

The PSR Strategy

January 2022

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Foreword



Chris Hemsley
Managing Director

I am proud to present the PSR's first formal strategy.

In developing this strategy, we have drawn on the responses to our consultation, the contributions made during our informal engagement period in 2020 and the webinars that so many of you attended and contributed to. Our everyday engagement with industry, consumers, businesses and regulatory colleagues has also helped keep us informed about the sector and shape our thinking. We look forward to continuing those important conversations.

It is reassuring that the response to our proposed strategy confirms that we are largely focusing on the right outcomes for people and businesses that use payments. This final strategy has not significantly changed from the document we consulted on in June, but responses did help us identify some areas that we have amended or clarified. The main ones are:

- We have emphasised the importance of near-term outcomes as well as longer-term ones. This clarifies that, as we work to develop competition, we may need to act to protect users until competition has time to take effect. We have recently announced new work to examine card scheme fees and cross-border interchange fees, including considering whether shorter-term measures would be appropriate until we develop and implement any longer-term measures to introduce more competition.
- We have made an adjustment to our fourth priority to better reflect the changes taking place now and in the future to UK interbank (that is, account-to-account) payments. This makes clear that as we work towards good outcomes for all interbank payments, this includes those initiated through Open Banking services.
- The feedback has helped us to develop the indicators we will use to measure progress against the strategy. We are committing to a mid-term review of progress in 2024, as well as lighter-touch reviews every year.

I am grateful to everyone who has contributed to this strategy. I now look forward to working with you all to make it a reality.

Paying and being paid conveniently is central to our lives. Sitting behind all payments are a number of payment systems. It's the PSR's job to make sure these systems – and the markets they support – work better for people and for businesses.

There is a lot to celebrate about payments in the UK. Innovation, new products and new firms have brought about a transformation in how payments work.

And for lots of us, this works really well. Many of us have good local access to cash. And yet we can also leave the house with just a mobile phone, benefitting from contactless payments for clothes, food and transport. Increasingly, most of the time, a lot of us benefit from good broadband and mobile connectivity.

The same may be true for many businesses. Indeed, it is possible to set up and accept contactless payments in just a few hours from start to finish.

But most of us will also receive regular phishing messages from people trying to defraud us. And there are times when we need cash, such as in situations where digital payments don't yet work.

Importantly, even this picture of payments working well for many risks ignoring the impact on those for whom payments do not, or may not in the future, work well. For example, we know from our work that many people rely on cash in their day-to-day lives, do not benefit from good digital connectivity, and need payments to help them manage their tight budgets.

Our strategy reflects this mix of areas where payments markets and systems are supporting good and improving outcomes, but also highlights that there are areas where more work is needed. Work to meet immediate challenges, such as the change in payments behaviour brought on by COVID-19, and work to take forward changes that will improve outcomes over the longer term, as the UK moves towards increasing reliance on digital payments.

Many of those immediate challenges are reflected in our current annual plan:

- We need to make it harder for criminals to defraud people using the payment systems we regulate.
- We need to look after the victims who lose money when they have done nothing wrong.
- We need to continue our work to regulate the UK's main cash machine network, so that there is good geographic availability of cash from free-to-use ATMs.
- We also need to continue our important work supporting competition in today's markets – by overseeing changes to the architecture of core payment systems to support innovation, by helping firms gain access to those systems, and by policing fair competition using our enforcement powers where necessary. Our recent case tackling a possible cartel in the pre-paid cards market illustrates the importance of this.

While we must recognise the impact of recent challenges on the sector, the PSR Strategy focuses particularly on what we are trying to achieve over the longer term. However, reflecting stakeholder comments, it is now clearer about what we will do as we work towards those long-term outcomes.

In this strategy we are setting out our views on a number of important points:

First, how competition can support good outcomes in payments markets, such as low prices, high service quality and continued innovation. In particular, we set out our view that it is useful to consider two forms of competition: competition between firms supported by a particular payment system; and competition between firms on different payment systems. To date, the focus has been particularly on the former – supporting more competition within a given payment system, notably within Faster Payments.

Now, in this strategy, we point to the increasing need to focus on competition between firms that operate on different systems. And, by implication, competition between different systems. This reflects the changing nature of those systems – with technology increasingly allowing similar payments to be made using a number of different systems.

Second, this strategy sets out our view that there is an emerging risk to competition in retail payments markets. Competition has played a vital role in delivering good outcomes, improving service quality and innovation. But there are significant structural changes happening. We need digital payments to be competitive for everyone – and this means for all the main ways in which businesses and individuals make and receive payments.

In retail, we have historically relied on cash, cheques and card payments to do our shopping. This delivered choice between different payment types. But the future of retail payments is increasingly about digital debit payments – recent figures show that the number of ATM visits fell by almost 1 billion in 2020, a fall of 37% on 2019, and they still remain significantly below the levels of February 2020, whereas card payments (including contactless and online transactions) had recovered to pre-COVID-19 levels in April 2021. And while new firms have entered and offered choice in terms of how to initiate these payments – such as via Apple Pay, Google Pay and so on – the bulk of these payments still rely on Visa or Mastercard.

This is not, in itself, a problem if competition between these firms is effective. Or if new payment companies are able to enter the market and compete with them.

But there is a risk that neither of these competitive forces are sufficiently strong to protect people and businesses. Indeed, at the moment, we do not see a likely way in which new entry – such as from a new crypto-based payment system – would address these risks in a timely manner. In which case, we face a long-term risk to competition in retail payments.

This is why a key part of our strategy is unlocking the potential of the existing interbank systems, so that they present a viable option to accept greater volumes of retail payments. Ensuring that – at this structural level – UK payments have sufficient diversity and rivalry.

This is not a straightforward task and will take some time to deliver. It requires technical changes to upgrade our interbank infrastructure so that it works for retail transactions. It also requires consumers to maintain confidence in using solutions built on interbank systems – which, in short, means ensuring that the right level of consumer protection is in place for people making payments in this way.

But for this to emerge we need to take a look at the commercial model for delivering retail payments. At present, a card-based transaction earns income for banks and other payment firms.

The same transaction using Faster Payments creates a cost to those same institutions. This means that the current commercial incentives do not align with the objective of making greater use of interbank to support competition over the longer term.

However, there are also opportunities here. Open Banking presents a new way to initiate payments over the interbank systems, and could provide one way for new firms to bring innovative products to market in a way that manages these risks to competition.

This leads to the third change signalled by our strategy: the importance of governance and regulation. The creation of the PSR coincided with, and supported a significant change in, the governance and regulation of our payment systems. This has brought about a lot of change and improved outcomes – new, large-scale payment firms have successfully delivered valuable new services to people and businesses, supported by this governance, fair access and backed by the PSR as economic regulator. Wise (formerly TransferWise) is a clear example of this – and there are many more.

We think that there is more work to do, so that the governance and oversight of rules in our payment systems supports our objectives and delivers the outcomes that we and society want to see. We want to see Pay.UK deliver against a broader role, actively improving the rules governing interbank payments. This also means that new organisations – such as those overseeing the initiation of payments in the Open Banking framework – need appropriate governance frameworks and regulatory oversight, including by the PSR.

However, this focus on competition may take time to have an impact on outcomes. We will, therefore, keep in mind the ongoing need to protect users in the meantime. We will consider the range of tools available to us, including taking shorter-term measures to protect people and businesses while we work towards long-term solutions. And if it appears that structural change will not ultimately deliver the outcomes for users that we want, our objectives will require us to intervene robustly.

