all participants within these regulated systems. We have five general directions and 17 specific directions (including those specific directions that entered into force on 6 July 2023).

We're also responsible for a number of other regulatory requirements:

- We're responsible for monitoring and enforcing compliance with the IFR, in accordance with the Payment Card Interchange Fee Regulations 2015 (PCIFRs). We monitor compliance with all provisions of the IFR, including the interchange fee caps and business rules.
- We're responsible for monitoring and enforcing compliance with some provisions of the revised Payment Services Directive (PSD2), as transposed into UK law in the Payment Services Regulations 2017 (PSRs).
- We're the UK's competent authority to designate alternative switching schemes under the EU Payment Accounts Directive 2014 (PAD), and to ensure such schemes continue to meet the criteria set out under the Payment Accounts Regulations 2015 (PARs).

We investigate potential failures to comply with our directions and the regulations that we're the competent regulator for.

Where we find that participants have failed to comply with these requirements, we can impose a financial penalty and publish the details of our findings.

We're also a competition authority with powers under the Competition Act 1998 (CA98) and the Enterprise Act 2002 (EA02), concurrent with those of the Competition and Markets Authority (CMA), the FCA and several other sector regulators. As a competition authority, we're able to exercise powers in relation to infringements of competition law so far as they relate to participation in payment systems. For example, under CA98 we can investigate where there may be breaches of the prohibitions against anti-competitive agreements and abuses of dominant positions. We can conduct market studies and make market investigation references under the EA02.

We take account of our administrative priority framework (APF) when we decide when and how to take action pursuant to our different functions. This enables us to use our resources in the most efficient and effective way to further our statutory objectives, functions and duties. We apply the APF and consider our strategic priorities when deciding whether to open individual enforcement cases.

What we did in 2022/23

What we said we'd do

We expected the majority of our regulatory investigations to conclude in 2022/23.

What we did

We had four open investigations during 2022/23. During the year, we concluded actions against two organisations and closed one investigation without action. One is still ongoing and we expect to conclude this case in 2023/24.

In May 2022, we concluded our investigation into four banks in the NatWest Group for failing to comply with the IFR. We found that the banks wrongly profited from almost £1.2 million in excess interchange fees between March 2016 and March 2018. As a result, both acquirers and, ultimately, merchants were overcharged – and could have passed the costs on to their own customers. We stepped in to make sure the banks put a stop to it. We settled the case and fined the banks £1.8 million. After we told the banks about our concerns around their excess interchange fees, they calculated how much they had overcharged and then repaid it to the businesses affected.

In December 2022, we concluded our investigation into Barclays for failing to comply with the IFR. We found that Barclays did not provide retailers with full information about the costs of card services it supplied. Barclay's compliance failure had lasted for three years, during which it processed a third of all UK card transactions. We settled the case, imposed a fine of £8.4 million on Barclays and made sure that the full information required by the IFR is now available to all retailers who use Barclays' card payment processing services.

In March 2023, we finished our other investigation into a potential breach of the IFR. Having completed the investigation we decided that an enforcement sanction was not proportionate. During the course of the investigation, the firm took the necessary action to become compliant with the IFR.

We continue to progress our investigation into a potential breach of the access provisions of the PSRs 2017.

How it helped

Successful outcomes from our enforcement cases encourage parties that are directly involved to change their behaviour, while also discouraging non-compliance across the sector. They demonstrate the importance of complying with rules and the consequences of failing to do so. This leads to better outcomes for the people and businesses who use the UK's payment systems.

What we did in 2022/23

What we said we'd do

We said we could open further regulatory enforcement investigations if, during the course of our monitoring and compliance work, we identified suspected failures to comply with the IFR, the PSRs 2017, the PARs or measures under FSBRA.

What we did

We haven't identified any suspected compliance failures or opened any further enforcement investigations. We continue closely monitoring compliance with the regulations, directions and requirements we are responsible for enforcing.

How it helped

Active monitoring and compliance work is crucial to ensure we identify suspected compliance failures and take action where appropriate.

Other work we did this year

In March 2023, we published our consultation paper CP23/2 on proposed changes to our penalties guidance, which sets out the principles we apply when determining whether to impose a penalty and deciding its amount. Making our expectations and procedures clear to stakeholders is an important part of regulation, and our penalties guidance helps us incentivise firms to comply with the rules we enforce. The proposed changes will help firms more easily understand how we reach our decisions. We expect to publish our final penalty statement in Q3 2023.

Working together

When taking enforcement action under the IFR or PSRs 2017, we consult with the Financial Conduct Authority (FCA) where appropriate. We might do this, for example, where the FCA is also responsible for monitoring and enforcing certain aspects of the IFR, or where behaviour we've identified is relevant to the FCA's ongoing supervision of a firm. During our investigations into both Barclays and NatWest Group, we kept the FCA informed of our progress. We shared information through our respective gateways where it supported our respective objectives, and shared lessons learned upon conclusion of the cases.

In preparing for our consultation on changes to our penalties guidance, we engaged with stakeholders from across industry. We held two roundtable discussions in November 2022 as well as bilateral discussions. The feedback from this engagement fed into our consultation paper CP23/2. We also liaised with the FCA, the Bank of England and the Treasury, so that they were aware of our proposed changes.

Why this matters

Compliance with the law and regulations we are responsible for is important to the proper functioning of the markets in payment systems and services. Our enforcement work discourages non-compliance with these rules and helps prevent the harm that results.

It's important that industry stakeholders recognise that we are prepared to take timely, targeted and effective enforcement action. One of the purposes of taking enforcement action, and imposing appropriate penalties, is to communicate to regulated parties that we will identify and address non-compliance.

In the long term, effective enforcement action contributes to a culture of compliance within the payments sector. This leads to better outcomes for the people and businesses who use payment systems and services in the UK.

How this work supports our objectives

Our enforcement work supports all our strategic priorities and statutory objectives by holding regulated parties to account for non-compliance with their obligations. Enforcement actions help protect the interests of people and businesses who make and receive payments, and encourage effective competition, leading to better prices, choice and innovation. This ensures the payments sector works well for everyone in the UK. Non-compliance can leave people and businesses without sufficient protections, and stifle competition and innovation.

Enforcement: key publications

Our decision notice following our investigation into NatWest Group banks' non-compliance with the Interchange Fee Regulation.

Our decision notice following our investigation into Barclays' failure to comply with the IFR.

Our consultation on our proposed revised penalty statement (CP23/2).

The Payment Accounts Regulations

We're the UK competent authority for designating alternative account switching schemes (schemes that are independent of the payment firms involved) under the Payment Accounts Regulations 2015 (PARs).

We must also ensure each scheme meets the criteria set out in the PARs:

- it is clearly in the consumer's interest
- it doesn't impose any additional burdens on the consumer
- the switching procedure is completed in 12 working days

As part of the annual monitoring and PARs assessment process, we analyse information and evidence submitted by Pay.UK in relation to the Current Account Switch Service (CASS). In September 2022, we published a statement confirming that CASS continues to meet the PARs criteria for designation as an alternative switching scheme. We'll review this again in summer 2023 and take action if necessary.

We're ready to evaluate any applications for schemes to be designated as alternative switching schemes; since our inception, we have not received any other applications.

Why this matters

The ability to switch accounts is a fundamental part of competition in payments. Our work benefits consumers by ensuring that alternative account switching schemes enable competition, innovation and good service.

Our organisation

As well as delivering against all the commitments we made in our 2022/23 annual plan, we accelerated and took on a significant amount of unplanned work.

During the year, as we came out of lockdown, we saw an increase in staff attrition as some of our staff sought new opportunities. In response, we protected the delivery of our work programme by drawing on external consultancy support. This is the main reason why our spend last year was over our original budgeted level.

In parallel, we took a number of steps to increase our headcount, including raising our profile to attract greater numbers of high calibre candidates, improving our time-to-hire and increasing our recruitment activity. This worked well, enabling us to recruit around 40 permanent staff, allowing us to reduce our use of consultants towards the end of the year. Looking ahead, we will continue this approach to recruitment as we continue to grow in a cost-effective way.

Last year was also a significant year in reshaping the organisation, ready for our future challenges. We completed an organisation redesign, leading to the creation of a new division – Supervision and Compliance Monitoring – and we refocused our ways of working to improve our workflow and organisational effectiveness.

Section contents


12
Endeavour
Square

Our people

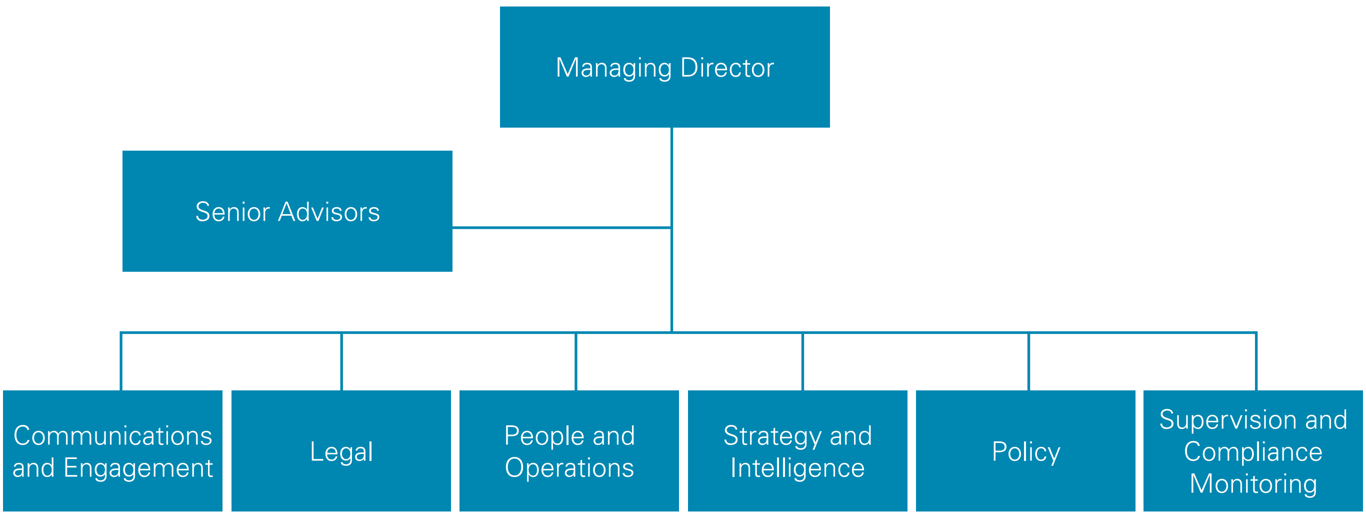
Recruitment has been a significant focus over the last year, as we increased our headcount to deliver our workplan. During the year we changed the way we recruited, successfully responding to the challenges of a highly competitive external recruitment market. We refreshed the way we present the PSR to external candidates and reduced the time it takes from opening a vacancy to offering someone a role.

After an increase in our use of external consultancy support, we successfully increased our use of permanent and fixed-term employees, and ended the year close to our target headcount, taking into account new joiners that were being onboarded. This temporary increase in external resourcing was important to protect the delivery of our workplan. We ended the year with a balance between permanent, fixed-term and contractor resourcing that is broadly in line with our typical resourcing approach.

We also reviewed our leadership structure and organisational design to improve the effectiveness of the organisation. Our divisions now better match how we deliver the majority of our work: our Strategy and Intelligence division considers what is changing in payments and identifies priorities for further work; our Policy division delivers project work that changes rules and requirements on firms in order to improve outcomes; and our Supervision and Compliance Monitoring division makes sure that firms comply with the requirements placed on them. These teams are supported by expert legal, communications, HR, operations and project management teams.

These changes will help the PSR deliver against our ambitious Strategy, in an effective and flexible way.

Figure 1: Our organisational structure



We're also welcoming new members of our Executive team in the summer of this year: Alex Olive as General Counsel, Natalie Golding as Chief Operating Officer (COO) and Oliver Hanmer as Head of Supervision and Compliance Monitoring.

As General Counsel, Alex will be responsible for leading our team of expert lawyers, for providing legal advice and helping us manage legal risk across the organisation – including by supporting the board and executive committees.

As COO, Natalie will be accountable for, and have strategic oversight of, how we invest in the skills, development and capabilities of our staff, the overall effectiveness of our operations, risk management and the way in which we manage project delivery.

Oliver will lead our newly created Supervision and Compliance Monitoring division, which will focus on driving better outcomes for people and businesses by improving compliance with the rules contained in law, our directions and other legal obligations. This new division will also undertake our routine supervision of the UK's regulated payment systems.

We've also given our people opportunities to grow and develop as they deliver our work. This has allowed us to develop our staff in role and has meant that a number of our staff have achieved promotions.

In addition, in 2022/23 we continued:

- to develop engagement skills and capabilities across the organisation; this helped us engage with our stakeholders across the payments landscape, both in person and virtually
- to build our people managers' skills through our leadership and management development offering
- our focus on building an inclusive culture, ensuring that we don't lose sight of the importance of diversity, equality and inclusion as we grow – guiding how we recruit, allocate work and support progression
- to support our people's wellbeing through a wide variety of resources including health and wellbeing services, mental health, support for hybrid working, information sessions on wellbeing topics, tools and resources. Our sickness absence level, at 4.8 days per employee, continued to be below the national average reported by the ONS in April 2023 (5.7 days per employee)
- to develop our project and programme management skills to enable effective delivery and strategic oversight of the workplan

We now work in a hybrid way, making best use of working in our office and remotely. We worked flexibly before the pandemic and see this as a natural evolution of this previous approach, supported by improved technology. This has also allowed us to work more efficiently: for example, carrying out more frequent meetings remotely, avoiding unnecessary travel time and reducing travel costs. Our staff have also benefited from flexing how and where they work, enabling enhanced work-life balance and greater autonomy. Our office remains an important focus for much of our work, providing an environment that encourages collaboration and helps us provide training and development opportunities.

Our approach to resourcing

We refreshed our approach to attracting new talent and reduced the time from opening a vacancy to offering someone a role. While many of the high calibre candidates we interview have job offers from a variety of employers, our roles provide an opportunity for candidates to use their skills and capabilities to make a real difference to society. We've improved how we use technology to reach a broader candidate pool, and we've demonstrated that our roles offer a sense of purpose combined with challenging, exciting and inclusive careers.

In 2022/23, our goal was to reach our operating target of around 138 people. This comprised a mix of permanent and flexible posts, so that we could maintain the right combination of specialist knowledge and skills for an efficient operating model. We appointed 45 new joiners: four from the Financial Conduct Authority (FCA) and 41 external appointments. We've also continued to develop our internal talent, promoting 24 people across all divisions and at all levels – equating to 21% of the organisation (this included three promotions into acting-up opportunities).

It's unsurprising, however, that the buoyant UK job market impacted retention. Our people develop highly sought-after payments sector skills and capabilities. Some naturally reached the point in their own development where it made sense to look for their next challenge externally. Of the 26 leavers last year, six joined the FCA, two were on fixed-term contracts which ended and two were secondees who returned to their home employers (the FCA and the Home Office). The historically low level of attrition in 2021/22 (7%) also had an impact: some people who decided not to move during the first years of the pandemic moved last year. As a result, our turnover increased significantly to 20.5%. We're now seeing this trend slow down, and our retention levels are improving. The average length of service for those who left last year remains strong at just over four years.

Career development

We continue to develop a team of focused, dedicated people whose goal is to deliver our ambitious work programme. To do this, we strongly encourage a culture of continuous development, offering a range of learning opportunities to help our people achieve their full professional and personal potential. Regular development conversations help to ensure that we're focused on performance against agreed objectives, and interim discussions are used to take stock of progress. Performance and talent reviews provide feedback and time to reflect on progress against career aspirations.

Our extensive learning curriculum provides exposure to a wide range of subject matter, supporting the development of specialist payments knowledge and building skills and experience across a range of vital areas. We offer classroom learning as well as access to award-winning online training, with a digital library of over 8,000 courses covering a wide range of topics including leadership and management, data science, business analysis and strategy, project management and software skills.

In addition to training, development, mentoring and coaching, we work closely with other regulators and a variety of external parties to provide development opportunities and share knowledge and experience. During 2022/23, we supported three colleagues who were seconded to the FCA (2) and the CMA (1). We also welcomed five secondees into the PSR from the FCA (3), Home Office (1) and Ofcom (1).

Diversity, equality and inclusion

We're committed to building and sustaining a diverse, equitable and inclusive workplace where people can bring their whole selves to work. It is also important that our staff represent the people and organisations that we serve. We monitor and review our people practices to ensure that we consider all protected characteristics in our decisions, as well as in relation to diversity of experience, working styles and background.

Last year we further developed our relationships with organisations that help us advertise our vacancies to candidates from diverse backgrounds. As a result, we successfully broadened our candidate pool and continued to meet our targets for building and maintaining a diverse workforce. As a small organisation, our target is to maintain a balance of 50% women in the leadership team, with a variance factor of plus or minus 10%, and to continue to develop a balanced pipeline of talent. This is a broad range as, due to the size of our organisation, just one or two joiners or leavers can have a significant impact on our gender and minority ethnic representation. This year we met this target as 60% of the PSR Executive and our Extended Leadership Team (ELT) are women. We are also committed to achieving at least 8 to 15% minority ethnic representation across our combined Executive and ELT by the end of 2025. Currently, minority ethnic representation across our combined Executive and ELT is at 8%, slightly down from 10% last year, while representation across the organisation has increased to 22.8%, from 20% last year.

We're proud signatories of the Women in Finance Charter, and meet our targets for gender and ethnicity; we hold the Level 2 Carer Confident accreditation from Carers UK; and we signed the Social Mobility Pledge in June 2020. We're committed to interviewing all disabled applicants who apply under the Disability Confidence Scheme and meet the minimum criteria for a vacancy, and we ensure that our hiring managers, interviewers and resourcing professionals are all appropriately trained.

We treat all documentation and information relating to candidates as confidential and handle it in accordance with the Data Protection Act 2018. Throughout the year, working with our employee-led networks, we encouraged our people to challenge and express their opinions to raise awareness and build an open and inclusive workplace. We delivered around 20 thought-provoking and engaging discussion sessions, led by internal and external speakers, on topics which ranged across all protected characteristics including gender, ethnicity, LGBT+, mental health, neurodiversity and religion.

We appreciate and understand different experiences, interests and values. Our goal is to continue to maintain gender balance and develop a balanced pipeline of talent in terms of gender and ethnicity.

We're committed to diversity and equality in our organisation so, in the interests of transparency we voluntarily report our gender and minority ethnic figures. However, our total staff population is less than half the number of employees (250) required to make gender and minority ethnic pay reporting mandatory. This means the calculations can vary significantly with small changes in the population and each year of reporting can (and does) show considerable movements.

Our pay and bonus gap data – April 2022 to March 2023

The gender pay gap is the difference between the average pay of men and women in an organisation. Any employer with 250 or more employees on a specific date each year must report their gender pay gap data. We have opted to report on both gender and ethnicity, even though we are below the 250-employee threshold.

Our pay and bonus gaps are measured on a median and mean basis as at 31 March 2023. Our latest figures compared to last year are shown in Table 1.

Table 1: Pay and bonus gaps

		Median		Mean	
		2023	2022	2023	2022
Gender	Pay gap	9.0%	6.3%	0.5%	-0.9%
	Bonus gap	32.6%	0.0%	13.0%	-10.3%
Ethnicity	Pay gap	25.8%	10.4%	26.7%	20.3%
	Bonus gap	-45.7%	0.0%	-43.0%	-10.3%

Key changes this year:

- There was a small increase in the median gender pay gap to 9%.
- The mean gender pay gap now favours men, but the gap is very small at 0.5%.
- The ethnicity pay gap increased significantly at both the median and mean calculations due to the distribution of colleagues in different roles and grade levels within the organisation. We are addressing this through our talent pipeline.
- In April 2022, our gender bonus pay gap favoured men. Both median and mean ethnicity bonus pay gaps significantly favour minority ethnic employees.

Movements in our pay and bonus gaps

Our pay and bonus gaps are still predominantly due to imbalances in the distribution of colleagues in different roles and grades. As we have discontinued our bonus scheme, the bonus gap we report on here, covering the reporting period from 1 April 2022 to 31 March 2023, will be the last bonus gap we report. The last awards were paid in April 2022 for the performance year 2021/22. Bonuses were paid to those who performed at the strongest level, receiving 4 or 5 in their performance reviews. The amounts paid were based on a fixed percentage for each job level. We now offer performance-related pay, based on performance over the previous 12 months.

We remain absolutely committed to recruiting, developing and retaining diverse talent across the organisation.

Gender pay gaps

While there are more women in the higher quartile (52%) than men, in 2023 the overall median gender pay gap has increased slightly by 2.7%. However, the mean gender pay gap is not significant, at 0.5%.

Despite the distribution of women in the higher pay bands, our median gender pay gap has increased by 2.7 percentage points to 9.0%.

The mean bonus payment awarded to women in April 2022 was 13% lower than that awarded to men, and the median difference increased to 32.6% from zero in 2021/22.

Ethnicity pay gaps

As we increased our headcount in 2022/23, we recruited more people into roles in the lower quartile of our pay range. This has led to an increased proportion of minority ethnic employees in the lower quartile (46%) in 2023 compared to 2022 (18%). The ethnicity median pay gap has increased by 15.4% and the mean increased by 6.4% in favour of white employees. The proportion of minority ethnic employees in the higher quartile has also reduced from 11% in 2022 to 8% in 2023.

The higher distribution of minority ethnic employees in the lower pay bands has contributed to higher ethnicity pay gaps at both the median and the mean calculations. We continue to develop our pipeline of minority ethnic employees by ensuring that everyone has clear objectives linked to our Strategy and their role, with a clear development plan. As our population becomes more evenly distributed, this pay gap will start to reduce.

The significant median and mean ethnicity bonus gaps in favour of minority ethnic employees are both driven by the very small dataset.

In order to nurture our talent pipeline and future leaders, our talent review ensures that we have clear succession and development plans in place, leadership development opportunities, on-the-job training, learning resources and coaching to enable our employees to develop the skills that will empower them to deliver high performance and be at their best. Our aim is to continue to develop diverse teams capable of delivering our exciting work, and reflecting the society we're part of.

Social mobility

We're committed signatories to the Social Mobility Pledge. We partnered with the FCA to offer local students a structured work experience programme that introduced them to the world of work. We've introduced our first apprentice into our Enforcement team with plans for more in the future. We have open and transparent recruitment practices to ensure that we provide a level playing field, encouraging applications from candidates from all backgrounds and circumstances.

Corporate responsibility

Good corporate citizenship and corporate responsibility are core to our identity as a diverse and open employer and as a regulator. We will not tolerate slavery or human trafficking in our business or supply chains. We're committed to continually improving our policies and practices to play our part in fighting against slavery and human trafficking and protecting human rights. We continue to be a Living Wage Employer. We have a strong commitment to diversity, equality and inclusion. Through our various policies and procedures and an extensive range of wellbeing offerings, we aim to ensure that we create a safe and inclusive working environment for our staff.

How we engage with our stakeholders

Effective engagement with our stakeholders allows us to understand better the issues that we should be working on, speeds up the development of policy options and helps to make sure that any action we take works well to improve outcomes. It's key to how we operate effectively as a regulator.

Reflecting this, we continued to develop and extend our engagement with stakeholders in 2022/23. In particular, we focused on improving how we engaged to support our key projects. Engagement is now much better embedded in our ways of working and, as a result, we're more visible and better able to listen and learn.

Effective face-to-face engagement is incredibly important to us. We actively seek opportunities to engage with the wide variety of people, firms and businesses who are interested in our work. This engagement happens across our organisation, and we encourage all of our staff to speak directly with our stakeholders. A good example of this was our recent annual plan event.

Our Executive leadership team has continued to explore further opportunities to join discussions and panels that help shape the future of payments.

In total, we participated in 52 events, delivering speeches and contributing to panel discussions on a range of subjects for diverse groups of stakeholders. We organised and hosted a further 13 other events, including roundtable discussions with industry and other stakeholders, our annual plan launch, and a jointly organised UK Regulators Network (UKRN) event in the Houses of Parliament.

This year alone, on authorised push payment (APP) scams we ran over 25 workshops and engagement sessions around the launch of the consultation. This included engaging with consumer groups and hosting a lived-experience session in Birmingham to hear views on our plans to protect people against APP fraud. On our scheme and processing fees market review we held six roundtables and published working papers, and supported discussion and debate with our stakeholders.

We support our discussions with stakeholders with a range of other forms of communication. We publish a wide range of content on our website, including news and thought pieces, send email updates, give speeches, issue press announcements, and produce videos to help explain our work. All our publications and updates are also shared with stakeholders on social media.

We also find opportunities to reach out to new audiences and those interested in our work, conscious that our work has an impact on everyone, right across the country – from small, local merchants, to banks, building societies and technology providers, and individuals making and receiving payments every day. To get this first-hand understanding we visited Belfast, Harrogate and Birmingham to hear from consumers, trade organisations, merchants and fintechs. We have also started new approaches to engagement, including future-focused discussions and roundtables, to help inform our work.

We've gained valuable insight throughout the year into the thinking of the organisations we regulate and the people and businesses who use payment systems by engaging with the PSR Panel (see page 161).


PSR
What's on the horizon
Natalie Timan, Head of Strategy and Intelligence
Tony Craddock, The Payments Association
Nilixa Devlukia, Open Finance Association
Mike Chambers, Northey Point

Stakeholder perceptions

To help us improve how we engage with our stakeholders, each year we conduct a stakeholder perceptions survey to gather views on the current state of the payments industry, and on our own objectives and role as a regulator.

Last year, stakeholders told us they wanted us to:

- address the balance between the larger and smaller players in the industry
- understand the needs and challenges of smaller players and how they will be affected by regulatory change
- explain what we see as the key issues in the industry, how we will address them, and our expectations on industry to implement change
- provide more information explaining how we arrive at our conclusions to take the action we do

To support our work, we met a broad range of stakeholders in 2022/23, including small and medium-sized enterprises (SMEs), communities and individual people who have a particular interest in certain areas of our work. Along with the feedback we receive on consultations, these further engagements give us the opportunity to hear about how different groups respond to our proposals. We take this into consideration when considering whether we need to adjust our regulatory approach.

We're very aware of changing attitudes to payments and the different considerations affecting various types of organisation. Our engagement included talking with smaller companies, such as fintech innovators, about the future of regulation in digital payments and how we can interact with them.

Consumers

We also commissioned research with consumers to understand how they think about and use payment systems. We run this consumer research every other year, with research on SMEs every alternate year.

The independent survey, carried out between December 2022 and January 2023, gathered quantitative and qualitative data on consumers and their interaction with payment systems.

The research was designed to help us:

- explore consumers' use, perceptions, expectations and needs in relation to payments
- understand any challenges or issues consumers face in relation to payments
- identify what consumers expect from the future of payments
- explore consumers' understanding and views of our work – for example, on account-to-account payments, Confirmation of Payee, and APP scams

This research found that consumers continue to view payments as facilitating access to goods and services, rather than focusing on payment systems in themselves. They're also more likely to think about the context in which they're making a payment – for example, referencing 'paying by an app' – rather than the specific payment system they use.

In line with previous research, it was clear that the most common and preferred payment methods (Direct Debit or standing order, contactless card payments and cash) remain consistent. However, there were some notable increases in the claimed use of contactless mobile payments, which has risen significantly since 2020. There is an associated dip in claimed use of chip and PIN and remote card payments – a pattern which holds true across all age groups.

Despite expressing preferences around payment methods, consumers are influenced by external factors. People who changed their payment behaviours during the pandemic are more likely to have stuck with their new behaviour, rather than abandoning it. It was also evident that most consumers let retailer preferences influence their payment choices.

Consumers continue to prioritise ease, speed and security when they think about payments. However, protection and budgeting are becoming increasingly important to them. People's views on which payment systems best fulfil these key criteria vary, depending on how confident they are with technology.

Our research shows that, overall, consumers believe payments are working well and problems are relatively rare. People who have experienced problems report IT failure and fraud most frequently, with fraud being a particularly emotive subject. While access to cash is less front-of-mind, there is resistance to the idea of a cashless society.

The concept of account-to-account payments is relatively unknown. Consumers may need encouragement to try these types of payments, as well as some reassurance around security.

Consumers' key priorities for the future of payment systems relate to protection if something goes wrong, and to action on fraud and scams.

We continue to listen to views from consumers as we shape our work programme, to make sure we are delivering positive outcomes for everyone.

Working with other authorities

We're an established regulator leading significant areas of work with outcomes that have a significant impact on the way the UK economy operates.

To do our work effectively we often collaborate and coordinate across different organisations and regulators, and with government. Given our role, we work particularly closely with the other UK financial regulators – the Bank of England, the Prudential Regulation Authority (PRA) and, in particular, the Financial Conduct Authority (FCA). This cooperation is backed by provisions in statute.

Figure 2 shows each authority's key projects and responsibilities, and the areas where we work together.

Figure 2: How our work fits in with other authorities – key projects and responsibilities

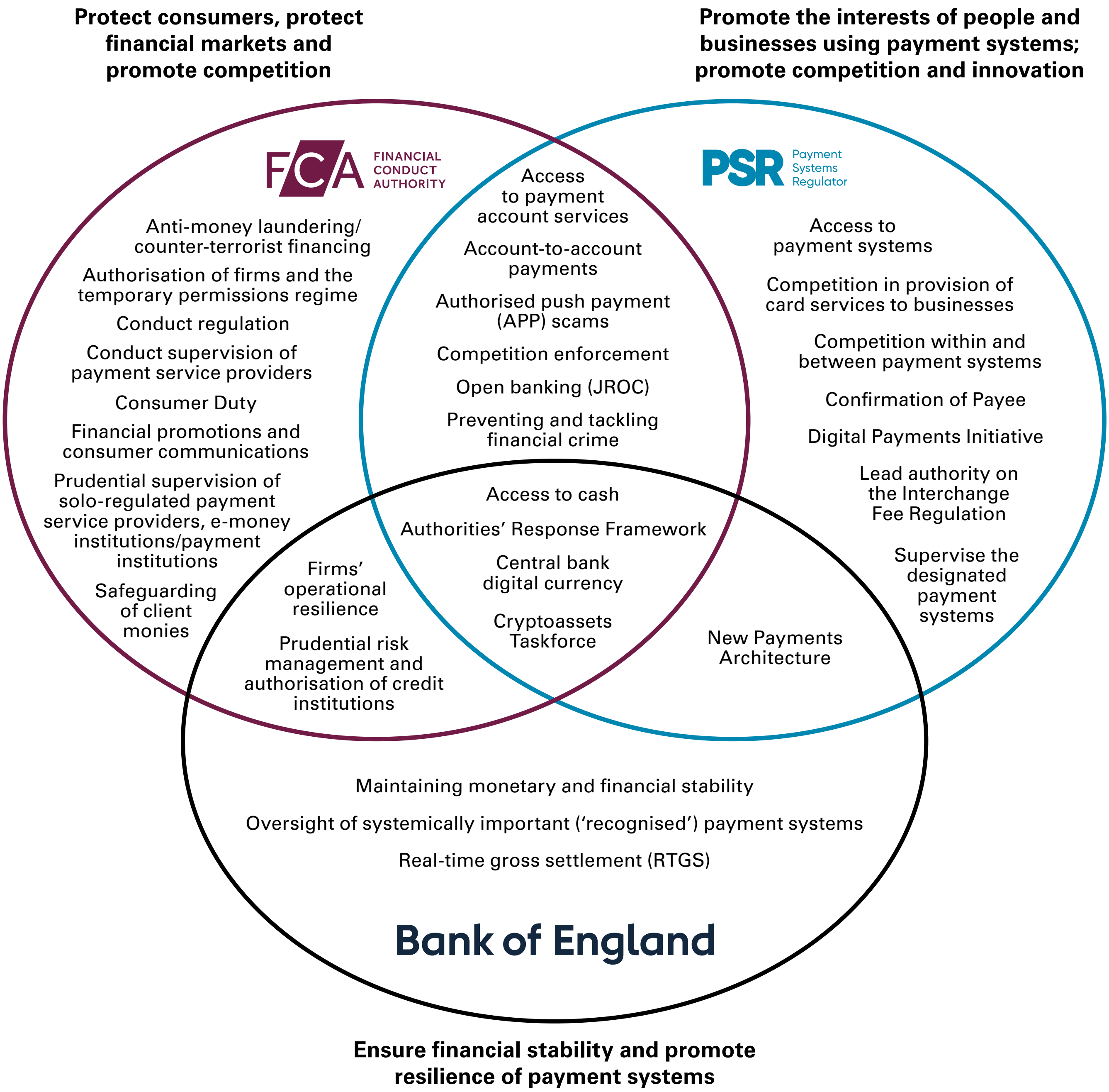


Table 2: Top-level objectives for payments authorities

	FCA Financial Conduct Authority	PSR Payment Systems Regulator	Bank of England
Objectives	Protect consumers, protect financial markets and promote competition.	Promote the interests of people and businesses using payment systems; promote competition and innovation.	Ensure financial stability and promote resilience of payment systems.
Activity related to payments	Regulating conduct in financial services, including authorising and supervising payment service providers, and related enforcement. Regulated firms include payment institutions, such as money remitters and non-bank credit card issuers, and e-money institutions.	Promoting the interests of the people and businesses that make and receive payments, using our economic regulation and competition powers. Key elements are protecting existing competition and identifying ways to enable and create more competition and innovation across the systems we regulate.	Supervising payment systems, service providers and their users; delivering settlement and trustee functions, operating the RTGS and CHAPS systems, regulating the resolution of firms; issuing notes; regulating the safety and soundness of firms; aiming to ensure critical services are continued in the event of financial failure. The Prudential Regulation Authority, a subsidiary of the Bank, has a secondary competition objective.