The PSR Strategy signals, therefore, a number of important changes in emphasis. However, this comes from a continued focus on our core role – to protect the interests of people and businesses, and to promote competition and innovation in payments.

Pursuing this strategy will have implications for the PSR, our workplan and the skills and resources we need.

It will also leave the PSR in a different place to where it is today. We need to continue adjusting our approach to ensure our work is directed where it will have the greatest impact. In the last few years, the payments ecosystem has changed. Sometimes this has been as a result of our work; at other times it has come from changes in legislation or because new technology has enabled new business models and services. As these things evolve further, our role will need to adapt accordingly.

As this happens, the PSR's workplan will focus more on reforms to promote competition in and between payment systems and the markets they support.

As the economic regulator of payment systems, this is our core purpose.

This is an ambitious strategy – one that implies a continued focus on working through issues and risks facing UK payments. The PSR is uniquely placed to give these issues the continued attention that they deserve.

But it is also an exciting strategy. One that involves unlocking and supporting the potential of UK payments to solve problems facing society, support the UK economy and improve how we live our daily lives.

Chris Hemsley

Managing Director

1 Executive summary

Payments are part of daily life and a key element in the UK economy. How we use them affects – and for some people, dictates – how we live our lives. Many now send money to friends using their phone, tap a card to pay for groceries or set up regular bill payments. But others lack access to these options, and businesses often have little or no choice in how they receive payments.

For payments to work well in society, we need payment systems to work well. We also need competition to be effective.

We want to make sure people have a fair choice about how they can make and receive payments, and are adequately protected when doing so. We want to promote competition both between payment systems and between payment services. And we want to make sure that payment systems are fit and sustainable for the future so we can all use them with confidence. Our strategy will help us make this happen.

- 1.1** We have been operational since 2015, working hard to meet our statutory objectives of promoting competition, innovation and the interests of service users. We have delivered significant improvements against those aims. Now that the PSR is a more established organisation, this is the right time to set out what we want to achieve and how we will prioritise our work in the next five years.
- 1.2** To do this, we need to plan our work in light of rapid innovation and developments in technology, changes in the marketplace and in user expectations and behaviours.
- 1.3** Payments are the one financial service that every business and consumer uses and relies on every day. Our society and economy depend on them.
- 1.4** Payments have been transformed in recent years. Many people can now make payments using just a card or a smartphone. Businesses can make large payments between them almost instantly and at relatively low cost.
- 1.5** But payments do not yet work well enough for everyone. Payments and payment systems must work well for all. The PSR plays an important role in achieving this.

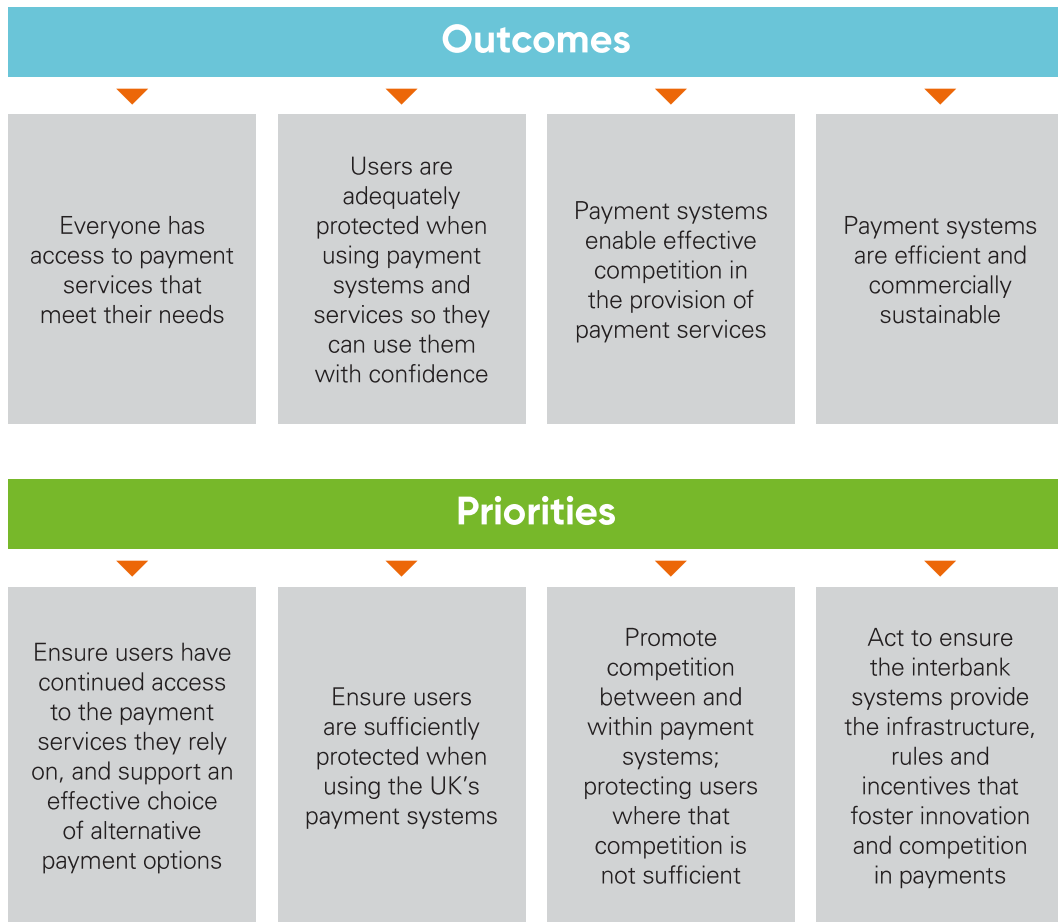
- 1.6** We want competition to be a key driver of improvements in payments. While competition is not a goal in itself, it is a process which typically leads to good outcomes like greater innovation, lower prices and higher service quality. In particular, we want to see interbank payments provide effective alternatives for card payments for a wide range of uses. Our role to protect access to payment systems and to secure fair competition remains an important focus for the organisation.
- 1.7** Some inherent features of payment systems may act to limit rivalry between competing firms. That means competition may not be sufficient to protect the payment needs of people and businesses in all circumstances.
- 1.8** For these reasons, we will remain focused on how best to support competition.
- 1.9** As existing payment systems evolve and new ones are developed, they must do so in ways that deliver benefits to people and businesses. At the same time, we must take care not to leave people behind.

Key elements of the PSR Strategy

- 1.10** This document sets out our perspective on payment systems and the markets they support. This includes what's going well, the opportunities for improvements and the risks and issues we see. Some of these features are inherent to payments markets and payment systems. Others reflect history and the current structure of governance and commercial frameworks.
- 1.11** The PSR Strategy is informed by this assessment and identifies **four strategic outcomes** we want to achieve in the next five years.
- 1.12** Like any organisation, we have finite resources and we want to focus our work so that it has the most impact – both in the near term and over the longer term. This leads us to propose **four strategic priorities**. These will inform the work we do.

1.13 The outcomes and priorities are summarised in Figure 1.

Figure 1: Our strategic outcomes and priorities



- 1.14** We identify a range of actions under each priority that we believe will help us achieve our desired outcomes. These are summarised in Table 1.