Over the last year, we have continued to work closely with the FCA on the wider reforms to the provision of access to cash. This is an area where the FCA is increasing its role (backed by new powers in the Financial Services and Markets Act 2023), and the PSR has increasingly focused on the regulation of the LINK cash machine network and how this will support the FCA's expanded role. This flexible approach to resourcing between the two organisations is a good example of how we deliver efficiently on areas of common interest and responsibility.

We've continued to collaborate closely on our work to tackle authorised push payment fraud. Our proposals to introduce new rules into the payment system, and to increase transparency, sit alongside and complement the FCA's work to improve how individual payment firms manage the risks of fraud. Indeed, we collected and shared information with the FCA to help inform that supervisory activity. We also jointly hosted the Authorised Push Payment Scam TechSprint.

A new focus for collaboration and joint working has been on open banking. The PSR and FCA jointly chair the Joint Regulatory Oversight Committee, which is tasked with realising the opportunities that open banking presents both to payments and, more generally, across financial services.

We continue to work closely with the Bank of England on the regulation of the designated payment systems, where the PSR's role of focusing on user protection, competition and innovation complements the Bank of England's role to protect the resilience of these systems and financial stability.

More generally, we regularly engage with the Bank of England, the PRA and the FCA about payment system participants, and their regulation. We also provide input into the twice-yearly Regulatory Initiatives Grid (RIG) in respect of our payments regulation. This work also helps us all monitor developments among the regulators and identifies areas of common interest and joint working.

We have a statutory Memorandum of Understanding (MoU) with other UK financial services regulators (the FCA, the PRA and the Bank of England), which describes:

- the role of each authority in relation to matters of common regulatory interest
- how we intend to cooperate

The memorandum is reviewed by 31 December each year. In 2022, the Bank and PSR wrote to dual-regulated firms asking for feedback on our cooperation with respect to payment system regulation. The feedback we received helped us inform the findings of the 2022 MoU review and our approach for this year's review. A summary statement on the review has been published on each regulator's website.

During the last year, we've also continued to engage regularly with the Competition and Markets Authority and other sector regulators in the UK Competition Network, sharing specialist knowledge and insights to help us all identify and pursue competition cases.

We are members of, and take an active role in, the UK Regulators Network (UKRN), which allows relevant bodies to pool their experience, identify best practice and work together where appropriate. In particular, we have provided input across the UKRN networks and their collaborative work on vulnerable customers, economic regulation and sharing regulatory best practice. We also contributed to UKRN work fostering stakeholder engagement and delivering the UKRN joint parliamentary event in November 2022. In January 2023, Chris Hemsley was appointed as Chief Executive Officer of the UKRN (a part-time and unpaid role that is rotated among the members of the UKRN), further supporting the links between the UKRN, its members and the PSR.

We also cooperate with the European Commission Directorate-General for Competition and with EU national competent authorities in relation to our ongoing IFR monitoring work.

Whistleblowing

The PSR is a Prescribed Person as defined in The Public Interest Disclosure (Prescribed Persons) Order 2014. It is prescribed to accept and act upon concerns about payment systems and the services provided by them ('disclosures of information').

We have processes in place to handle any whistleblowing enquiries or declarations we receive. This enables us to fulfil our duties as a Prescribed Person, and our statutory duties to promote effective competition, innovation and the interests of people and organisations that use payment systems. Under our provision of services agreement with the FCA, the FCA's Whistleblowing team undertakes the administration of any whistleblowing cases directed to or relevant to the PSR. The PSR is the decision-maker on cases relating to its statutory remit.

The Prescribed Persons (Reports on Disclosures of Information) Regulations 2017 requires us to produce an annual report on the disclosures that we've received. Regulation 5 of the 2017 Regulations stipulates that the report must contain:

(a) the number of workers' disclosures received that were reasonably believed to be:

(i) qualifying disclosures within the meaning of section 43B of the Employment Rights Act 1996; and

(ii) which fall within the matters in respect of which the PSR is prescribed;

(b) the number of those disclosures in relation to which the PSR decided to take further action;

(c) a summary of:

(i) the action that the PSR has taken in respect of the workers' disclosures; and

(ii) how workers' disclosures have impacted on the ability of the PSR to perform its functions and meet its objectives;

(d) an explanation of the functions and objectives of the PSR.

In the current reporting period (1 April 2022 to 31 March 2023), we have the following to report:

(a) (i) We received four disclosures of information for assessment as a potentially qualifying disclosure. We treated all of them as qualifying disclosures from workers that fell within our remit as a Prescribed Person.

(a) (ii) Two of these disclosures fell within matters in respect of which the PSR is prescribed.

(c) (i) The disclosure related to a PSR project that was already under way.

(c) (ii) The disclosure helped the PSR to be more targeted in its information gathering.

An explanation of our functions and objectives (Regulation 5 (d)) can be found in *Our statutory objectives* on page 14 and *Using our enforcement powers* on page 92.

Further information about the PSR and whistleblowing can be found at www.psr.org.uk/psr-approach-to-whistleblowing/.

Our fees

We're funded by fees from participants in the payment systems. We allocate fees to participants depending on the volume and value of payment transactions that they process.

This is based on a weighted methodology of 80% volume and 20% value of qualifying transactions. This helps ensure our fees are collected and allocated in a simple, proportionate and sustainable way. We collected our 2022/23 fees using this method.

For 2023/24, we have introduced:

- an exemption for those who pay us under £100 year; they will no longer receive a fee invoice
- a special project fee for work in relation to the designation of new payment systems, or for regulatory work arising from that designation, with effect from 28 April 2023

We'll charge this new special project fee for the first time in 2023/24. These changes should be regarded as an interim step, pending a wider review of our fees structure in due course. This review may revisit a broader special project fee mechanism.

Our Financial Penalty Scheme

If we impose financial penalties resulting from our enforcement action pursuant to the Financial Services (Banking Reform) Act 2013 (FSBRA) or the IFR, we pay the money we receive to the Treasury after deducting and retaining our chargeable enforcement costs. We use this retained amount to reduce the regulatory fees we collect from firms that were not liable to pay a penalty.

We issued two IFR enforcement penalties in the reporting period 2022/23, fining Barclays £8.4 million and NatWest £1.8 million, and we retained our chargeable enforcement costs from these fines to reduce the regulatory fees for 2023/24. We didn't issue any FSBRA enforcement penalties in the reporting period 2022/23.

This is different from enforcement action we undertake, and any associated penalties, under the Competition Act 1998, where we're required to pass the money from penalties on to the Treasury without deducting our enforcement costs.

The Business Impact Target

Under the Small Business, Enterprise and Employment Act 2015 (as amended by the Enterprise Act 2016), we must report on our performance against the Business Impact Target (BIT). The BIT is the government's target for the economic impact on businesses of measures that fall within the definition of a qualifying regulatory provision (QRP).

We submitted our return for the parliamentary year in December 2022. We had one QRP: Specific Direction 17 (SD17) on Confirmation of Payee (see page 42). The Independent Regulatory Policy Committee validated our BIT assessment of SD17, including the BIT score of £55.5 million. The Department for Business, Energy & Industrial Strategy published its 2021/22 BIT report on 16 January 2023.


A5
A3
A1
Saturday

Risks and uncertainties facing the PSR

In common with any other regulator, we regulate in the context of a changing sector. Reflecting this, we face a range of risks which may affect our ability to deliver against our statutory objectives, or which may affect the way in which we undertake our work.

In considering risk, we consider internal risks (which affect our operational capability and project delivery) and external risks (which typically relate to events that might happen that directly or indirectly affect outcomes in payments). We monitor and manage risks and also identify opportunities we can take to further our statutory objectives – to protect the interests of people and businesses and to promote effective competition and innovation in payments.

Internal controls

Our internal control framework is an important part of our governance arrangements and helps us manage risks to our statutory objectives. However, no framework can provide absolute assurance or eliminate all risk; we aim to prudently manage the risks that are a necessary part of our functions. Our internal control framework includes these key features:

- We've adopted and applied the Senior Managers Regime (SMR), which describes our governance and control structure and clearly assigns responsibilities.
- The board provides leadership within a framework of prudent and effective controls which enables it to assess and manage risk. To date, the board has fulfilled risk committee responsibilities but is now instigating a separate risk committee during 2023 to oversee the identification and mitigation of risk and advise the board accordingly.
- The Audit Committee is responsible for reviewing and providing assurance to the board on matters including the effectiveness of our internal controls, the internal risk management framework and mitigation strategies, the integrity of the financial statements in the annual accounts and the statements that relate to financial controls and internal risk.
- Our risk management framework is designed to enable us to focus on potential risks and identify opportunities to deliver on our strategic outcomes. We monitor and mitigate against risks which might affect our operational environment or performance – for example, financial risks such as credit risk, cash flow risk and liquidity. We also regularly review the effectiveness of financial policies, procedures and activities, including segregation of duties and delegations of financial authority.
- The Chief Risk Officer (CRO) has historically provided an enterprise-level biannual risk report to the board with a view of the key risks we face, along with an assessment of our ability and appetite to manage them.
- Key project risks and mitigations are highlighted in management reports, which are reviewed and discussed at Steering Committees and monthly Prioritisation Group meetings. Our Executive Committee reports its views to the Audit Committee as appropriate.
- We have a provision of services agreement with the Financial Conduct Authority (FCA). Among other services provided, its Internal Audit division provides us with independent assurance on the effectiveness of our processes, projects and controls. This assurance activity is delivered through a three-year strategic audit plan. Findings from Internal Audit's reports are discussed at the Audit Committee.
- We have controls in place around approvals for spend, monitoring of budget and reporting of progress against budget to ensure that we are:
  - prioritising spend against our priorities
  - able to react to new demands
  - spending economically and effectively

Internal risks

We're committed to ensuring that we are robustly structured and that we allocate our resources against the right priorities. We've invested both in assessing our target operating model (TOM) and in recruitment to reduce key operational risks. We've continued to learn lessons from delivery of our projects, and we remain focused on optimisation.

The main risks we face arising from our operating environment are outlined below:

Table 3: Internal risks

Title	Description	Key mitigations
People	The risk of not having sufficient capacity to deliver our work programme or not having the necessary skills to effectively deliver against our Strategy and priorities	We continue to mitigate these risks as part of our people strategy. This risk has reduced over the last year as a result of sustained successful recruitment. However, challenges remain in the recruitment market. Our ability to compete, attract and retain good-quality candidates, especially when looking for specialist skills, remains an area of focus. For 2022/23 we developed our internal talent, promoting 24 people across all divisions. We reduced the time from opening a vacancy to offering a role and we've improved our use of technology to reach a broader candidate pool.
Execution	The risk of not delivering against our regulatory objectives if we fail to deliver our work programme as planned. This may mean we've failed to reduce or prevent harm where we should have been able to.	We mitigated this risk through our improved use of data and better prioritising our workplan against our Strategy. Our projects are tightly managed and scrutinised through steering committees and corporate governance. Our Prioritisation Group enabled flexibility through the year so that we could react to emerging issues and reprioritise when necessary, and so continue to meet our objectives. Some risk remains with a dependence on external engagement and responses needed by many of our projects.
Public confidence	The risk that public confidence in us could diminish, reducing our ability to deliver against our objectives or influence key stakeholders.	Our work on areas such as APP scams and Confirmation of Payee (CoP) evidence-enhanced public confidence. Our stakeholder engagement strategy helps us manage and reduce this risk. Our engagement activity broadly falls into three camps: tell, listen and collaborate.

Title	Description	Key mitigations
Litigation and challenge	There is a risk that our resources could be diverted to managing potential legal challenges and defending our decisions rather than achieving our intended priorities and outcomes.	As we continue to tackle more complex areas of the payments market, this risk increases. To mitigate this risk, we engage with industry as our policies develop to explain our thinking, gauge reactions and listen to suggestions. Our internal governance and controls also allow us to respond to changing demands across the workplan through effective prioritisation of our resources.
Strategy – regulatory reform	We face a risk that we will need more resources than we currently anticipate to implement the new requirements of the Financial Services and Markets Act 2023 (FSMA 2023).	The FSMA 2023 seeks to make wide-ranging changes to the regulation of financial services in the UK. We have already made plans for this work and we maintain an agile approach to resourcing through our Prioritisation Group.
Target operating model (TOM)	There is some risk around the amount of leadership time that will be required to ensure the desired outcomes of the new division are achieved.	We've reviewed our TOM to enable us to work more effectively through improved organisational design. Through the last year, our Strategy and Intelligence division has become embedded within the organisation. We're introducing a new Supervision and Compliance Monitoring division with new senior leadership. This will develop and implement a supervisory strategy for our regulated community and take action to discourage non-compliance with statutory and regulatory requirements.
Key supplier (FCA service provision)	There is a risk that the operational services delivered by the FCA are inappropriate for the PSR.	The FCA provides the majority of our operational services through a provision of services agreement. To mitigate this risk and ensure that any issues or risks are raised early, we have a comprehensive relationship management system in place covering all aspects of the agreement. However, the risk remains that internal operational risks and events affecting the FCA could also have an impact on our operational effectiveness.

External risks

Our Strategy sets out where we want UK payments to go. It shows our response to our view of UK payments and the outcomes we want to see, and this annual report outlines what each of our projects has done to help realise this vision. These projects are a response to the risks that we have identified previously and outlined in our Strategy. Table 4 explains the most material of these risks, and what we've done to mitigate them.

Table 4: External risks

Title	Description	Key mitigations
Accessibility of payments to end users	There is a risk that payments end users cannot access payments that meet their needs, with the decline of cash use in the UK and increasing digital payments leading to some groups being excluded or facing higher costs for making or accepting payments.	Our work regulating the LINK ATM network continues to make sure no one gets left behind as digital payments become more popular than cash. This includes working with other regulators, authorities and industry to make sure there is good access for those who want to use it (see *ATM Network Regulation* on page 60). Our digital payments work is making sure more people and businesses have effective digital payment options. We're examining how we can remove the barriers to new digital payment services, so that people who currently rely on cash have more options to choose from (see *Digital payments* on page 68).