Table 1: Summary of strategic priorities and actions

Priority	Actions we will take
<p>Ensure users have continued access to the payment services they rely on, and support a choice of payment options</p>	<ul style="list-style-type: none"> • Remove barriers to the development of new services that meet user needs • Apply appropriate and robust regulation to any newly designated payment systems, taking into account the ‘same risk, same regulation’ principle • Understand the perspectives of vulnerable consumer groups towards new ways of paying and the choices available to them, and account for them in our decisions • Engage with other financial services regulators and government to ensure our decisions remain aligned with theirs and the division of responsibilities is clear • Continue to protect access to cash for those that rely on it • Remove barriers to effective competition • Continue to promote a range of options for payment service providers to access payment systems
<p>Ensure users are sufficiently protected when using the UK’s payment systems</p>	<ul style="list-style-type: none"> • Develop governance of the interbank rules, with a view to giving Pay.UK a stronger role to lead the development of protections (and other conduct rules), coordinating its participants where necessary • Pursue ways to ensure reimbursement for victims of authorised push payment (APP) scams who have done nothing wrong
<p>Promote competition between UK payment systems and the markets supported by them; protecting users where that competition is not sufficient</p>	<ul style="list-style-type: none"> • Develop the interbank systems to provide greater competition for the provision of payment services • Take forward a piece of work to examine the basis for scheme fees and cross-border interchange fees. Consider whether shorter-term measures, such as caps for scheme fees or cross-border interchange fees, might be appropriate in the intervening period until we develop and implement any longer-term measures to introduce more competition • Keep under review the need for us to regulate in other areas to protect consumers and businesses

Priority	Actions we will take
Act to ensure the interbank systems provide the infrastructure, rules and incentives that foster innovation and competition in payments	<ul style="list-style-type: none"> • Ensure funding is adequate to enable Pay.UK to fulfil its objectives, and that funds are allocated in a way which supports and promotes innovation and competition in overlay services • Develop governance of the interbank rules so that operators of interbank systems have the ability to enforce compliance with them • Promote and facilitate coordination of payment system participants where we think it is needed and not yet happening • Work with HM Treasury to ensure new systems and arrangements come under our remit if necessary to achieve good outcomes

1.15 The use of data in payments, the efficiency of cross-border payments and the environmental sustainability of payment systems have all been raised with us as areas of concern. We recognise these are important topics, and that they relate to our statutory objectives. We will keep these areas under review. We may change our relative priorities if we find developments relating to these topics make achieving our strategic outcomes riskier relative to other work, or where we see evidence of a detrimental impact to competition.

1.16 Related to this, the payments sector is a fast-moving and changing sector. The PSR Strategy sets out our current view on how to prioritise our work. However, there are likely to be occasions when we need to be involved in areas that we have not foreseen in this document. We always need to make sure we are focusing our resources where we can make the most impact. In doing this, we will work closely with other organisations, including where they are best placed to take action.

1.17 We need to understand if outcomes are moving in the right direction, and whether there is a need to change direction if we are not seeing the results we want. In Chapter 5, we set out how we will measure progress. This includes developing new metrics to assess the extent to which our strategic outcomes are being met, and undertaking annual reviews against those metrics. This will also inform future choices about what changes might be needed to our plans. We'll continue to analyse the UK payments landscape to identify trends, risks and opportunities.

2 Introduction

This document is the PSR's first formal strategy. It defines outcomes we want to see in the payments sector, and how we will work to achieve them. It gives our stakeholders and staff clarity about where our focus will be. It will also help us make best use of our resources.

Our strategy is informed by our experience since 2015, and by engagement with all our stakeholders. This includes the input we received during a digital-led engagement programme in summer 2020, responses to the consultation on our proposed strategy, as well as conversations since.

2.1 In this chapter, we introduce our strategy. We:

- provide an overview of why we are doing this work
- summarise the events leading up to and feeding into our strategy
- set out what we aim to achieve.

About the PSR

2.2 The PSR is the UK's economic regulator of payment systems.

2.3 Payment systems perform a critical function for the UK economy – for businesses and consumers alike. Every time anyone uses a cash machine, transfers money, buys something or gets paid, they use a payment system. Payments are the most commonly used financial service in the UK. Our modern society depends upon them and they affect our day-to-day lives.

2.4 Payment systems are always evolving, and we are here to make sure they work well for everyone – whether they're a consumer, a sole trader or a large corporate business. We use our experience as an economic regulator to help us improve payment systems and the markets they support. We do so together with the other regulators with powers over payment systems. You can read more about how we do this in paragraph 3.51 and Annex 1.

- 2.5** Our vision is for payment systems that are accessible, reliable, secure and value for money. Our strategy – which will help us deliver our vision – is firmly rooted in our statutory objectives, which underpin everything we do. These are:
- to promote effective competition in the market for payment systems and the markets for services provided by payment systems
 - to promote the development of and innovation in payment systems, including the infrastructure used to operate those systems, with a view to improving the quality, efficiency and economy of payment systems
 - to ensure that payment systems are operated and developed in a way that takes account of and promotes the interests of the businesses and consumers that use these services

Why we are developing a long-term PSR Strategy now

- 2.6** The PSR became operational in March 2015, with the purpose of making sure we have payment systems that work for everyone. Our focus has been on promoting effective competition and innovation, and ensuring that payment systems are operated and developed in the interests of those who use them.
- 2.7** At the time of our launch, we put in place a programme of work to tackle these priorities:
- we carried out market reviews into the provision of indirect access to payment systems, and into the ownership and competitiveness of infrastructure
 - we convened the Payments Strategy Forum, to provide strategic direction to the UK payments industry
 - we introduced a suite of measures to address the ownership and governance of, and access to, payment systems
 - we set out behavioural standards for those under our regulation
 - we established our monitoring and enforcement standards

2.8 Since this initial statement of our priorities, we have taken on many further pieces of work:

- We published guidance, monitored compliance and took enforcement action in our roles as:
 - the lead competent authority for enforcement of the Interchange Fee Regulation in the UK
 - the competent authority for monitoring and enforcing regulations 103, 104 and 61 of the Payment Services Regulations 2017
 - the joint co-competent authority (with the Financial Conduct Authority (FCA)) for regulation 105 of the Payment Services Regulations 2017.
- We inquired and reported on the issues raised in a super-complaint brought by Which? concerning authorised push payments. This led to our work on APP scams, and our work requiring banks to implement Confirmation of Payee messaging.
- We worked with other regulators to maintain users' access to cash as a means of payment.
- We carried out a market review of access to card acquiring services which identified three features that restrict merchants' willingness and ability to search and switch between acquirers. We will consult on remedies in early 2022.

2.9 This work led to better outcomes for payment systems and their users. Opening access to payment systems allows for more firms to offer new products and services to consumers. Our work with the UK's interbank systems has enabled consumers to have more confidence that their payments are not misdirected. There are now better protections for consumers to reclaim money lost to scams. Our work on access to cash means consumers continue to have free access to ATM withdrawals within their communities.

2.10 We recognise that more can be done. We need to adjust our approach to ensure our work is directed where it will have the greatest impact. In the last few years, the payments ecosystem has changed. Sometimes this has been as a result of our work, or because new technology has enabled new business models and services.

The PSR Strategy and our Annual Plan

- 2.11** Our Annual Plan sets out our aims for the year and how we will go about achieving them. Typically, this involves balancing our resources across a number of projects and activities.
- 2.12** Our strategy gives us a framework for the next five years. Not only to make decisions about what we do, but how we do it. Our Annual Plan will detail the activities we intend to undertake each year to help us meet our strategic priorities. We will explain how the activities fit within our strategy and how we will measure our success.
- 2.13** We will link our regulatory activities to changes in the strategy success metrics. As part of the process, we will monitor and publish a review of progress against our indicators on an annual basis.

The PSR Strategy and our Administrative Priority Framework

- 2.14** Our strategy will help us decide which action we take on matters of potential regulatory concern, including investigations or assessments we open and continue, and how we respond to applications and complaints (subject to our legal duties).
- 2.15** When we decide what actions to take we will have regard to this strategy, our organisational priorities, as well as the factors set out in our Administrative Priority Framework. Initially, we'll consider the degree to which taking action provides us with an opportunity to advance one or more of our statutory objectives, functions and duties, as we are unlikely to pursue an action which does not clearly do this. We will then take into account, the impact, resources, risk and strategic importance of taking action. We will also have regard to our section 53 FSBRA regulatory principles when deciding what action to take. This includes taking account of the need to act efficiently and proportionately when taking action.
- 2.16** Our Administrative Priority Framework is illustrative, rather than exhaustive, and we will consider other factors where and as appropriate. We will update our Administrative Priority Framework when appropriate. This will help to ensure our strategic priorities are embedded in our decisions.

What we've done so far

2.17 In 2020, we undertook a campaign of engagement to hear different perspectives on our work and our approach. There were three themes:

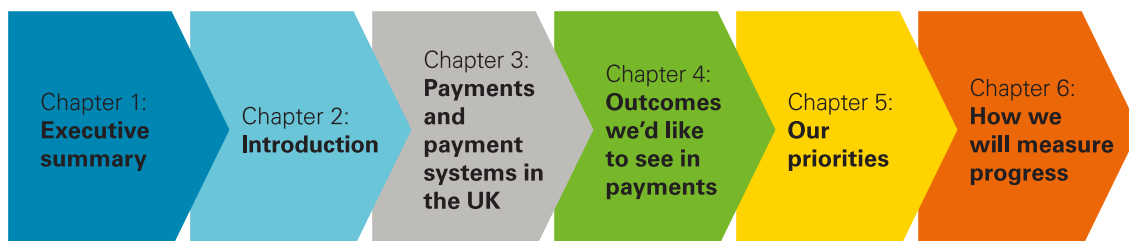
- competition
- innovation and future payment methods
- choice and availability of payments

2.18 We had contributions from a range of stakeholders, including the British Retail Consortium, the Emerging Payments Association, UK Finance, Vendorcom, Toynbee Hall and the Financial Services Consumer Panel. We also published contributions from individual members of staff. These took the form of blogs, think-pieces and video discussions, and helped shape the debate.

2.19 In June 2021, we published our proposed strategy, and asked for feedback from everyone with an interest in payment systems and how they work. We also held a series of engagement events to listen to and understand the views of interested parties.

2.20 Our response paper¹, which accompanies the publication of this strategy, sets out how we have taken account of all the main points made in submissions to our consultation.

The PSR Strategy



2.21 The rest of this document reflects the above approach:

- **Chapter 3** outlines the current status of payments and payment systems in the UK, and describes how the landscape is evolving
- **Chapter 4** describes the outcomes we will work to achieve in payments
- **Chapter 5** sets out our priorities for achieving those outcomes, and how we plan to meet those priorities
- **Chapter 6** details how we will measure progress against our stated outcomes.

¹ <https://psr.org.uk/media/4cdjb4an/psr-rp22-1-response-to-cp21-7-jan-2022.pdf>

2.22 Unless otherwise stated, observations in this document about current conditions in the payments sector, and expectations about its future, are based on our experience of regulating the sector, and engagement with our wide range of stakeholders; these views are not definitive. When it comes to individual projects, any specific policy decisions will only be taken after detailed analysis and inquiry.

A note on users

In this document we frequently refer to ‘users of payment systems’. Both those sending and receiving funds are users of payment systems. Consumers, businesses, charities and many government agencies are all users of payment systems, and all need effective and efficient payment systems to be able to pay each other, merchants or suppliers. However, none of these groups are likely to have direct relationships with the underlying payment system, which may make it more difficult for payment system operators to keep the interests of these users in mind.

Inevitably, different users’ interests do not always perfectly align. If regulatory intervention is needed to resolve conflicts, we will act in a way that advances one or more of our statutory objectives and in line with this strategy. However, in many cases, interests do align: for example, governments want payments to consumers to be as quick and efficient as possible, and merchants and consumers have a shared interest in convenient retail payments.

As a general principle, we will focus on whether our work is likely to deliver improved outcomes for ‘end users’, in the short or longer term. This approach is consistent with other economic regulators. This means we consider what impact changes might have on people and (non-payment) businesses that need to make or receive payments.

3 Payments and payment systems in the UK

In this chapter, we describe:

- strengths and issues relating to the UK's payment systems, and their impact on payments markets
- inherent features of payment systems that affect how payments markets work, and our regulation of them
- specific features of the UK's payment systems that affect outcomes for end users
- areas which have the potential to improve outcomes in future, but also some that bring new risks and issues

The UK's payment systems

3.1 The UK's payment systems are critical to the UK economy. In 2020, **35.6 billion payments worth over £100 trillion pounds** were settled and cleared in the UK.² Bill payments, salary payments, ATM withdrawals and grocery shopping – among many other critical uses for both businesses and consumers – all depend on the systems we regulate.

3.2 Our regulatory powers, as defined under the Financial Services (Banking Reform) Act 2013 (FSBRA), can only be applied to those payment systems³ that are designated to us by the Treasury. There are currently seven:

Table 2: Designated payment systems

Bacs (operated by Pay.UK)	The account-to-account system that processes payments through two principal payment schemes: Direct Debit, which is predominantly used by individuals to pay (recurring) bills, and Direct Credit which is used by government to disburse benefits and businesses to pay employee salaries and wages.	In 2020, 18% of all transactions made in the UK were made using Bacs
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² UK Finance (2020).

³ Under the Financial Services (Banking Reform) Act ('FSBRA') 2013.