Title	Description	Key mitigations
Payment system end users are insufficiently protected	There is a risk that payment system end users are exposed to fraud when they use payment systems, or may be insufficiently supported when something goes wrong with a payment – leading to losses for users.	It remains important that people have confidence and trust in payment systems. We can maintain this confidence by working towards enhanced safety and security. And by promoting competition between payment systems, we can look to greater substitutability between payment systems, enhancing overall resilience. We work alongside the Bank of England, the Prudential Regulation Authority and the FCA, and each authority has a role in safety, security and resilience for payments in the UK. We have a specific duty to ensure that the systems we regulate are operated and developed in a way that promotes the interests of those that use them. We continue to work closely with those authorities in order to achieve that objective. We're taking action to address authorised push payment (APP) scams, including three measures to help prevent APP scams and protect victims (see *Authorised push payment scams* on page 34). We directed PSPs to implement Confirmation of Payee, which helps prevent fraud and accidentally misdirected payments – increasing its scope to nearly all Faster Payments transactions (see *Confirmation of Payee* on page 42). As we consider how account-to-account payments can offer a strong alternative payment method, we identified the need for a dispute process, to help ensure that any account-to-account payment option protects people and businesses if something goes wrong (see *Account-to-account payments* on page 46).

Title	Description	Key mitigations
Lack of competition between and within payment systems	There is a risk that payment systems do not compete with one another or that they do not enable competition within the system, leading to higher prices or poorer services for end users.	The risk of a lack of competition between payment systems was highlighted extensively in our Strategy. We're looking to promote competition between payment systems, primarily through our work on account-to-account payments (see *Account-to-account payments* on page 46). Our card fees work is looking at whether recent rises in certain card fees indicate thatv this part of the payments ecosystem is not working sufficiently well for users. If necessary, we will take action to address harms and promote effective competition (see *Card fees* on page 50). Our card-acquiring market review identified three features that restricted merchants' willingness and ability to search and switch providers. Our current work is making it easier for smaller merchants to get a good deal for the services they need by making it easier for them to shop around, compare services and switch contracts (see *Card-acquiring market review* on page 72).
Payment systems are inefficient and/or not commercially sustainable	There is a risk that, due to the inherent features of payment systems and/or their ownership, they are operated in ways that do not promote efficiency. In addition, there is a risk that, without regulatory intervention, arrangements might not be put in place that support efficiency and appropriate commercial sustainability for participants.	We are increasing our supervisory activity in respect of the designated payment systems, including by creating a new Supervision and Compliance Monitoring division. Alongside the Bank of England, we're monitoring Pay.UK's work throughout the development of the NPA. Together we're working to ensure that the NPA is resilient and takes account of and promotes good outcomes for all users. We'll also continue to consider whether we need to use our powers, both in the short and long term, to ensure it delivers the intended long-term benefits. The tender process increases the likelihood that the infrastructure is provided at an efficient cost, while the PSR's oversight includes consideration of the impact of pricing of access to the NPA for the commercial sustainability of participants (see *The New Payments Architecture* on page 54). Our account-to-account payments work includes a focus on establishing a sustainable commercial model for these payments, including for new forms of open banking payment (see *Account-to-account payments* on page 46).

Emerging issues

We live in an era of rapid change and considerable uncertainty. Many factors influence UK payments. These range from changes to the systems themselves, to developments in wider UK payments, international payments, changes to technology outside payments, geopolitics, and wider external factors. Each create their own risks and opportunities for us.

We carry out horizon scanning on a continuous basis, using intelligence gathered from multiple sources to identify possible future events that may create risks, issues or opportunities to the PSR's objectives and its Strategy. Our sector intelligence and analysis work is a key part of this (see *Sector intelligence and analysis* on page 88). We're currently examining a range of early-stage issues, including the digital pound and a number of potential mergers and acquisitions. We continue to consider the impact of wider technological developments on payments to identify new risks and opportunities. Our work on cryptoassets, stablecoins and central bank digital currencies is supporting our assessment of these risks and opportunities (see *Cryptoassets, stablecoins and central bank digital currencies* on page 78). We continue to keep issues highlighted in our Strategy, such as environmental issues, use of data and cross-border payments, under review.

Statement on section 172(1) of the Companies Act 2006

The board holds the executive accountable for the day-to-day operations of the PSR. It takes decisions and acts in a way that ensures that we advance, where relevant, our statutory objectives of ensuring payment systems are operated and developed in a way that takes account of and promotes the interests of service users, promoting effective competition in the market and the development of, and innovation in, payment systems.

Section 172(1) of the Companies Act 2006 requires the board to act in a way that it considers will promote the success of the company. The board must take account of:

a. the likely consequences of any decision in the long term
b. the interests of the company's employees
c. the need to foster the company's business relationships with suppliers, customers and others
d. the impact of the company's operations on the community and the environment
e. the desirability of the company maintaining a reputation for high standards of business conduct
f. the need to act fairly as between members of the company

Under the Companies Act 2006, we must make a section 172(1) statement in our annual report explaining how the board has regard to the above matters in promoting the success of the company.

We explain in more detail below how the board considered the above matters under section 172(1). This includes the engagement the board had with stakeholders during the year, and how this helped us deliver better outcomes for payment system users.

The likely consequences of any decision in the long term

As an organisation, we play a critical role in ensuring payment systems work well for people, businesses and wider society. Guided by our five-year Strategy, the board makes decisions factoring in our strategic outcomes and priorities, as well as our statutory objectives of promoting competition, innovation and service users' interests. The board also considers feedback it hears from stakeholders – for example, through bilateral meetings – and from our project teams.

We prioritised the projects in our work programme for 2022/23 to further these long-term aims and objectives. Details of these projects can be found in the strategic report.

We've further developed our approach to cost benefit analysis (CBA). A CBA framework helps ensure that we make effective, informed, evidence-based decisions by assessing the economic impact of our proposed regulatory interventions.

The interests of the company's employees

Our employees are vital to our success as a regulator. We aim to create a diverse and inclusive workplace that's free from discrimination and bias so that our employees can perform at their best and we can better deliver as a regulator. We demonstrate our support for our staff in a number of ways:

- During the year, the board discussed matters including our employee survey, our diversity, gender and ethnicity pay gap data, succession planning, talent, and our culture.
- The health, safety and wellbeing of our people is paramount. We provide private medical insurance, an employee assistance programme which provides free practical information and counselling support 24 hours a day, seven days a week, GP services, health assessments, physiotherapy, occupational health services, early intervention services providing colleagues with support for managing sickness absence, and mental health support through our network of mental health first-aiders. We have a full schedule of wellbeing events throughout the year, aligned to our wellbeing strategy and national campaigns, to ensure that our people have access to relevant support and information to help identify health risks and to manage their wellbeing. We also monitor working patterns to ensure that we're proactively managing excessive working hours and any long-term sickness absence.
- We actively encourage membership of and engagement with the PSR/FCA employee networks.
- As a signatory of the Women in Finance Charter, we have published targets for maintaining gender balance, as well as minority ethnic targets, both of which we are exceeding.
- We're a signatory to the government's Disability Confident scheme, guaranteeing an interview to any candidates with a disability who meet the minimum criteria for a role.
- We hold Level 2 Carer Confident accreditation from Carers UK.
- We're a Living Wage employer.
- We've signed up to and are committed to the Social Mobility Pledge.

We build and develop multi-skilled teams, using a mix of flexible and permanent resources to help ensure we have the capability and skills to deliver our aims and objectives.

Providing and supporting career development is an essential part of our employee value proposition, not just to help us deliver our objectives but also to enable our staff to achieve their full potential in their current roles and to build capability for the future.

We have a Staff Consultative Committee (SCC) which has been elected by FCA and PSR employees to provide representation and support through companioning, formal consultations, and informal consultations and discussions on a wide range of topics. The SCC provides an important communication link between the Executive and employees and acts as a forum for discussion and consultation, although it doesn't have a formal negotiation role. The role and composition of the SCC is currently under review, with the FCA considering the best way to enhance employee engagement through its Colleague Voice initiative. We're providing input into this process to ensure the outcome reflects the way the PSR operates and supports its people.

See *Our people* (page 104) and *Our organisation* (page 102) for more details.

The need to foster the company's business relationships with suppliers, customers and others

We have a statutory duty to coordinate the exercise of our functions under the Financial Services (Banking Reform) Act 2013 (FSBRA) with the FCA, the Prudential Regulation Authority and the Bank of England. This includes consulting with them when we propose to exercise a function in a way that could have a material adverse effect on how they advance their objectives, and obtaining information and advice from them where appropriate. We and the other regulators maintain a Memorandum of Understanding (MoU) setting out our roles, common regulatory interest and how we need to cooperate in exercising relevant functions. We review the MoU each calendar year. As part of each review we look at how well the authorities meet the requirements of the MoU and whether there are opportunities to enhance collaboration and coordination between the authorities.

In ensuring that we continue to meet these requirements, the board maintains strong relationships with other domestic financial services regulators – for example, the FCA, the Bank of England, the Treasury and, more broadly, the UK Regulators Network (UKRN).

In December 2022, Chris Hemsley was announced as the new CEO of the UKRN (from January 2023). This enables sharing of knowledge of common issues, fostering links with the regulatory community and sharing cross-sectoral lessons learned.

We also work with other sector regulators and competition authorities – for example, through the UK Competition Network and European Competition Network – to ensure that we share experience and best practice on regulatory and competition matters.

The directors recognise that there are numerous external stakeholders that they must have regard to in their decision making. These include consumers, regulated and other businesses (for example, merchants, trade associations, payment system operators and payment service providers), the communities we operate in, community leaders and parliamentarians, international and domestic regulators, and our suppliers. By working to gain an understanding of the perceptions of each external stakeholder group and of the issues that matter to them, we can ensure that we deliver a high-quality service and provide appropriate protection to end users in a fast-changing world.

The directors also recognise that the views of our external stakeholder groups do not always align. In such circumstances, the directors decide on the most appropriate course of action to ensure we're delivering in the public interest.

See *How we engage with our stakeholders* (page 112), *Working with other authorities* (page 116), and *The Business Impact Target* (page 122) for more details.

To meet our objectives efficiently and effectively, we use FCA operational services (where appropriate) to drive value for money for fee payers. Through a provision of services agreement, we can take advantage of the scale, scope and established practices of the FCA (see *Business model* on page 142). Through the Audit Committee, there is oversight of PSR operational services.

The board delegates all matters relating to procurement and management of suppliers to the Managing Director and Chief Operating Officer. We work closely with the FCA and our suppliers to ensure service continuity and have accelerated payments of valid, undisputed invoices to support suppliers' cash flows. In alignment with the FCA, we buy responsibly, ensuring value-for-money criteria are met, and we adhere to the Ethical Procurement Policy. In addition, the behaviours and standards we expect from our suppliers are clearly set out in the Supplier Code of Conduct, which was updated in December 2022.

The impact of the company's operations on the community and the environment

Good corporate citizenship and corporate responsibility are important parts of our identity, both as an employer and as a regulator.

The board, together with our Executive, oversees our community engagement, diversity and inclusion, and sustainability strategies.

We actively contributed to our local community through volunteering programmes and our work with our nominated local charity, St Mungo's, for which we raised around £2,000.

Through our joint environmental strategy with the FCA, we're committed to running a sustainable operation that minimises our impact on the environment. We work closely with the FCA to enhance our sustainability effects which included the *FCA and PSR Net Zero Transition Plan (July 2023)* publication.

The FCA and PSR employee network Sustain, which is focused on sustainability issues, throughout the year organised webinars on environmental issues.

The building in Stratford that we share with the FCA was designed with sustainability in mind and was awarded the Building Research Establishment Environmental Assessment Method rating of excellence.

Read more about our environmental sustainability work in the FCA Annual Sustainability Report.

See *Our organisation* on page 102 for more details.

The desirability of the company maintaining a reputation for high standards of business conduct

The board is committed to attaining and maintaining high standards within the company. The PSR Values (integrity, unity, knowledge, purpose and engagement) define the behaviours that demonstrate what our organisation stands for. We use our Values as one of the key elements for assessment for recruitment (along with assessment against our core capabilities), and as part of our ongoing performance discussions. We also measure positive behaviours against our Values for our At Our Best recognition awards which reward significant achievements and positive impacts made by individuals and teams.

To ensure that our people are operating effectively and meet the high standards expected of them, new joiners are expected to complete mandatory learning within their first month, and all staff are expected to complete mandatory learning modules on a rolling 12-month basis. Completion is monitored to ensure all staff are fully compliant.

Conflicts of interest are also reported and monitored to ensure staff record potential conflicts and ensure that the decisions we make are free from conflict or improper influence. Effective management of potential conflicts of interest is a core element of our recruitment screening and onboarding process.

See *Corporate governance* on page 152 for more details.

The need to act fairly as between members of the company

As a wholly owned subsidiary of the FCA, the PSR has only one member.

Considering stakeholders' interests

The board recognises that effective engagement is key to achieving good outcomes and the success of the company, considering the interests of our internal and external stakeholders.

The board sets out to achieve this by:

- engaging with stakeholders to gain an understanding of the issues that matter to them – for example, through our regional visits to Birmingham, Harrogate and Belfast; currently these activities are mainly delivered through the Chair, but the board is exploring how it can more widely include all board members in its engagement with stakeholders
- providing strategic leadership within a framework of robust corporate governance and internal control
- setting the culture, values and standards that are embedded throughout the PSR, which help us to deliver in the public interest (for example, the board holds an annual dedicated strategy-setting session, and receives regular updates on organisational culture, including (but not limited to) feedback from our annual employee survey)

For details on our leadership and governance framework, see the *Directors' report* on page 146 and our *Corporate governance statement* on page 154.

Making sure we engage with the right stakeholders across our broad work programme is essential, and we keep our engagement strategy under review. Our key stakeholders include our employees, consumers, industry, representative bodies, parliamentarians, international and domestic regulators, those we regulate, our suppliers and the communities we operate in.

The directors take account of the views of our different stakeholders when making decisions in a number of ways, including:

- discussing the findings from our annual stakeholder perceptions survey each year, and monitoring recommended actions from the survey to enhance engagement with, and communications to, stakeholders
- reviewing feedback to consultations and other engagements before making decisions
- meeting with stakeholders through regular meetings, roundtable discussions and other forums

See *How we engage with our stakeholders* on page 112 for more details.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Financial overview

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Business model

We do not receive funding from the UK government as we fund the cost of delivering our statutory objectives by raising fees from the organisations we regulate. The Financial Conduct Authority (FCA) has powers to levy fees to recover our costs. We seek to make neither a profit nor a loss from our regulatory activities, although in practice this can happen due to unforeseen circumstances or timing issues. We follow best practice procurement mechanisms as part of our focus on delivering good value for money.

We are co-located in the FCA's offices and are operationally supported by the FCA through a provision of services agreement. The aim is to fully maximise the FCA's operational infrastructure to support the effective operation of the PSR. This means leveraging the scale, scope and established practices of the FCA and working hard to find efficiencies where possible.

Analysis of performance during the year

Table 5: Income and costs

Total	2023 £'000	2022 £'000	Year on Year Change
Fee income	18,048	17,203	845
Interest and other income	126	29	97
Total income	**18,174**	**17,232**	**942**
Staff costs	(12,112)	(10,842)	(1,270)
Administrative costs	(8,883)	(5,881)	(3,002)
Total operating costs	**(20,995)**	**(16,723)**	**(4,272)**
(Loss)/Profit for the year	**(2,821)**	**509**	**(3,330)**

For 2022/23, we set a budget of £20 million to enable us to deliver the planned work for the year and to reach our anticipated scale. This was made up of an annual funding requirement (AFR) of £18 million and £2 million from our reserves, which we hold to allow us to respond to changing demands and priorities in an agile way.