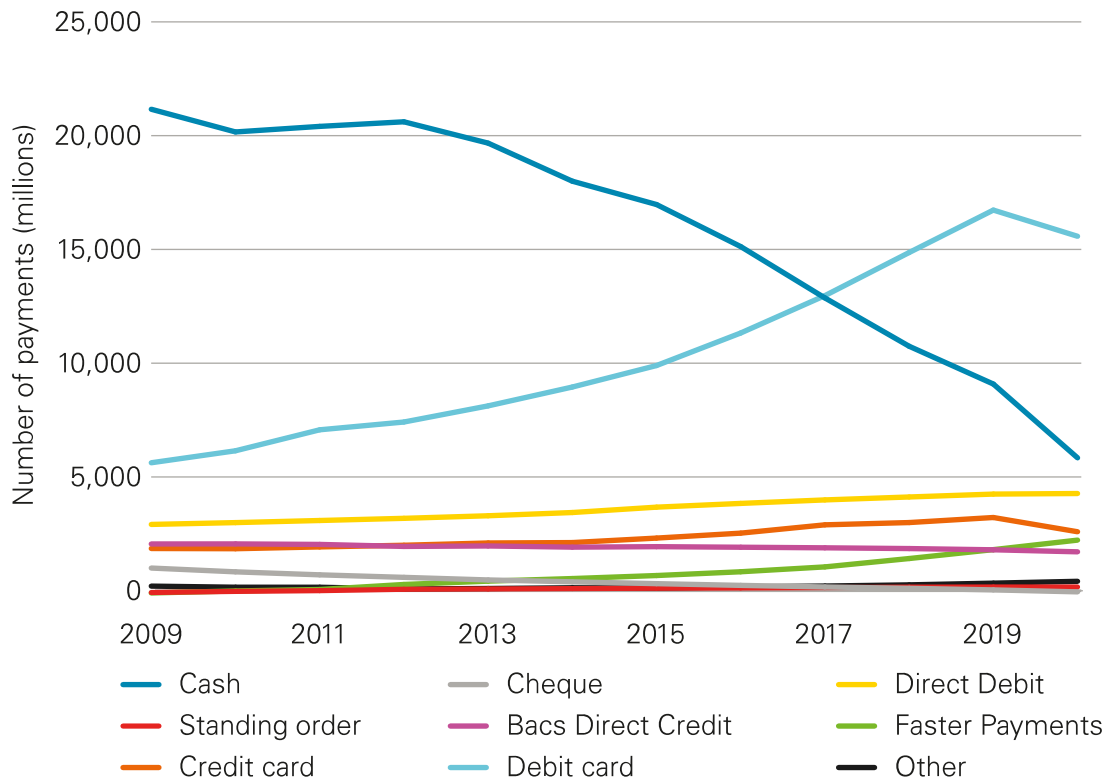
CHAPS (operated by the Bank of England)	The UK's real-time, high-value sterling payment system, where payments are settled over the Bank of England's Real Time Gross Settlement infrastructure. Accounting for over 90% of the daily sterling payment value, it is used to process both wholesale payments (for example, international payments between banks) and retail (for example, house purchases) payments.	In 2020, less than 1% of all transactions made in the UK were made using CHAPS
Cheque & Credit Clearing (operated by Pay.UK, including the Image Clearing System)	The account-to-account system in the UK that processes cheques and other paper instruments, including those processed through the Image Clearing System (ICS) which enables digital images of cheques to be exchanged between banks and building societies.	In 2020, less than 1% of all transactions made in the UK were made using cheques
Faster Payments (operated by Pay.UK)	The account-to-account system that provides near real-time payments, as well as standing orders. Over 400 financial institutions offer Faster Payments, making it available to the vast majority of current account holders in the UK. Almost all internet and telephone banking payments in the UK are now processed via Faster Payments.	In 2020, 8% of all transactions made in the UK were made using Faster Payments
LINK (operated by LINK Scheme)	The ATM to account system that enables you to take cash out of your bank accounts (and other activities) using the LINK network of ATMs in the UK.	In 2020, 17% of all transactions made in the UK were made using cash
Mastercard (operated by Mastercard Inc)	The card payment system processing debit and credit card transactions made using a Mastercard-branded card. These payments can be made online through providing your card details or by using your (contactless) card.	In 2020, 52% of all transactions made in the UK were made using a debit or credit card
Visa (jointly operated by Visa Europe and Visa UK)	The card payment system processing debit and credit card transactions made using a Visa-branded card. These payments can be made online through providing your card details or by using your (contactless) card.	

3.3 Faster Payments, Bacs, and Cheque and Credit Clearing are all owned and operated by Pay.UK, which is a not-for-profit entity. CHAPS is owned and operated by the Bank of England, and LINK, Visa and Mastercard are all owned and operated independently. Unlike many other countries, the UK does not have a separate national debit card system. In the rest of this document, we refer to those systems which support payments between deposit accounts as ‘interbank systems’ and payments made over those systems as ‘interbank payments’ (although they can also be described as ‘account-to-account payments’).

3.4 There is some limited overlap between the functions offered by some of these systems. For example, LINK, Mastercard and Visa all support ATM transactions, and either Faster Payments or Bacs could be used for business-to-consumer payments.

3.5 The total value of UK payments was £8,606 billion (excluding CHAPS) in 2020, with debit cards the most-used payment method by volume of transactions.⁴

Figure 2: The changing share of UK payment methods



Source: Payments Markets 2021, UK Finance

⁴ UK Payments Markets 2020, UK Finance.

3.6 The payments sector is changing. Digital payments are becoming more convenient and new business models are creating new payments products and services. The use of cash is in decline – since 2017, cash use for payments has been declining by around 18% each year. In 2020, partly as a consequence of the COVID-19 pandemic, this decline accelerated to a fall by 35% compared to the previous year. There has been growth in the proportion of ATMs owned by independent ATM deployers (IADs), partly as a result of branch closures by the major retail banks, combined with expansion by IADs. As the use of cash declines in the UK, there have been reductions in the numbers of free-to-use ATMs. However, the geographic coverage of the free-to-use ATM network remains good.

3.7 Many transactions that were once paid-for using cash are now made by debit card, resulting in rapid growth in the share of debit card transactions. In 2017, the volume of debit card transactions was greater than the volume of cash transactions for the first time. This has continued to increase. Likely factors for consumer preference for debit cards include:

- the growing consumer acceptance of chip-and-pin and the expansion of contactless authentication
- the expansion of card acceptance, partly supported by the introduction of payment facilitators such as Square and Zettle, which offer services to smaller merchants
- the use of debit cards in pass-through digital wallets, such as Apple Pay and Google Pay

3.8 The balance between cash and card transactions has been affected by the shift towards online transactions, driven by the effect of COVID-19. In 2020, debit and credit card payments jointly accounted for 18.6 billion transactions – 52% of all payments made that year. Cash payments accounted for 6.1 billion transactions in 2020 – 17% of all payments made that year.

3.9 Payment systems largely offer the same services to their participants as they did in 2015, but the ways people pay for goods and services has evolved. These participants – banks and other financial services providers – have been able to offer new methods of access to their customers, who now rely heavily on internet banking or mobile banking, which allow them access to Faster Payments services.

3.10 Over recent years, the interbank payment systems have developed other functions which have not yet had as much impact:

- Paym allows consumers to make payments using mobile phone numbers as the account reference. Consumer access to the Paym service is via their account provider
- Pay by Bank was intended to allow retail purchase transactions using Faster Payments. Take-up has been slow among banks, merchants and consumers, and the service has not achieved the share of transactions seen in other countries

- 3.11** In addition, the cheques infrastructure has been upgraded to allow for the digital processing of these payments. This has increased convenience for many users of cheques, but cheque volumes continue to decline and now account for less than 1% of payments made in the UK.
- 3.12** Most other payment methods are growing, but are not gaining share significantly in comparison with debit cards. There may be some signs of substitution between Bacs Direct Credit (DC) and Faster Payments. Figure 2 above shows Faster Payments' share increasing while Bacs DC declines slightly. But we do not expect most uses of Bacs DC – salary and welfare payments – to migrate to Faster Payments. There is little evidence of significant substitution between debit cards and Faster Payments. This situation may change as the take-up of Open Banking-enabled services drives more transactions to Faster Payments.
- 3.13** We have already seen changes in consumer habits and preferences (such as the greater use of online shopping and the widespread use of smartphones). In addition, the recent pandemic has affected how payments are made. However, we need to be mindful of the strength of the economy and the pressures on financial services firms. This will affect the availability of funds for investment in payment systems and new payment services. We also need to consider whether such events bring about temporary or more long-standing changes to payment systems and the way they are used.
- 3.14** Some features of payment systems are the inevitable result of the role they play in the economy and how they work. Others may be the result of the UK's specific approach to payments. This distinction is useful, as it highlights the extent to which we might be able to bring about change to these different features, and which are more likely to endure.