During the year we decided to augment our required staffing levels with external resources, so we could protect the delivery of our annual workplan. Spending more meant that we were able to meet our commitments despite challenges with staff attrition. In addition, we dedicated considerable resource to a legal challenge, the outcome of which is awaited. Reflecting these pressures, within the year we revised our budget and secured approval to spend a further £1 million from our reserves.

At 31 March 2023 we had an accumulated surplus held in reserves of £2.3 million (2022: accumulated surplus of £5.1 million). The reduction in reserves is driven by the utilisation of £2.9m in reserves for operations, offset by interest income of £0.1 million.

Tables 6 and 7 show a breakdown of our total income and operating costs. Overall, our operating costs increased by £4.3 million to £21 million (2022: £16.7 million), largely due to spending more on professional fees. This increase was due to our use of external resources to augment our staffing levels, which allowed us to protect the delivery of our workplan. Notwithstanding this higher spend in 2022/23, staff continue to make up 58% of our cost base and are vital to delivering our objectives. We had 118 full-time equivalent employees at the end of this financial year, compared to 99 on 31 March 2022.

Our fee income increased in 2022/23 to enable us to have the resources to achieve our ambitious work programme and deliver on our Strategy.

Our other income is solely interest on bank deposits and increased in 2022/23 from the previous financial year, primarily due to rises in interest rates throughout the year.

The year-end cash position is £9.1 million (2022: £10.8 million). The FCA collects fees on behalf of the PSR and pays the balance over on a weekly basis. As at 31 March 2023, the FCA had invoiced £7.7 million of on-account fees, of which £7.5 million had been collected and £4.6 million had been remitted to the PSR.

Analysis of total income and operating costs

Income

Table 6: Income breakdown

Operating costs	2023 £'000	2022 £'000	2021 £'000	2020 £'000	2019 £'000
Fee income	18,048	17,203	16,848	15,624	13,902
Interest and other income	126	29	88	64	184
TOTAL	**18,174**	**17,232**	**16,936**	**15,688**	**14,086**

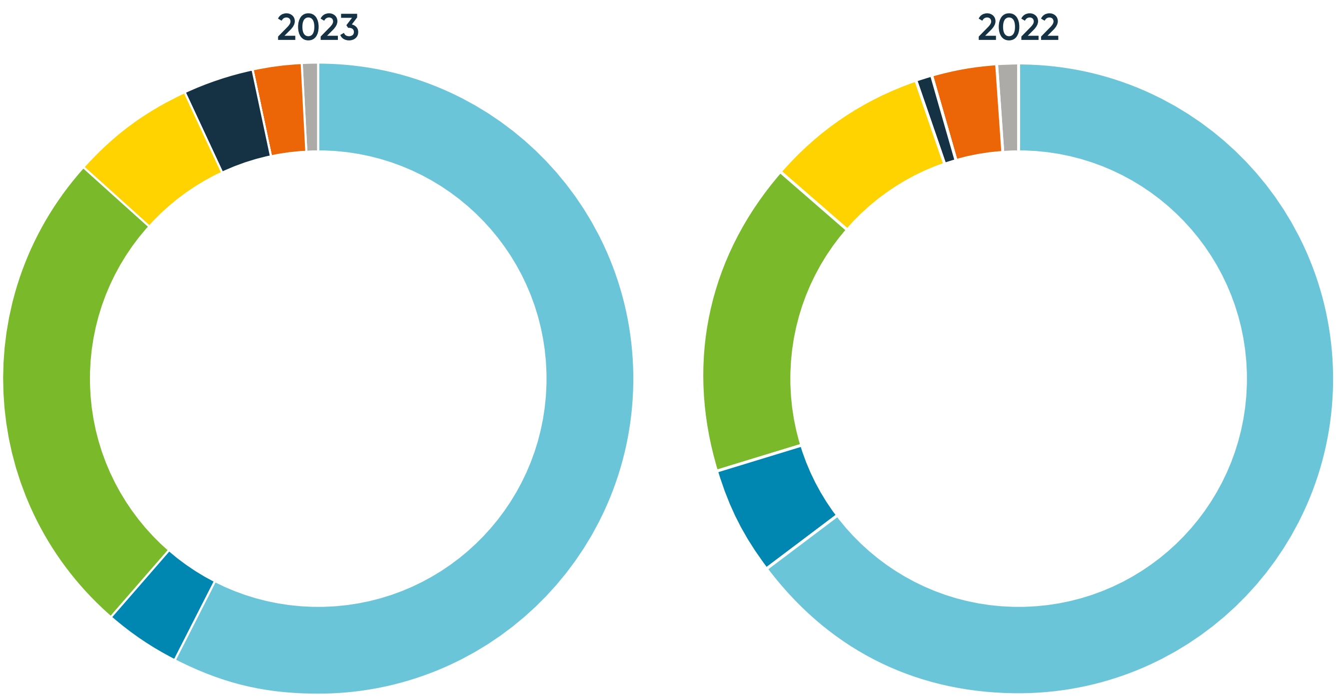
We do not receive funding from the UK government. We're funded by fees from the participants in the regulated payment systems. We currently regulate using an 80:20 volume-to-value ratio calculation and the 2022/23 fees were gathered using this method. The Financial Services and Markets Act 2000 (FSMA 2000) enables the FCA to raise fees, and the Financial Services (Banking Reform) Act 2013 (FSBRA) enables the FCA to raise fees on behalf of the PSR to recover the costs of carrying out our statutory functions.

Operating costs

Table 7: How we spend our money

Operating costs	2023 £'000	2022 £'000	2021 £'000	2020 £'000	2019 £'000
Staff costs	12,112	10,842	11,208	10,410	8,102
IT running costs	799	957	1,046	981	708
Professional fees	5,327	2,700	1,062	2,286	1,293
Accommodation and office services	1,346	1,350	1,359	1,251	1,191
Recruitment, training and wellbeing	718	166	403	444	383
Travel and hospitality	17	8	3	42	35
FCA staff recharges	536	559	598	589	702
Other costs	140	141	153	128	87
TOTAL	**20,995**	**16,723**	**15,832**	**16,131**	**12,501**

Figure 3: Analysis of operating costs



Directors' report

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PSR Payment Systems Regulator
Welcome
Chris Hemsley
Managing Director
PSR Payment Systems Regulator

The directors present their report for the year ended 31 March 2023.

Some information that fulfils the requirements of the directors' report can be found elsewhere in this document and is referred to below. This information is incorporated into this directors' report by reference.

Details of the directors who held office during the year can be found in Table 8 in the corporate governance statement (page 156).

The statement on section 172(1) of the Companies Act 2006 (page 132) and the *Corporate governance statement* (page 154) are used by the directors to explain how they have performed their duty to promote the success of the PSR under section 172 of the Companies Act 2006. These include details of how the directors have engaged with employees and external stakeholders, including consumers, regulated and other businesses, the communities we operate in, community leaders and parliamentarians, domestic and international regulators, and our suppliers during the year.

In addition, the PSR's annual plan and budget 2023/24 explains our programme of work for the next 12 months.

The PSR has no branches or subsidiaries outside the UK.

Directors' responsibilities in respect of the Annual Report and Accounts

In accordance with applicable law and regulations, the directors are responsible for preparing the annual report and the financial statements.

Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have elected to prepare financial statements in accordance with International Financial Reporting Standards, as adopted by the United Kingdom. The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable and prudent
- state whether applicable International Financial Reporting Standards, as adopted by the United Kingdom, have been followed, subject to any material departures disclosed and explained in the financial statements
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping proper accounting records that show, with reasonable accuracy, the financial position of the company and enable the directors to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and for taking reasonable steps to prevent and detect fraud and other irregularities.

As far as the directors are aware:

- there is no relevant audit information of which the company's auditor is unaware; and
- they have taken all steps that they ought to have taken as directors to make themselves aware of any relevant audit information and establish that the auditor is aware of that information

The directors are responsible for maintaining and ensuring the integrity of the corporate and financial information on the company's website. UK legislation that applies to preparing and distributing financial statements may differ from legislation in other jurisdictions.

The directors confirm that the annual report and accounts, as a whole, are fair, balanced and understandable.

Going concern and key financial risks

As a wholly owned subsidiary of the Financial Conduct Authority (FCA) (company no. 1920623), the financial resilience of the PSR is closely connected to that of the FCA. In preparing the financial statements, the directors and the FCA board performed a going concern assessment which covered the period from April 2023 to March 2025. This included a robust assessment of the key emerging and principal risks and considered the FCA's Business Plan 2022/23, the PSR's annual plan and budget 2022/23. The key financial risks and uncertainties in assessing the FCA as a going concern are set out below:

Liquidity risk: The FCA is currently well placed from a liquidity perspective, with cash and deposits of £347.6 million at 31 March 2023 and an available overdraft facility of £100 million, sufficient to meet its short-term payment obligations when due, or otherwise fund its ongoing operations. The PSR has cash and deposits of £9.1 million, which are ring-fenced within the FCA total.

Cash flow risk: can be assessed by looking at the following three key areas:

1. The FCA's current liquidity position reflects (i) cumulative scope change costs (£1.3m), (ii) the continued cash contributions to reduce the pension scheme deficit, (iii) the funding of capital expenditure which is recovered over the useful economic lives of the assets rather than when the expenditure is incurred, and (iv) the potential to make ex gratia compensatory payments to remedy complaints under the current Complaints Scheme.
2. The FCA's net pension obligation of £31.2m at 31 March 2023 reflects (i) the triennial valuation of the FCA Pension Plan at 31 March 2022 and (ii) the effectiveness of the Plan's low-risk strategy to minimise the impact of market fluctuations on funding levels.
3. The FCA's strong fee covenants are underpinned by the statutory powers granted to it to raise fees to fund its and the PSR's regulatory activities. Of the firms on which the FCA currently levies its fees, the top 100 are responsible for 48.9% of those FCA fees (2022: 49.1%).

Credit risk: falls into two main categories:

4. The collection of fees from the financial services industry: the FCA has a strong record in terms of collecting fees, with bad debt experience averaging 1.95% (2022: 0.91%). The average bad debt increase mainly reflects debt arising from late reporting fees and firms which were marginally impacted by the COVID-19 pandemic, the cost of living crisis and high inflation.
5. The placement of firm fees as deposits with various counterparties: the FCA only invests with financial institutions which, among other things, meet its minimum credit rating as assigned by credit rating agencies. The FCA also spreads its deposits across a number of counterparties to avoid the concentration of credit risk.

Having regard to the above, it is the directors' opinion that the PSR is well placed to manage any possible future funding requirements pertaining to its regulatory activity and has sufficient resources to continue its business for the foreseeable future.

The directors therefore conclude that using the going concern basis is appropriate in preparing its financial statements as there are no material uncertainties related to events or conditions that may cast significant doubt about the PSR's ability to continue as a going concern.

Events after the reporting period

There were no material events after the reporting period.

Directors' indemnities

Qualifying third-party indemnity provisions for the purposes of section 234 of the Companies Act 2006 were in force during the course of the financial year ended 31 March 2023 and remain in force at the date of this report.

Under the Financial Services (Banking Reform) Act 2013 (FSBRA), we have the benefit of an exemption from liability in damages for anything done or omitted in relation to the exercise or purported exercise of our statutory functions, provided that such acts or omissions are in good faith and do not infringe section 6(1) of the Human Rights Act 1998. This is supplemented with indemnities given by the FCA for the protection of individual employees, including directors. Accordingly, we do not currently purchase Directors and Officers Liability Insurance.

Political donations

The PSR did not give any money for political purposes in the UK or the rest of the EU, nor did it make any political donations to political organisations, or to any independent election candidates, or incur any political expenditure during the year.

Auditor

FSBRA requires the company's accounts to be examined, certified and reported on by the Comptroller and Auditor General.

Accordingly, the Comptroller and Auditor General was auditor throughout the year.

By Order of the Board on 18 July 2023.

Sarah Day
Company Secretary

Corporate governance

Section contents

Corporate governance statement for the year ended 31 March 2023

Introduction

This section of the report details the board's composition and governance structure. It explains the board's role, performance, ongoing professional development and succession planning.

The PSR is funded by the regulated payments industry through statutory fee-raising powers. We are independent of government, but accountable to government and Parliament through obligations set out in the Financial Services (Banking Reform) Act 2013 (FSBRA). We consult with industry participants and users on our practices and policies and how our objectives may be best achieved, including through engagement with the PSR Panel (see page 161).

The PSR is a wholly owned subsidiary of the Financial Conduct Authority (FCA). We share operational functions and support with the FCA through a provision of services agreement, which is reviewed annually. All PSR staff are employees of the FCA.

This report sets out how we are governed in line with the principles of the UK Corporate Governance Code (the Code). The board considers that we maintain high standards of corporate governance and comply with the Code as far as is appropriate, recognising that parts of the Code are not applicable to the PSR. Due to the statutory framework set out in FSBRA, which enables the ability to raise fees to recover the costs of carrying out our statutory functions, the board considers the requirement to include an explanation of how it has assessed the prospects of the PSR and any related disclosures under provision 31 of the UK Corporate Governance Code is not applicable.

The role of the board

The board is our governing body. It sets our strategic direction and ensures our long-term success. The board liaises with the FCA, consistent with the obligations set out in FSBRA, to take necessary steps to ensure that the PSR is, at all times, capable of exercising its functions and that the necessary financial and human resources are in place.

The Managing Director is responsible for implementing the strategy agreed by the board, as well as leading the organisation and managing it within the authorities delegated by the board.

The board's role includes:

- deciding which matters it should make decisions on, including exercising our legislative functions and other matters as set out in the Schedule of Matters Reserved to the Board
- making strategic decisions about our future operation
- overseeing the executive management of our day-to-day business
- maintaining a sound system of financial control
- setting appropriate policies to manage risks to our operations and the achievement of our regulatory objectives
- seeking regular assurance that our system of internal control is effective in managing risks
- taking specific decisions that are not expressly included in the Schedule of Matters Reserved to the Board, but that the board or executive management consider are novel or contentious, or so significant that the board should take them

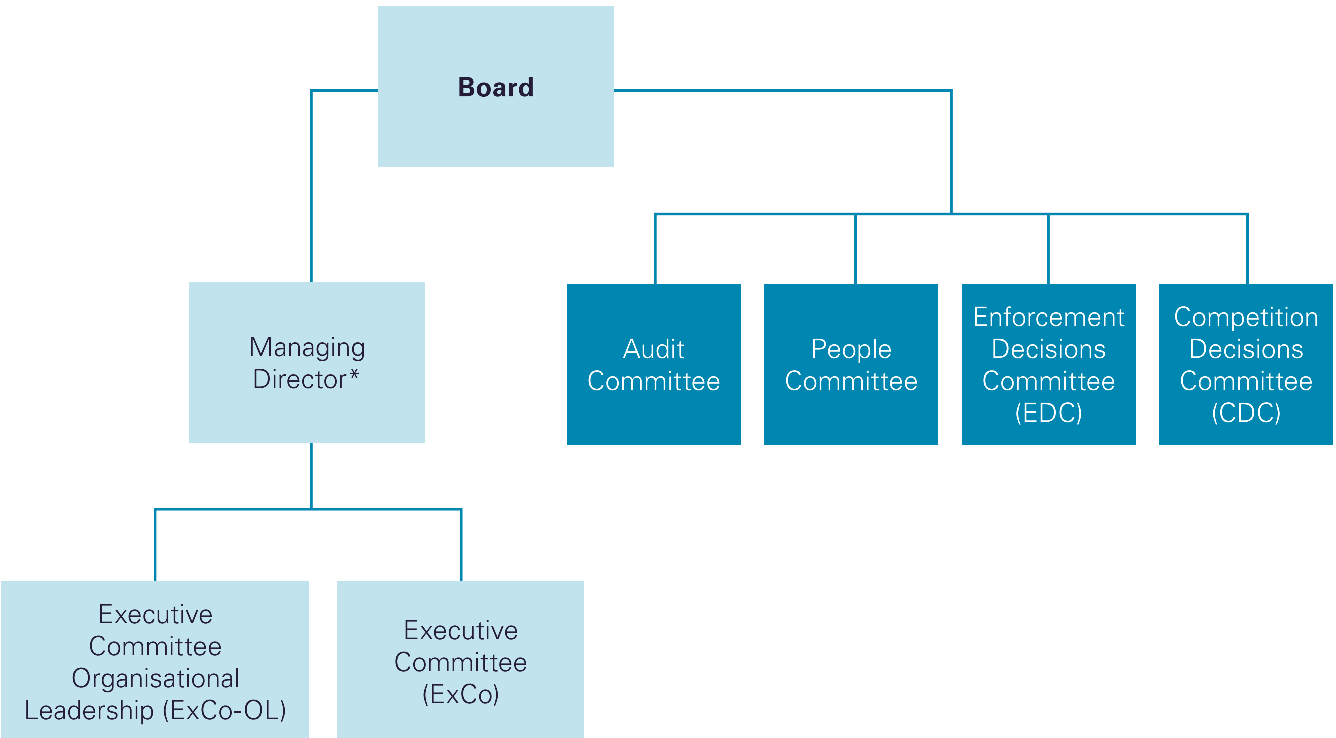
- establishing and maintaining the accountability for decisions made by committees of the board and executive management
- succession planning and setting the objectives of the Managing Director
- maintaining high-level relations with other organisations and authorities, including the government, the FCA, the Prudential Regulation Authority, the Bank of England and the Competition and Markets Authority

The board is supported by a number of committees to achieve the efficient discharge of its functions and facilitate effective decision making. These committees are shown in Figure 4. There are mechanisms in place to ensure that board committees are accountable to the board. For example, the chairs of board committees report on the work undertaken by their committee at the following board meeting.