Payment systems as platforms

- 3.15** Payment systems have a common set of technical standards that are applied across the network for transactions to be sent between each other. Payment systems also establish a common set of rules that apply to their members. All payment systems must have at least basic standards of conduct to cover – for example, the time required for payments to settle and clear across the network. These rules allow for confidence and predictability for both payment service providers and end users.
- 3.16** In the rest of this document, we distinguish between 'payment services' and 'payment systems'. Payment systems are cooperative arrangements between system operators, payment service providers and other participants which provide the rules and functionality for payments to take place smoothly. Payment services are the services that payment firms offer to consumers or businesses, allowing them to transfer funds to other consumers and businesses.

- 3.17** When offering new services or functions to people or businesses that wish to make or receive payments, coordinated change across the industry is normally required. The manner and extent that payment service providers can offer new services to end users depends on the relevant markets, but may also depend on changes that need to be universal to be effective.
- 3.18** New users of payment systems are usually recruited not by the platform itself, but by platform members that offer payment services to end users. In card systems, acquirers will sell on payment processing services to merchants, and issuing firms will provide cards to consumers. Branding that applies across the network may allow end users to understand where they may access the payment functions offered by the system, and the standards that apply when using the system.
- 3.19** Payment systems can play a role in incentivising and ensuring good conduct by parties across the system. Their ability to do so effectively will depend on the arrangements for setting rules and standards for the ecosystem. Setting rules (whether technical, conduct or otherwise) requires coordination across an ever-increasing number of participants.
- 3.20** The way in which platforms coordinate functions or develop rules can vary significantly. The interbank payment systems in the UK were developed as a cooperative venture that was managed collectively by the banks. Responsibility for its governance and operation has recently been transferred to a not-for-profit entity, Pay.UK, whose objectives require it to take the interests of all users into account when performing its functions. In contrast, the largest card payment systems – Visa and Mastercard – are controlled by global commercial organisations. LINK is owned and operated independently, but on a not-for-profit basis.
- 3.21** The nature of platforms can make it harder for a new platform to enter and compete with an established one. There are several reasons:
- The cost of establishing new platforms is high, but the marginal cost of each transaction is low. This decreases the chance of successful entry by new participants
 - Platforms benefit from indirect network effects. A payment system with a large number of retailers using the system to receive payments will be attractive to those making retail payments, as there will be a higher likelihood of being able to transact with any given retailer. By attracting more people and businesses looking to make payments, the system will then become even more attractive to other retailers
 - Once networks are established, however, it may be easier for incumbent platforms to offer new services to their users than for entrants to build a new network and offer new services. This can lead over time to an entrenched advantage in the quality of services offered.

- 3.22** Platforms may perform a gatekeeping function: some groups of users may be constrained in their choice of whether to use the platform or not, or may face high costs to switch away. Platforms with gatekeeper characteristics may be able to exploit 'captive' users of the system in various ways, even if there is a degree of competition for other groups of users.

Features of UK payment systems that are specific to UK payments markets

- 3.23** Some features of the UK's payment systems may not be caused by the systems' role as a platform. Some features occur in the UK but are not inherent features of all payment systems:
- In the majority of cases, consumers are not charged a separate fee in order to make a payment, whether by their payment service provider or by their payee. The cost of payments is often recovered by firms in other ways, which may not be apparent to the end user. This may have an impact on the ability of payees (for example, retailers) to signal their preference for one type of payment service over another.
 - There is overlap across the membership of most payment systems. The UK's banks are high-volume members of both card clearing systems and interbank clearing systems.
 - There is a high degree of concentration in the provision of debit card clearing services. Card issuers typically determine whether current accounts offer payments via the Visa or Mastercard networks (but do not offer this choice to their customers).
 - The providers of the UK's card clearing networks compete with each other (and with national payment system providers) in many other markets outside of the UK. They may develop services to respond to competition elsewhere, which they then deploy into the UK.
 - Mergers and acquisitions remain a feature of UK payments markets. Such activity has included the incumbent providers of card clearing networks. Many of these transactions involve multinational businesses as well as those based in other countries, but affect current or prospective service providers in the UK.
 - The governance and commercial incentives differ across the systems used in the UK. The UK's retail interbank payment systems are operated by Pay.UK, which offers its services on a cost-recovery basis as a not-for-profit entity. Pay.UK has limited independent capacity to engage in mergers and acquisitions, invest independently in marketing and promotional activities, or expand globally. As we discuss in Chapter 4, we think the differing incentives across payment systems and their participants affect how Pay.UK operates and its ability to develop new rules or promote new functionality.

Payment systems and services are changing

3.24 The payments landscape has changed since our establishment six years ago, and will continue to change. We'll take these changes into account, and we'll also reflect on areas where we'd like to see more change.

Increasing competition between payment systems

3.25 Historically, a number of payment systems were designed specifically for a particular purpose. This might mean they have relatively low levels of interoperability or opportunities for users to move payment volumes between these systems.

3.26 In recent years, advances in technology allowed payment systems to provide more services on each network. This may be either through improvements to the central system or by making use of technology that allows additional information to be provided in addition to the standard clearing messages – for example, APIs.

3.27 We are also seeing moves towards common messaging standards. This will increase the opportunities for interoperability. The renewal of the interbank payment systems is planned to deliver ISO20022 messaging standards on a single clearing and settlement layer.

3.28 Growth in non-cash retail payments has been dominated by card systems over the past six years. There are opportunities for competition from other payment systems, particularly interbank systems. Such competition could be important, as debit cards are highly concentrated with limited opportunities to improve competition between card systems. Over 90% of debit cards in the UK are Visa cards, and most of the remainder are Mastercard cards.⁵ Meanwhile, card schemes have been launching products aimed at business-to-business payments.

3.29 The future looks likely to be characterised by a small number of payment systems supporting a wider range of different payment services. These payment services may be potentially available across more than one payment system.

3.30 This raises the prospect of greater interoperability and more opportunities for competition between systems, reflecting the greater overlap in the payment services they can support.

⁵ UK Payment Statistics 2020. UK Finance.

New systems and their impact on users

- 3.31** Digitalisation and new platforms resulted in disruptive change in other industries, and in payments sectors in other countries.
- 3.32** The UK has high levels of debit card ownership. Many consumers are moving away from routine use of cash and cheques. This may affect the prospects for further disruptive change in UK payments markets, as relatively large numbers of people and businesses have already moved to making and accepting payments digitally.
- 3.33** There are, however, potential ways for new payment systems to be established through:
- a. the deployment of new technologies (such as through systems based on distributed ledger technology, or those delivering lower cost through use of cloud technology)
 - b. the entry of an existing non-payment network – such as a social media firm
- 3.34** New payment systems have the potential to bring greater choice and competition. Due to the underlying features of payment systems, they also have the potential to operate at scale in relatively short periods of time. This would particularly be the case if the new network already had a large user base acquired from something else.
- 3.35** This is not just a hypothetical consideration. There are new payment systems in development today that intend to offer services to consumers, and systems that are intended only for use by commercial banks.
- 3.36** We are mindful of the likelihood that new payment systems will be established in the UK. In such circumstances – and in light of the underlying features of payment systems – we might expect the government to consider the case for designating them to us for regulation.
- 3.37** This has led us to consider how our approach may need to change if new payment systems were designated to us, and whether our approach is consistent across the systems we currently regulate. Our approach to the regulation of new systems will consider the way they interact with existing systems. It is important that people are informed about these choices and protected appropriately from risk (for example, the risk of losing money or being scammed). Where more than one system presents the same risks to end users, we would expect to take a consistent approach to how we regulate these systems. This mirrors the ‘same risk, same regulation’ principle adopted by the Bank of England.
- 3.38** A number of governments and central banks around the world, including in the UK, are exploring the potential opportunities from the establishment of a ‘Central Bank Digital Currency’ (CBDC). At this stage, there are no concrete plans in place for a CBDC in the UK. There are a range of forms a CBDC could take, and in some forms it could have a significant impact on both our work and the payments sector more widely. In others, the impact would be much smaller. We will continue to engage closely with the Bank of England and other relevant authorities on this work.