Our executive committees also play an important role in our overall corporate governance, as shown in Figure 4.

Our website gives more details on our governance arrangements as detailed in our *Corporate governance of the PSR Limited document*.

Figure 4: Our governance framework



* The Managing Director is a member of the board and is responsible for implementing the strategy agreed by the board, the leadership of the organisation, and managing it within the authorities delegated by the board.

Senior Managers and Certification Regime

The Senior Managers and Certification Regime (SM&CR) does not formally apply to us. However, as a matter of best practice, we have set out a formal description of the core responsibilities of members of our board and those carrying out senior management functions.

Our website has more details on how we apply the SM&CR to ourselves.

Members of our board

The composition of our board is set out in FSBRA and, consistent with those requirements, the board currently comprises:

- the Chair, appointed by the FCA with the approval of the Treasury
- the Managing Director, appointed by the FCA with the approval of the Treasury
- other members, who are all non-executive directors (NEDs), appointed by the FCA

The directors who served during the year are shown in Table 8.

Table 8: Board members during the reporting year

Name	Original appointment date	Expiry of current term/ date membership ceased
Aidene Walsh Interim Chair (from 01/04/22) Permanent Chair (from 26/01/23)	01/06/20	31/01/26
Chris Hemsley Executive Director – Managing Director	02/09/19	01/09/24
Charles Randell Non-Executive Director	01/04/18	31/05/22
David Geale[1] Non-Executive Director	14/02/20	11/02/26
Faith Reynolds Non-Executive Director	12/04/21	11/04/24
Simon Ricketts[2] Non-Executive Director	01/07/17	30/06/24
Tommaso Valletti[3] Non-Executive Director	01/04/20	04/11/25

1 David Geale is an employee of the FCA and was appointed for a second three-year term in December 2022.
2 Simon Ricketts was appointed for a further one-year term in May 2022.
3 Tommaso Valletti was appointed for a second three-year term in May 2022.

Aidene Walsh served as Interim Chair from 1 April 2022, succeeding Charles Randell. Charles remained on the board as a non-executive director until 31 May 2022. Aidene was subsequently confirmed as Chair on a permanent basis, for a three-year term, from 26 January 2023. In addition to her role as Chair, Aidene is an executive director of Banking Competition Remedies Ltd and will shortly be joining the FCA board as a non-executive director.

A majority of our board members are non-executive and bring extensive and varied experience to the board and its committees. During the year, Simon Ricketts, Tommaso Valletti and David Geale were all appointed for further terms to help maintain continuity and to allow the Chair and the board the time and opportunity to consider its ongoing capacity and skills requirements. Following subsequent recommendations from the board, a recruitment campaign was initiated in May 2023, and we look forward to welcoming two new non-executive directors later in the year. All non-executive directors are considered to be independent. For 2022/23, Simon Ricketts continued as the Senior Independent Director.

The board is committed to ensuring that diversity is a central feature of its membership. Gender balance has improved, but there is still work to be done to increase the representation of people from a minority ethnic background and to consider wider diversity characteristics. The board pays particular attention through the recruitment process to ensure that board members have the appropriate skills and experience.

As an executive member of the board, Chris Hemsley was appointed by the FCA, with the approval of the Treasury, for a five-year period (expiring in September 2024), and is subject to a six-month notice period.

Board meetings and activities of the board

There is a clear division of responsibility between the executive running of the organisation and the running of the board. The Chair leads the board and ensures its effectiveness, while the Managing Director is responsible for implementing the strategy agreed by the board, the leadership of the organisation and managing it within the authorities delegated by the board.

The board has a formal schedule of matters reserved to it and meets regularly in order to discharge its duties effectively. The board also addressed a small number of matters by written procedure. Such matters were noted at the subsequent meeting and recorded in the respective minutes.

Details of the number of board meetings held and attendance at those meetings are set out in Table 9. The table reflects the number of meetings available for them to attend, given that their terms began or ended part way through the reporting year.

Table 9: Attendance at board meetings for 2022/23

Name	Scheduled board meetings	Additional board meetings
Aidene Walsh	6/6	2/2
David Geale	6/6	2/2
Chris Hemsley	6/6	2/2
Charles Randell[1]	1/1	0/0
Faith Reynolds	6/6	2/2
Simon Ricketts	6/6	2/2
Tommaso Valletti	6/6	2/2

The board met on eight occasions during the year. In addition, the non-executive directors met privately throughout the year without members of the Executive present.

The Chair and Company Secretary ensure that the board's agendas reflect our business priorities. They also conduct a review of papers before they are circulated to the board to ensure that information is clear and accurate. Papers for board meetings are normally circulated one week before the meeting takes place.

Internal processes ensure that matters presented to the board and executive committees have undergone internal stakeholder review and sought external stakeholder engagement, as appropriate.

At meetings, the board considers a number of standard agenda items including: a report from the Managing Director detailing progress against the Annual Plan and updates on people issues; feedback from board committees; reports from the Chair of the PSR Panel; and updates from the FCA. The board also considers specific items on strategy, policy and other issues as required.

1 Charles Randell served as a non-executive director until 31 May 2022.

Non-executive directors provide rigorous challenge on strategy, performance, responsibility and accountability. They hold the Executive to account and ensure that the decisions of the board are robust and aligned to our Strategy.

The board addressed many issues during the year. The principal areas of activity included:

- review of our five-year Strategy and development of our annual plan and budget
- measures to ensure reasonable reimbursement of victims of authorised push payment fraud
- progression of the New Payments Architecture
- development of open banking
- strategic policy developments following the card-acquiring market review and consideration of the protections available to those who use interbank systems
- designation of the Sterling Fnality Payment System
- discussions on internal and external risk and strategy setting; there is more information on the risks and uncertainties facing the PSR on page 124
- review of our risk framework and approach, our responsibilities and our reporting mechanisms
- approving the annual report and accounts
- review of the performance objectives of the Managing Director

A record of the board's activities can be found in our published minutes on our website.

Company Secretary and independent advice

Each director has access to the advice and services of the Company Secretary, who advises the board on company law and corporate governance matters and ensures the board follows appropriate procedures. The Company Secretary is also responsible for providing access to external professional advice for board members, if required.

Sarah Day was appointed our Company Secretary with effect from 18 May 2022.

Succession

The board considers that all of the non-executive directors bring strong independent oversight and continue to demonstrate independence. However, the board recognises the recommended term within the Code and is mindful of the need for suitable succession. With this in mind, the board looks to welcome two new non-executive directors in 2023.

Succession planning remains a key agenda item for the board. It monitors the skills and experience of its members and identifies where gaps exist to inform future appointments, and makes representations to the FCA board as required.

Board induction and training

On joining the board, members are given background information describing the PSR and our activities. They receive an induction pack which includes information on our governance arrangements, the board's role and responsibilities, its committees and officers, and other relevant information. Structured meetings and briefings with a range of key people across the PSR are also organised, to ensure board members have a thorough induction to the board and to the business of the PSR. Board members also receive regular briefings on relevant issues and have individual meetings with the Chair to discuss individual performance.

Board effectiveness

Reviews of board effectiveness are conducted annually. In accordance with good corporate governance practice, such reviews are externally facilitated every three years. The last external evaluation took place in 2021, facilitated by Advanced Boardroom Excellence, with a summary published on our website.

This year, the board conducted an internal self-evaluation of its effectiveness in September 2022. The board considered the provisional results of this evaluation at its November 2022 meeting. At its March 2023 meeting, it agreed actions to take forward, including discussion of its capacity and skills, aligned to our statutory objectives and the evolving payments ecosystem, to inform future non-executive director recruitment. The board considered that the results evidenced good progress in improving its efficiency and focus. Of note was the improvement in the reporting it receives to ensure it can effectively monitor organisational performance. Going forward, the board continues to look for ways to make further improvements.

Conflict of interests

All board members are required to declare relevant interests in accordance with the Conflict of Interests Policy for Non-Executive Directors. The board took appropriate steps to manage any potential conflicts of interest that arose during the year.

A register of interests is maintained by the Company Secretary. The board last reviewed this policy in February 2019.

Committee structure of the PSR

The functions of the PSR's Audit Committee and People Committee[1] are carried out by the members of the respective FCA committees.

Further details about the membership of these committees, as well as details of the issues they considered, are available in the FCA's Annual Report and Accounts 2022/23.

The functions of the PSR's Nomination Committee and Risk Committee are carried out by the board. As referenced in the section describing our internal controls (see page 125), the board is instigating a separate risk committee during 2023 to oversee the identification and mitigation of risk and advise it accordingly.

1 The People Committee was established in June 2023 and replaced the former Remuneration Committee.

The PSR Panel

The PSR Panel (the Panel) is independent of the PSR. It contributes towards the effective development of our strategy and policy and offers advice and early input on our work.

The Panel comprises members drawn from payment system operators, payment service providers, infrastructure and technology providers, and service users, including representatives of consumers and large and small businesses.

PSR staff engaged with the Panel seven times in 2022/23. Discussions included:

- feedback on our card-acquiring market review remedies
- an update on account-to-account payments
- views on narrative and messaging for our annual plan work programme
- our APP fraud proposals and stakeholder feedback
- discussion and next steps on the Digital Payments Initiative

Further information on the Panel, including a list of members, can be found on our website.

Competition Decisions Committee

The Competition Decisions Committee (CDC) acts as the decision maker in any particular investigation arising where we propose to impose a sanction under the Competition Act 1998. In individual cases, a CDC Panel comprising three CDC members will be appointed to decide on behalf of the PSR on whether there has been a competition law infringement, whether to impose a penalty, and whether to give directions.

Enforcement Decisions Committee

The Enforcement Decisions Committee (EDC) makes regulatory enforcement decisions for the PSR under FSBRA or other legislation (for example, the Interchange Fee Regulation) when a settlement cannot be reached. The EDC is separate from staff at the PSR who investigate whether there has been a compliance failure.

In individual cases, an EDC Panel comprising three EDC members will be appointed to decide on behalf of the PSR whether there has been a compliance failure and whether to impose a financial penalty and/or publish details of the compliance failure.

By Order of the Board on 18 July 2023.

Sarah Day
Company Secretary

Remuneration report

Section contents

Directors' remuneration (audited)

Tables 10 and 11 set out the remuneration paid or payable to any person that served as a director during the years ending 31 March 2023 and 2022.

The remuneration figures shown are for the period served as directors.

The PSR follows the same remuneration principles as the Financial Conduct Authority (FCA). Further information is available in the FCA's annual report.

Table 10: Chairs and executive director

	Basic salary		Other benefits		Total remuneration (excluding pension)		Pension		Total remuneration	
Chair	**2023 £'000**	2022 £'000	**2023 £'000**	2022 £'000	**2023 £'000**	2022 £'000	**2023 £'000**	2022 £'000	**2023 £'000**	2022 £'000
Charles Randell[1]	**1**	20	**–**	–	**1**	20	**–**	–	**1**	20
Aidene Walsh[2]	**46**	15	**–**	–	**46**	15	**–**	–	**46**	15
Executive Directors										
Chris Hemsley[3]	**217**	198	**16**	25	**233**	223	**28**	26	**261**	249

Table 11: Non-executive directors

	PSR fee paid	
Non-executive directors[4]	**2023 £'000**	2022 £'000
David Geale[5]	**–**	–
Faith Reynolds[6]	**15**	14
Simon Ricketts[7]	**25**	25
Tommaso Valletti[8]	**11**	8

Notes

Chair

1. On 31 March 2022, Charles Randell stepped down as Chair of the PSR board and continued as a non-executive director until he stepped down on 31 May 2022. For the year ended 31 March 2022, he received a fee of £20,000 as Chair. For the year ended 31 March 2023, he received a fee of £7,500 per year for his role as non-executive director of the PSR board.
2. Aidene Walsh was appointed to the PSR board on 1 June 2020. Aidene was appointed as interim Chair of the PSR board from 1 April 2022 and received a fee of £40,000 per year. Aidene was confirmed as the permanent Chair of the PSR board from 26 January 2023 for a three-year term and receives a fee of £75,000 per year. As PSR Chair, Aidene attends meetings of the FCA board.

Executive directors of the PSR

3. Chris Hemsley was appointed as Managing Director of the PSR on 2 September 2019. Chris is a member of the FCA Pension Plan and is entitled to receive an annual pension contribution equivalent to 12% of his salary. Chris voluntarily contributed an additional 1% of his salary into the Pension Plan. This was matched by the FCA, under the standard terms of the FCA Pension Plan.

Non-executive directors of the PSR

4. The FCA is responsible for determining the remuneration of the other non-executive directors. The fee for non-executive directors remains unchanged at £15,000 per year. Non-executive directors serving on the FCA board and/or FCA board committees in addition to the PSR board receive an additional fee to their PSR board fee.
5. David Geale was appointed to the PSR board on 14 February 2020. David did not receive a fee for his non-executive director role on the PSR board.
6. Faith Reynolds was appointed to the PSR board on 12 April 2021.
7. Simon Ricketts was appointed to the PSR board on 1 July 2017 and reappointed on 1 July 2020. Simon Ricketts was appointed as a member of the FCA Audit Committee on 1 April 2019 and receives an additional fee of £10,000 per year.
8. Tommaso Valletti was appointed to the FCA board on 5 November 2019 and received a fee of £35,000 per year for this role. Tommaso was appointed to the PSR board on 1 April 2020 and received an additional fee of £7,500 per year (rounded to £8,000 in Table 11). Tommaso stepped down from the FCA board on 4 November 2022 and, as a result, his fee increased to £15,000 per year for his role on the PSR board.

Fair pay disclosure (audited)

Remuneration ratios

Remuneration ratios represent the difference between the highest-paid director and the full-time equivalent remuneration of the employee at the 25th percentile, 50th percentile (median) and the 75th percentile (collectively 'the Employee Percentiles') of the total workforce at the reporting period end date (excluding the highest-paid director) expressed as a multiple. Remuneration ratios are based on both the total remuneration of the highest-paid director and of the Employee Percentiles, as well as the salary component of the total remuneration.

Remuneration ratios have been calculated using the full-time equivalent salary and benefits of employees paid in March 2023 on the basis that it provided the most accurate means of identifying the employee percentiles of the remuneration of the total workforce for the reporting period.

Definitions are below:

- Remuneration is total remuneration and includes salary, discretionary performance bonuses and benefits, whether monetary or in-kind. It does not include severance payments or employer pension contributions.
- Total workforce includes employees, temporary staff, contractors and other short-term resource.

The remuneration of the highest-paid director and the remuneration of the organisation's total workforce for 2022/23 and 2021/22 are presented in Table 12.

Table 12: Remuneration ratios

	Total remuneration		Salary component	
	2023	2022	2023	2022
Highest paid director's total remuneration[1]	£233,026	£222,852	£218,629	£198,300
25th percentile remuneration of total workforce	£58,855	£59,973	£52,416	£51,620
25th percentile remuneration ratio	4.0:1	3.7:1	4.2:1	3.8:1
50th percentile/median remuneration of total workforce	£80,087	£84,688	£73,500	£77,688
50th percentile remuneration ratio	2.9:1	2.6:1	3.0:1	2.6:1
75th percentile remuneration of total workforce	£103,967	£111,725	£95,940	£89,960
75th percentile remuneration ratio	2.2:1	2.0:1	2.3:1	2.2:1

1 The total remuneration of the highest-paid director disclosure differs between (i) the directors' remuneration, which is based on actual amounts paid, including pension but excluding taxable benefits paid by the FCA but fully funded by the director, and (ii) the remuneration ratios in the above, which is based on a full-year equivalent and excludes pensions contributions.

The Managing Director of the PSR was the highest-paid director for 2022/23.

Excluding the highest-paid director, remuneration ranged from £36,560 to £211,826 (2021/22: £23,484 to £192,839).

In 2022/23, no employees (2021/22: nil) received remuneration in excess of the highest-paid director. All figures are based on full-time equivalent basis.

The increase in the 2022/23 total remuneration of 4.6% for the highest-paid director is due to a performance-related pay increase of 5.9% offset by receiving lower employer pension contributions and a non-pensionable cash payment in lieu of employer pension contributions after the cessation of voluntary pension contributions from June 2022, as disclosed above under *Directors' remuneration*. The increase in the 2022/23 salary component of 10.3% for the highest-paid director is due to a performance-related pay increase of 5.9% from April 2022 and opting to consolidate the manager allowance of 4.1%, which was formerly a flexible benefit, into their salary.

The reduction in one-off payments between the two financial years resulted in a 3% decrease in total remuneration and a 1.7% decrease in the salary component of the total workforce in 2022/23. In 2022/23, £84,550 was paid to employees in one-off payments both in support for working from home office expenses (£33,300) and for cost of living expenses (£51,250). This can be compared to £360,000 paid in one-off payments in 2021/22 consisting of final discretionary performance bonuses (£199,400) and one-off backdated pay awards (£160,600) related to the 2021/22 employee offer consultation.

The one-off payments and discretionary performance bonuses form part of the total remuneration figure, while the one-off backdated pay award forms part of the salary component only.

The lower level of one-off payments made in 2022/23 and the absence of any backdated pay award impacted the 25th and 50th Employee Percentiles total remuneration and salary figures in 2022/23. The 75th Employee Percentile was also impacted by a decrease in total remuneration, while the salary component increase was primarily attributable to the consolidation of the manager allowance (formerly a flexible benefit) into their salary.

Change in remuneration

A comparison of the percentage change in salary and benefits between 2022/23 and 2021/22 of the highest-paid director and of the total workforce average per full-time equivalent (FTE) is presented in Table 13.

Table 13: Change in remuneration

% Change in remuneration	Salary and benefits 2022/23 vs 2021/22	Salary and benefits 2021/22 vs 2020/21
Highest-paid director	4.6%	0.3%
Total workforce average per FTE	(2.5)%	12.2%

The 4.6% increase in salary and benefits of the highest-paid director in 2022/23 is explained above under the remuneration ratios.

The 2.5% decrease in the salary and benefits of the total workforce average per FTE in 2022/23 is primarily due to an increase of 13 FTE at the associate level and the decrease in the one-off payments during the year. This was, however, offset by eligible employees opting to consolidate the manager allowance of 7.6%, which was formerly a flexible benefit, into their salary.

The 12.2% increase in the salary and benefits of the total workforce average per FTE in 2021/22 is primarily due to a decrease of 10.8 FTE at the administrator and associate level, offset by an increase of 5.1 in managers and technical specialists, at higher salary levels. In addition, heads of departments and special advisors increased by 1.7 FTE in 2021/22, with an average increase in salaries and benefits of 7.3% and 3.5% respectively.

Senior pay disclosure

In addition to the executive directors reported under *Directors' remuneration*, Table 14 sets out the remuneration paid or payable to any person that served as a voting member of the Executive Committee during the year ending 31 March 2023. Voting members of the Executive Committee are members of the FCA Pension Plan and entitled to receive an annual employer pension contribution of 8% to 12% of their salary, depending on their age. In addition, contributions are matched up to 3%, depending on their age. The discretionary performance bonus scheme has been withdrawn and the last awards were paid in April 2022 for the performance year 2021/22.

Table 14: Senior pay disclosure

	Basic salary		**Discretionary performance bonus**		**Discretionary performance bonus**		**Total remuneration (excluding pension)**		**Pension**		**Total remuneration**	
Name	**2023 £'000**	2022 £'000	**2023 £'000**	2022 £'000	**2023 £'000**	2022 £'000	**2023 £'000**	2022 £'000	**2023 £'000**	2022 £'000	**2023 £'000**	2022 £'000
Carole Begent[1]	**100**	175	**–**	–	**9**	23	**109**	198	**15**	25	**124**	223
Louise Buckley[2]	**88**	152	**–**	9	**8**	22	**96**	183	**12**	24	**108**	207
Kate Fitzgerald[3]	**125**	–	**–**	–	**12**	–	**137**	–	**18**	–	**155**	–
Genevieve Marjoribanks[4]	**63**	145	**–**	13	**6**	21	**69**	179	**12**	24	**81**	203
Natalie Timan[5]	**144**	78	**–**	–	**12**	10	**156**	88	**17**	9	**173**	97

1. Carole Begent stepped down as General Counsel and Head of Regulatory and Competition Enforcement and a voting member of the Executive Committee on 18 October 2022. Between April and October 2022, Carole received an annual pension contribution equivalent to 12% of her salary and also voluntarily contributed an additional 3% of her salary into the Pension Plan. This was matched by the FCA, under the standard terms of the FCA Pension Plan.

2. Louise Buckley stepped down as Chief Operating Officer and a voting member of the Executive Committee on 18 October 2022. During April and October 2022, Louise received an annual pension contribution equivalent to 12% of her salary and voluntarily contributed an additional 3% of her salary into the Pension Plan. This was matched by the FCA, under the standard terms of the FCA Pension Plan.

3. Kate Fitzgerald was appointed a voting member of the Executive Committee and Head of Policy on an interim basis from 1 September 2022 and on a permanent basis from 1 November 2022. Kate received an annual pension contribution equivalent to 12% of her salary and also voluntarily contributed an additional 2% of her salary into the Pension Plan. This was matched by the FCA, under the standard terms of the FCA Pension Plan.

4. Genevieve Marjoribanks stepped down as Head of Policy and a voting member of the Executive Committee on 31 August 2022. Genevieve received an annual pension contribution equivalent to 12% of her salary and voluntarily contributed an additional 3% of her salary into the Pension Plan. This was matched by the FCA, under the standard terms of the FCA Pension Plan.

5. Natalie Timan was appointed Head of Strategy, Analysis and Monitoring (renamed Strategy and Intelligence following organisational design work) and a voting member of the Executive Committee from 6 September 2021. Natalie received an annual pension contribution equivalent to 12% of her salary.

Financial statements

Section contents

The certificate and report of the Comptroller and Auditor General to the members of the Payment Systems Regulator Limited and the Houses of Parliament

For the year ended 31 March 2023
Company number: 8970864

Opinion on financial statements

I certify that I have audited the financial statements of The Payment Systems Regulator Limited (PSR) for the year ended 31 March 2023 under the Financial Services (Banking Reform) Act 2013. The financial statements comprise the PSR's

- Statement of Financial Position as at 31 March 2023;
- Statement of Comprehensive Income, Statement of Changes in Equity, and Statement of Cash Flows and for the year then ended; and
- the related notes including the significant accounting policies.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and the UK adopted International Accounting Standards.

In my opinion the financial statements:

- give a true and fair view of the state of the PSR's affairs as at 31 March 2023 and of the loss for the year then ended;
- have been properly prepared in accordance with the UK adopted International Accounting Standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on regularity

In my opinion, in all material respects the income and expenditure recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Basis for opinions

I conducted my audit in accordance with International Standards on Auditing (UK) (ISAs (UK)), applicable law and Practice Note 10, *Audit of financial statements and regularity of public sector bodies in the United Kingdom (2022)*. My responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of my certificate.

Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2019. I am independent of the PSR in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

The framework of authorities described in the table below has been considered in the context of my opinion on regularity.

Framework of authorities	
Authorising legislation	Financial Services (Banking Reform) Act (FSBRA) 2013

Conclusions relating to going concern

In auditing the financial statements, I have concluded that the PSR's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

I have evaluated the directors' assessment of the entity's ability to continue to adopt the going concern basis of accounting, considering the PSR's funding arrangements and performing an assessment of whether any conditions exist which may cast significant doubt on the PSR's ability to continue to operate. I confirmed that the PSR continues to hold a statutory power to raise levies to meet its funding requirements and that no events or conditions exist which may cast significant doubts on the PSR's ability to continue its operations.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on PSR's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In relation to the entities reporting on how they have applied the UK Corporate Governance Code, I have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

My responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this certificate.

Overview of my audit approach

Key audit matters

Key audit matters are those matters that, in my professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditor, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of the audit of the financial statements as a whole, and in forming my opinion thereon. I do not provide a separate opinion on these matters.

In common with the prior period, I have not identified any key audit matters throughout the course of my audit. Whilst I do not consider these to represent key audit matters, I identified significant risks in relation to:

- The risk of management override of controls, which is a presumed significant risk of material misstatement under ISAs (UK) and is considered separately in the section on fraud later in this certificate; and
- The recognition, completeness and disclosure of penalties received and receivable, due to their scale and profile.

The assessed significant risks of material misstatement were discussed with the Audit Committee. Details of the work of the Audit Committee can be found on page 125.

Application of materiality

Materiality

I applied the concept of materiality in both planning and performing my audit, and in evaluating the effect of misstatements on my audit and on the financial statements. This approach recognises that financial statements are rarely absolutely correct, and that an audit is designed to provide reasonable, rather than absolute, assurance that the financial statements are free from material misstatement or irregularity. A matter is material if its omission or misstatement would, in the judgement of the auditor, reasonably influence the decisions of users of the financial statements.

Based on my professional judgement, I determined overall materiality for the PSR's financial statements as a whole as follows:

Framework of authorities	PSR
Materiality	£400,000
Basis for determining materiality	1.9% of gross expenditure of £20,995,000 (2021-22: 1.9% of gross expenditure)
Rationale for the benchmark applied	Expenditure is the key area of interest for Parliament (and indeed more broadly the firms regulated by the PSR) because the budgeted amount for the financial year determines the annual funding requirement for the PSR, which forms the basis of the fees invoiced to regulated firms. This represents the size of the regulatory cost that the PSR imposed upon the financial services sector. The account is primarily composed of payroll and other operating costs.

Performance materiality

I set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 75% of materiality for the 2022-23 audit (2021-22: 72%). In determining performance materiality, I have also considered the uncorrected misstatements identified in the previous period.

Other materiality considerations

Apart from matters that are material by value (quantitative materiality), there are certain matters that are material by their very nature and would influence the decisions of users if not corrected. Such an example is any error reported in the *Related party transactions* note in the financial statements. Assessment of such matters needs to have regard to the nature of the misstatement and the applicable legal and reporting framework, as well as the size of the misstatement.

I applied the same concept of materiality to my audit of regularity. In planning and performing audit work to support my opinion on regularity, and in evaluating the impact of any irregular transactions, I considered both quantitative and qualitative aspects that would reasonably influence the decisions of users of the financial statements.

Error reporting threshold

I agreed with the Audit Committee that I would report to it all uncorrected misstatements identified through my audit in excess of £8,000, as well as differences below this threshold that in my view warranted reporting on qualitative grounds. I also report to the Audit Committee on disclosure matters that I identified when assessing the overall presentation of the financial statements.

Total unadjusted audit differences reported to the Audit Committee have no overall impact on net expenditure or assets.

Audit scope

The scope of my audit was determined by obtaining an understanding of the PSR and its environment, including the entity wide controls, and assessing the risks of material misstatement.

Other information

The other information comprises the information included in the annual report, but does not include the financial statements and my auditor's certificate and report thereon. The directors are responsible for the other information.

My opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in my certificate, I do not express any form of assurance conclusion thereon.

My responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact.

I have nothing to report in this regard.

Opinion on other matters

In my opinion, the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Financial Services and Markets Act 2000 and HM Treasury directions made under it.

In my opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report, the Corporate Governance Statement and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements;
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements;
- the information about internal control and risk management systems in relation to financial reporting processes, and about share capital structures, in compliance with rules 7.2.5 and 7.2.6 in the Disclosure Rules and Transparency Rules sourcebook made by the Financial Conduct Authority (the FCA Rules), is consistent with the financial statements and has been prepared in accordance with applicable legal requirements; and
- information about the PSR's corporate governance code and practices and about its administrative, management and supervisory bodies and their committees complies with rules 7.2.2, 7.2.3 and 7.2.7 of the FCA Rules.

Matters on which I report by exception

In the light of the knowledge and understanding of the PSR and its environment obtained in the course of the audit, I have not identified material misstatements in the Strategic Report, the Corporate Governance Statement or the Directors' Report.

I have nothing to report in respect of the following matters if, in my opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- I have not received all of the information and explanations I require for my audit; or
- the financial statements and the parts of the Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- a corporate governance statement has not been prepared

Corporate governance statement

The Listing Rules require me to review the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the PSR's compliance with the provisions of the UK Corporate Governance Code specified for my review.

Based on the work undertaken as part of my audit, I have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or my knowledge obtained during the audit:

- The directors' statement with regards the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified, set out on page 150;
- The directors' statement that the financial statements are fair, balanced and understandable, set out on page 149;
- The board's confirmation that it has carried out a robust assessment of the emerging and principal risks, set out on page 150;
- The section of the annual report that describes the review of effectiveness of risk management and internal control systems, set out on pages 124 to 125; and
- The section describing the work of the audit committee, set out on page 160.

The directors have not provided an assessment of the entity's prospects, the period this assessment covers and why the period is appropriate as required by provision 31 of the UK Corporate Governance Code. The directors have set out the reasons for omitting these disclosures on page 154.

Responsibilities of the directors for the financial statements

As explained more fully in the Directors' Responsibilities, the directors are responsible for:

- maintaining proper accounting records;
- providing the Comptroller and Auditor General (C&AG) with access to all information of which management is aware that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
- providing the C&AG with additional information and explanations needed for his audit;
- providing the C&AG with unrestricted access to persons within the PSR from whom the auditor determines it necessary to obtain audit evidence;
- preparing financial statements, which give a true and fair view, in accordance with the Companies Act 2006;
- ensuring such internal controls are in place as directors determine is necessary to enable the preparation of financial statements to be free from material misstatement, whether due to fraud or error;
- preparing the annual report, which includes the directors' remuneration report, in accordance with the Companies Act 2006 and the Financial Services (Banking Reform) Act 2013; and
- assessing the PSR's ability to continue as a going concern, disclosing, as applicable, matters related to going concern, and using the going concern basis of accounting unless the directors either intend to liquidate the entity or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit, certify and report on the financial statements in accordance with the Financial Services (Banking Reform) Act 2013.