Changing role of interbank payment systems

- 3.39** Interbank payment systems are crucial to the economy. They process most of our salaries, welfare payments, bill payments and payments between people.
- 3.40** The role of the interbank payment systems is changing:
- a. Our work to open up access to Faster Payments and Bacs has created more competition between PSPs
 - b. The growth in digital banking has made it easier for individuals and businesses to make and receive payments using Faster Payments in particular
 - c. The creation of Open Banking led to new standards for initiating payments, and allows more firms to provide payment services. This should lead to new innovative services for people and businesses using the systems
- 3.41** The foundation of Pay.UK changed the systems' governance arrangements and the process by which the rules of each system can be changed.
- 3.42** Interbank systems now support more services and participants than they were originally designed for. Furthermore, some are now being used in ways for which they were not originally designed, and in ways that have created new risks that need to be managed.
- 3.43** This has led to some gaps in service and quality – for example, the systems' limited ability to tackle authorised push payment (APP) scams. This has raised questions about whether the rules and technology in place for Faster Payments are appropriate. One example of this is the need to introduce Confirmation of Payee capability.
- 3.44** The New Payments Architecture (NPA) programme should provide technical infrastructure that will future-proof payment services in the UK. It should also allow interbank payments to meet a broader range of needs by providing a robust and sustainable infrastructure where innovation and competition can thrive. But developing and implementing it requires coordination across the system operator and its participants.
- 3.45** Interbank systems will still need to adapt. We would expect payments markets to continue to evolve, and so the rules governing participation and use of interbank systems will also need to evolve to realise potential future benefits.
- 3.46** This raises questions about whether the governance of the scheme rules is sufficiently flexible to keep pace with changing demand. We have also highlighted the legislative barriers to us requiring certain changes to scheme rules.

Decline in the use of the UK's ATM network

- 3.47** As we have seen, the use of cash as a payment method – and so the use of the UK's ATM network – has declined.
- 3.48** Historically, the commercial provision of free-to-use ATMs has provided important benefits to society – particularly for those who are reliant on cash as a means of payment. However, as the use of cash declines, the commercial case for some payment providers offering continued free access to cash from ATMs is likely to reduce.
- 3.49** The cost of maintaining this network will be spread across fewer transactions. This will increase the average cost of providing cash access through ATMs. As banks, building societies and other payment firms are not required to be members of the LINK network, it raises the prospect that some members may choose to leave the scheme. These decisions – taken on the basis of commercial costs and benefits – would not fully reflect the benefits that the network brings to society and the vulnerable in particular.
- 3.50** More generally, as cash use declines, it is likely to become costlier to maintain the current cash infrastructure. There is a need to explore digital alternatives that provide similar benefits and meet similar needs to cash.

Regulation of payments in the UK

- 3.51** The PSR, the FCA and the Bank of England all have roles in regulating payments in the UK. We work closely with the other regulators, and with HM Treasury. These authorities have different remits. In general terms, the roles of the three authorities in relation to payments can be thought of as follows:
- The PSR regulates the designated payment systems (see Table 2 in paragraph 3.2) and participants of such systems, including payment service providers, technical infrastructure providers and payment system operators, to make sure those systems work well for everyone .
 - The FCA regulates the conduct of payment firms (including banks, payment institutions, e-money institutions and payment initiation service providers). It has a statutory objective to make relevant markets work well, and operational objectives to protect consumers, protect financial markets and promote competition.
 - The Bank of England regulates firms that could impact financial stability.
 - The Prudential Regulation Authority (PRA) is the prudential regulator of around 1,500 banks, building societies, credit unions, insurers and major investment firms. As a prudential regulator, it has a general objective to promote the safety and soundness of the firms it regulates.
- 3.52** More detail on the roles and remits of the financial services authorities is set out in Annex 1.

4 Outcomes we'd like to see in payments

The key outcomes we want to see in the next five years are:

- Everyone has access to payment services that meet their needs
 - Users are adequately protected when using payment systems and services, so they can use them with confidence
 - Payment systems enable effective competition in the provision of payment services
 - Payment systems are efficient and commercially sustainable
-

4.1 The PSR Strategy is based on the outcomes we want to achieve for people and businesses using payment services. In this chapter, we describe what we will work towards.

Outcome 1: Everyone has access to payment services that meet their needs

4.2 Payments are essential to people's lives and businesses. They are the one financial service that everyone uses and relies on every day. Our society and economy also rely on them to function effectively. Consumers and businesses need payment systems and payment services to receive salaries or welfare payments, to buy and sell, to make charity donations and to invest savings. These transactions are made possible by the payment systems we regulate.

4.3 Different users will naturally have different needs, and these will change depending on how they use payment systems. Some require specialised services and functions. For example, Direct Debits meet the needs of billers and bill payers, and retail purchases require point-of-sale standards and technology to meet the needs of merchants and their customers. When people design and deliver services, they should consider the needs of both payer and payee. As we assess whether payment systems are meeting users' needs – and, if not, whether we need to intervene – we will want to understand:

- whether the cost of payment services affects users and their ability to access services, and if the cost is appropriate and fair

- whether the quality of the services is good enough for users' needs
- whether each function that users need is provided by at least one system
- whether all users can access the payment services they rely on
- whether systems work to prevent harm (such as fraud) from happening and provide redress for failures of the system, and whether that redress is effective and appropriate for the system's level of risk

4.4 Business needs tend to differ from consumer needs, and they also vary between different types and sizes of business. Many very small, or micro, businesses have much more in common with an individual consumer than with a large multinational retailer. For example, a sole trader may see payments as a necessary cost of doing business, but not have much time to consider the service they receive. In contrast, a large national retailer would typically have employees dedicated to managing their payment costs and services.

4.5 We would like payment systems to cater for everybody's needs. If they do not, the impact will vary according to the issue and the type of user. For example, the loss of certain payment services for a few hours could be a minor inconvenience to some consumers, but could lead to a significant loss of income for a small business. People who are financially excluded, financially vulnerable or have an uncertain income may need different services to more affluent consumers. They may also be exposed to greater risks when using the same functions. Payment systems – operators and other participants – should consider the needs of vulnerable consumers when designing and implementing their services.

4.6 In any automated payment made between people or organisations, payment system operators and payment service providers will have differing roles to fulfil as part of the arrangements of the system. We believe the payment system as a whole should work to ensure users' needs are met. Both the rules and standards that govern payment systems, and the services that are provided to users, should be established with the needs of the consumers and organisations that use them in mind.