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a certificate that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Extent to which the audit was considered capable of detecting non-compliance with laws and regulations including fraud

I design procedures in line with my responsibilities, outlined above, to detect material misstatements in respect of non-compliance with laws and regulations, including fraud. The extent to which my procedures are capable of detecting non-compliance with laws and regulations, including fraud is detailed below.

Identifying and assessing potential risks related to non-compliance with laws and regulations, including fraud

In identifying and assessing risks of material misstatement in respect of non-compliance with laws and regulations, including fraud, I:

- considered the nature of the sector, control environment and operational performance including the design of the PSR's accounting policies,

- inquired of management, the FCA's Group Head of Internal Audit and those charged with governance, including obtaining and reviewing supporting documentation relating to the PSR's policies and procedures on:
  - identifying, evaluating and complying with laws and regulations;
  - detecting and responding to the risks of fraud; and
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations, including the PSR's controls relating to the PSR's compliance with the Companies Act 2006 and the Financial Services (Banking Reform) Act 2013
- inquired of management, the FCA's Group Head of Internal Audit and those charged with governance whether:
  - they were aware of any instances of non-compliance with laws and regulations; and
  - they had knowledge of any actual, suspected, or alleged fraud
- discussed with the engagement team regarding how and where fraud might occur in the financial statements, and any potential indicators of fraud.

As a result of these procedures, I considered the opportunities and incentives that may exist within the PSR for fraud and identified the greatest potential for fraud in the following areas: revenue recognition and the posting of unusual journals. In common with all audits under ISAs (UK), I am also required to perform specific procedures to respond to the risk of management override.

I obtained an understanding of the PSR's framework of authority, and other legal and regulatory frameworks in which the PSR operates. I focused on those laws and regulations that had a direct effect on material amounts and disclosures in the financial statements or that had a fundamental effect on the operations of the PSR. The key laws and regulations I considered in this context included the Companies Act 2006, the Financial Services and Markets Act 2000, the Financial Services (Banking Reform) Act 2013, the UK Corporate Governance Code and relevant employment law and taxation legislation.

Audit response to identified risk

To respond to the identified risks resulting from the above procedures:

- I reviewed the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described above as having direct effect on the financial statements;
- I enquired of management and the Audit Committee concerning actual and potential litigation and claims;
- I reviewed minutes of meetings of those charged with governance and the board and internal audit reports;
- in addressing the risk of fraud through management override of controls, I tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made on estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business;
- I reviewed the accounting policies related to the PSR; and
- I used analytical procedures to identify any unusual or unexpected relationships.

I communicated relevant identified laws and regulations and potential risks of fraud to all engagement team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

A further description of my responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of my certificate.

Other auditor's responsibilities

I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control I identify during my audit.

Report

I have no observations to make on these financial statements.

Gareth Davies
Comptroller and Auditor General

19 July 2023

National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

Statement of comprehensive income for the year ended 31 March 2023

	Notes	Total 2023 £'000	Total 2022 £'000
Income			
Fee income		18,048	17,203
Other income		126	29
Total income	**4**	**18,174**	**17,232**
Operating costs			
Staff costs	5	(12,112)	(10,842)
Administrative costs	6	(8,883)	(5,881)
Total operating costs		**(20,995)**	**(16,723)**
Total comprehensive (loss)/profit for the year		**(2,821)**	**509**

Statement of changes in equity for the year ended 31 March 2023

	£'000
At 1 April 2021	**4,632**
Total comprehensive profit for the year	509
At 1 April 2022	**5,141**
Total comprehensive loss for the year	(2,821)
At 31 March 2023	**2,320**

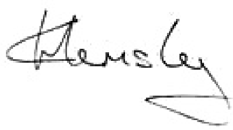
Statement of financial position for the year ended 31 March 2023

Company number: 8970864

	Notes	Total 2023 £'000	Total 2022 £'000 restated[1]
Current assets			
Cash and cash equivalents		9,104	10,752
Trade and other receivables		80	64
Intragroup receivables[1]		2,923	34,657
Total assets	**7**	**12,107**	**45,473**
Current liabilities			
Trade and other payables		(8,581)	(39,203)
Intragroup payables[1]		(1,206)	(1,129)
Total liabilities	**8**	**(9,787)**	**(40,332)**
Total assets less total liabilities		**2,320**	**5,141**
Accumulated surplus		**2,320**	**5,141**

The financial statements were approved by the board on 28 June 2023, and were signed on its behalf on 18 July 2023 by:

Aidene Walsh
Chair



Chris Hemsley
Managing Director

The Company is exempt from the requirement of Part 16 of the Companies Act 2006 as stipulated in Schedule 4, paragraph 8 (5) of the Financial Services (Banking Reform) Act 2013.

1 Refer *Note 2 Core accounting policies – Restatement*.

Statement of cash flows for the year ended 31 March 2023

	Notes	Total 2023 £'000	Total 2022 £'000
Net cash used by operating activities	**3**	**(1,774)**	**(1,160)**
Investing activities			
Interest received on bank deposits		126	2
Net cash generated in investing activities		**126**	**2**
Net decrease in cash and cash equivalents		**(1,648)**	**(1,158)**
Cash and cash equivalents at the start of the year		10,752	11,910
Cash and cash equivalents at the end of the year		**9,104**	**10,752**

Notes to the financial statements

1. General information

The Payment Systems Regulator (PSR) was incorporated in England and Wales under the Companies Act 2006 on 1 April 2014 as a private company, limited by shares (a single share with a £1 nominal value, wholly owned by the Financial Conduct Authority (FCA)). The nature of the PSR's operations is set out in the financial overview.

The registered office is 12 Endeavour Square, London, E20 1JN.

The financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the PSR operates.

2. Core accounting policies

Basis of preparation

The financial statements have been prepared on a going concern basis, under the historical cost convention in accordance with UK-adopted International Financial Reporting Standards (IFRS) and those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The principal accounting policies applied in preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Changes in accounting policy

There are no new or amended IFRS or International Financial Reporting Interpretations Committee (IFRIC) interpretations that have been adopted.

Restatement

Intragroup receivables and intragroup payables have been restated to reflect recharges payable to the FCA separately from fees and penalties collected by the FCA on behalf of the PSR.

	Note	2022 £'000
Statement of financial position		
Current assets		
Intragroup receivables	7	1,129
Current liabilities		
Intragroup payables	8	(1,129)
Net assets – net impact		–
Accumulated reserves – net impact		–

2. Core accounting policies (continued)

Income

The core principle of IFRS 15 – Revenue from Contracts with Customers – is that 'an entity recognises revenue to depict the transfer of promised goods or services to customers, in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services'.

The standard requires an entity to identify the contract(s) with a customer and the performance obligation related to the contract. It further requires for the transaction price to be determined and allocated to the performance obligations in the contract. Revenue can only be recognised under the standard when the entity satisfies a performance obligation.

The implication of adopting IFRS 15 directly has been assessed, but – given the nature of the PSR's activities and that IFRS 15 relates to commercial organisations – it was not considered appropriate. Accordingly, management has applied International Accounting Standards (IAS) 8 (10) to use its judgement in developing and applying an accounting policy that provides information that is relevant and reliable.

In doing so, management has broadened the definition of a contract to include legislation and regulation. In this circumstance, a 'contract' is the underlying statutory framework set out in Financial Services (Banking Reform) Act 2013 (FSBRA). This framework enables the PSR to raise fees to recover the cost of carrying out its statutory functions. The performance obligation under the 'contract' is the granting of the ability to operate and remain authorised during the course of the year.

The PSR's revenue streams are categorised as either fee income or other income.

Fee income includes the annual periodic fees which are levied and measured at fair value when recognised. The Financial Services and Markets Act 2000 (FSMA 2000) enables the FCA to raise fees, and FSBRA enables the FCA to raise fees on behalf of the PSR to recover the costs of carrying out its statutory functions. Fees are recognised at the later of:

- the fee year to which they relate (invoices on account), or
- the invoice date

Other income satisfies the core principles and conditions set out to recognise revenue. Resulting contract assets and liabilities are included in *Current assets* within Intragroup receivables and as *Fees received in advance* in Current liabilities.

Retirement benefit costs

Money Purchase Section (defined contribution)

The PSR is a member of the Money Purchase Section of the FCA Pension Plan, a defined contribution plan where the company pays contributions at defined rates to a separate entity.

Payments to the Money Purchase Section of the Plan are recognised as an expense in the statement of comprehensive income, as they fall due.

Prepaid contributions are recognised as an asset to the extent that a cost refund or a reduction in future payments is available.

3. Notes to the cash flow statement

	Notes	Total 2023 £'000	Total 2022 £'000 restated
(Loss)/Profit for the year from operations		(2,821)	509
Adjustments for:			
Interest received on bank deposits	4	(126)	(2)
Operating cash flows before movements in working capital		**(2,947)**	**507**
Decrease/(increase) in receivables	7	31,718	(32,404)
(Decrease)/increase in payables	8	(30,545)	30,737
Net cash used by operations		**(1,774)**	**(1,160)**

4. Income

FSBRA enables the Financial Conduct Authority (FCA) to raise fees on behalf of the PSR to recover the costs of carrying out its statutory functions. Fee income represents the annual periodic fees receivable for the financial year, is recognised in the year it is levied, and is measured at fair value.

	Total 2023 £'000	Total 2022 £'000
Fee income	18,048	17,203
Interest on bank deposit	126	2
Other income	–	27
Total income	**18,174**	**17,232**

5. Staff information

Staff costs (including executive directors) comprise:

	Total 2023 £'000	Total 2022 £'000
Gross salaries and taxable benefits	9,461	8,720
Employer's national insurance costs	1,131	1,012
Employer's defined contribution pension costs	1,085	963
Permanent staff costs	**11,677**	**10,695**
Secondees	142	–
Contractors	293	147
Short-term resource costs	**435**	**147**
Total staff costs	**12,112**	**10,842**

Staff numbers comprise:

The average number of full-time equivalent employees (including executive directors and fixed-term contractors) during the year to 31 March is presented below:

	Total 2023	Total 2022
Permanent staff	98	100
Parental, long-term sick and other leave	5	1
Short-term resource	3	3
Total	**106**	**104**

As at 31 March, the number of full-time equivalent employees (including executive directors and fixed-term contractors) was:

	Total 2023	Total 2022
Permanent staff	118	99
Short-term resource	2	5
Total	**120**	**104**

5. Staff information (continued)

Exit packages

Redundancy and other departure costs incurred in accordance with the redundancy policy are set out below. A compulsory redundancy is any departure resulting from a restructure or other change leading to a role ceasing to exist. Other departures are those mutually agreed with the individual concerned.

Long-term ill health settlements are credited back to the PSR by our insurers. Ex-gratia payments are classified as Special Payments (Note 6) and excluded from the table.

Exit package cost band £'000	Number of compulsory redundancies 2023	Number of other departures agreed 2023	Number of long-term ill health settlements 2023	Total 2023	Number of compulsory redundancies 2022	Number of other departures agreed 2022	Number of long-term ill health settlements 2022	Total 2022
0–10	–	–	–	–	–	–	–	–
>10–25	–	–	–	–	–	–	–	–
>25–50	–	–	–	–	–	–	–	
>50–100	–	–	–	–	–	–	–	–
>100–150	–	2	–	2	–	–	–	–
>150–200	–	–	–	–	–	–	–	–
Total number	–	2	–	2	–	–	–	–
Gross costs	£0.0m	£0.2m	£0.0m	£0.2m	£0.0m	£0.0m	£0.0m	£0.0m

6. Administrative costs

Administrative costs include:

	Total 2023 £'000	Total 2022 £'000
IT running costs	799	957
Professional fees	5,327	2,700
Accommodation and office services	1,346	1,350
Recruitment, training and wellbeing	718	166
Travel and hospitality	17	8
FCA staff recharges	536	559
Other costs	140	141
Total	**8,883**	**5,881**

6. Administrative costs (continued)

Losses and special payments

There are no losses and special payments to report for 2022/23, by value and by type where they exceed £300,000 for the year to 31 March 2023 only (no comparative figures required).

Auditors

The Comptroller and Auditor General was appointed as auditor on 1 April 2014 under FSBRA. The auditor's total remuneration for audit services is set out below.

	Total 2023 £'000	Total 2022 £'000
Fees payable to the National Audit Office for the audit of the financial statements	28	28

7. Current assets

	Notes	Total 2023 £'000	Total 2022 £'000 restated
Cash at bank		9,104	10,752
Cash deposits		–	–
Cash and cash equivalents		**9,104**	**10,752**
Prepayments and accrued income		79	52
Trade debtors		1	12
Intragroup receivable – FCA	9	2,923	34,657
Total current assets		**12,107**	**45,473**

Cash and cash equivalents comprise cash and short-term fixed-rate bank deposits with a maturity date of 12 months or less. The carrying amount of these assets approximates to their fair value.

Intragroup receivable consists of fees and penalties collected by the FCA on behalf of the PSR but not remitted to the PSR at 31 March.

8. Current liabilities

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

	Notes	Total 2023 £'000	Total 2022 £'000 restated
Fees received in advance		7,520	4,889
Trade creditors and accruals		449	1,053
Penalties payable		612	33,261
Trade and other payables		**8,581**	**39,203**
Intragroup payable – FCA	9	1,206	1,129
Total current liabilities		**9,787**	**40,332**

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade payables is ten days (2022 was 12 days).

Intragroup payable consists of amounts due from the PSR to the FCA under the provision of services agreement between the two companies which sets out the services that are supplied and the respective costs at 31 March. These costs are based on the charges the FCA incurs, without margins.

Penalties issued and not yet collected as at 31 March 2023 are included in both current assets and current liabilities and are subject to an assessment of recoverability. Once total penalties collected during the year exceed this amount, a liability to the Treasury arises.

Financial penalties resulting from enforcement action pursuant to FSBRA are paid to the Treasury after deducting enforcement costs. Penalties issued and collected under the Competition Act 1998 (CA98) are paid in full to the Treasury.

	Notes	Total 2023 £'000	Total 2022 £'000
Penalties payable to the Treasury at 1 April		33,261	–
Penalties issued and collected under CA98 during the year		–	33,261
Penalties issued and collected under FSBRA during the year		10,220	–
Penalties paid to the Treasury during the year		(42,869)	–
Penalties payable at 31 March		**612**	**33,261**
Penalties payable at 31 March are comprised of:			
– Retained to be rebated to fee payers		594	–
– Payable to the Treasury		18	33,261
		612	**33,261**

8. Current liabilities (continued)

Contingent liabilities:

The PSR is subject to claims that arise from time to time in the ordinary course of business. Provisions are made when claims are justified, reliably measurable and payment is expected to be made. As at 31 March 2023, there is one open claim made against the PSR. However, the PSR does not expect the ultimate resolution of any of the claims to have a significant adverse effect on its financial position, performance or cash flows.

9. Related party transactions

Remuneration of key management personnel

	Total 2023 £'000	Total 2022 £'000
Short-term benefits	979	894
Post-employment benefits	134	108
Total related party transactions	**1,113**	**1,002**

There were no other transactions with key management personnel in the year.

Transactions with the FCA

The FCA provides certain services to the PSR, which are set out in the provision of service agreement. Summarised as:

	Total 2023 £'000	Total 2022 £'000
Accommodation and office services	1,392	1,345
Staff costs	534	548
IT costs	757	841
Other costs	33	96
	2,716	**2,830**

As at 31 March 2023, the intragroup receivable from FCA was £2,923,000 as disclosed in note 7 (2022: £34,657,000 intragroup receivable as disclosed in note 7).

As at 31 March 2023, the intragroup payable to FCA was £1,206,000 as disclosed in note 8 (2022: £1,129,000 intragroup payable as disclosed in note 8).

10. Events after the reporting period

There were no material events after the reporting period. The financial statements were authorised for issue on the date of the Comptroller and Auditor General’s signature.

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