How UK payment systems are performing against this outcome

4.7 We think that most users, most of the time, have access to payment methods that meet their needs. But we recognise that some groups might be underserved. We also understand that changes might lead to some users having fewer options.

4.8 Some payment methods – most notably cash, but also cheques – are declining in volume, and so may become less cost-effective to support. However, the continued availability of these methods is important to some groups of users. We understand it is important to protect their interests.

4.9 Conversely, Direct Debit and Direct Credit are very widely used and depended upon, but may not meet all user needs. These payment methods may not allow enough flexibility for consumers with uncertain or low income to pay bills, or employers with complicated payroll requirements. Payment methods that do offer greater flexibility may not be widely available to consumers or employers.

4.10 As some payment methods decline in importance, they may become less universally accepted. Some payment methods have been introduced in recent years that may meet some of the needs of users that depend on declining payment methods, or fill gaps in existing methods. But the offer and adoption of new payment methods – for example, Paym, Pay by Bank, or Request to Pay – is sometimes slow. New methods may not be made available to all the users that need them.

4.11 There are several reasons that might act to inhibit the adoption of new services, including:

- the fact they rely on networks to be established among users
- coordination between different firms – payment system operators and payment service providers – may not be sufficiently effective⁶
- offering new services may not be in the commercial interests of payment service providers
- access to the service may rely on access to expensive technology or specific financial products
- once new payments are made available they do not meet the needs of users, and so are not adopted

4.12 New technologies – in particular the use of APIs and overlay services – may allow for some of these barriers to be overcome. They may also allow for a wider provision of payment services and allow more users' needs to be met. But some of these challenges will remain. New technology is only likely to be deployed if it is in a payment service provider's commercial interest to do so, and if there is a route to building a network of users at sufficient scale.

4.13 Improved payment system governance, such as a clearer focus on the needs of end users in the way rules and standards are established, may also help to overcome some of these issues.

⁶ Firms must act in accordance with relevant competition law at all times.

Outcome 2: Users are adequately protected when using payment systems and services, so they can use them with confidence

- 4.14** Many users have a degree of choice in the method they use for transactions. For example, at a supermarket till, consumers can choose between cash, a physical debit or credit card (contactless or not), or a card payment on their smartphone.
- 4.15** Some users, such as large businesses, can assess the costs and benefits of different payment services and systems, as they have resources devoted to this. However, payments are a service that most people need to be simple and convenient. Individual people and some smaller businesses may not have the time, information or expertise to assess the complicated trade-offs between various providers and services.
- 4.16** Where users can make informed choices about using different payment services, their needs are more likely to be met through effective competition.
- 4.17** We think the overall cost of payments matters. We are interested in costs imposed by payment system operators or technical infrastructure providers on their participants. We are also interested in costs recovered from users by payment service providers. Users should be able to predict costs, so they can compare providers and choose what works best for them. We would expect certain minimum information to be available to those who are able to exercise a choice. As well as clearly setting out any fees for a payment before any agreement is made (which is required under the PSRs 2017)⁷, we expect a clear description of the services offered. We also expect any obligations that agreements place on users to be clear, whether payer or payee.
- 4.18** Some consumers and some businesses are not always able to choose their payment method. There are several reasons for this, including:
- some payment types are only offered by one payment system, and only have one method of access available to users
 - some payment methods may not be accessible to users with certain disabilities
 - the user's payee may limit the types of payment method they accept
- 4.19** A user's choice may be limited by the way payment options are presented to them. For example, firms may direct users towards payment types which bring them benefits rather than the users. These benefits could include lower cost, higher revenue, or easier operational processing.

7 Regulation 43(2)(c).

- 4.20** We expect payment systems and payment service providers to consider the interests of all users. They should also ensure users are adequately protected when using payment systems and services, whether by prevention or redress after the fact. We expect payment systems to act where this is not the case.
- 4.21** It is always important to us that user needs are met and they are protected when making and receiving payments. However, we recognise it is unlikely to be optimal for comprehensive protections to cover all users in all circumstances. Trade-offs need to be made between the costs and benefits of protection measures so that payments provide value for all users. And, as we have recognised in our work on APP scams, that means some degree of personal responsibility by users is often necessary to reduce the scope (and therefore cost) of protections that are needed.
- 4.22** When payment systems and their participants are assessing whether user protections are sufficient, we expect them to consider the risks faced by users, and in particular consumers, when using payment services. We expect their assessment to be based on realistic assumptions about consumer behaviour, and to consider how the system is used. As the use of payment systems evolves, we expect the rules and standards that govern which protections are available to users to change accordingly and reflect any risks inherent in new uses of the system.
- 4.23** Where competition between service providers does not exist, or does not lead to good outcomes for users (for example, because users do not have choice, or where information is unavailable or insufficient), we may need to intervene to ensure that the system as a whole works in users' interests.
- 4.24** We will take a broad view of user interests, including, for example, the methods of redress available to users in the event of errors or failures, and the contractual terms that allow users access to a payment method.

How UK payment systems are performing against this outcome

- 4.25** How consumers and businesses are protected when something goes wrong with a payment is mostly determined by law. For example, The Payment Services Regulations 2017 apply to many payment services – including the services provided by banks, building societies and card providers. The Regulations set out a right for a consumer or business to be refunded if a transaction was made without their authorisation.⁸ They also outline which service provider is liable if a mistake is made during the execution of a payment (for example, a wrong amount was transferred, or the payment was sent to the wrong account).
- 4.26** Some payment systems offer additional protections that go beyond those guaranteed by the Payment Services Regulations 2017. Most apply when consumers make payments for goods or services.

⁸ For payments made using credit cards, refund rights for authorised transactions are set out in the Consumer Credit Act 1974.

- 4.27** All debit and credit card payments offer purchase protection through the chargeback scheme. This gives consumers and businesses a chance to get their money back from their bank or card provider if a purchase they made was faulty or not provided. Chargeback is not a legal protection – members of card payment schemes offer it as a condition of their participation in the scheme.
- 4.28** Credit card payments over a value of £100 also benefit from the protection afforded through section 75 of the Consumer Credit Act 1974. This provision holds the credit card company jointly liable for any breach of contract or misrepresentation by a retailer or trader. It allows consumers to make a claim against their credit card companies for a refund if retailers refuse to honour the contract properly. These protections apply even if the retailer has gone out of business.
- 4.29** Payments made by Direct Debit benefit from a Direct Debit Guarantee. This protects businesses and consumers if there is an error in the payment of a Direct Debit (for example, if a payment is taken on the incorrect date or the wrong amount is collected). However, it cannot be used to address contractual disputes between consumers and the billing organisation.
- 4.30** When the Faster Payment Service was first implemented in 2008, it was intended mainly to support person-to-person payments supported by account providers' telephone banking or online services. Faster Payments' simplicity and flexibility has allowed it to grow and to support many different uses since that time.
- 4.31** Faster Payments as a system imposes few conduct requirements on its members. The Payment Services Regulations 2017 impose some basic requirements on payment service providers that allow for reimbursement if PSPs make processing errors or allow unauthorised payments that lead to losses.
- 4.32** However, different uses of Faster Payments lead to different risks. Push payments (that are irrevocable after authorisation by a consumer) can be exploited by fraudsters. These include authorised push payment (APP) scams and can cause life-changing losses for some victims. We have been working with the industry and Pay.UK for some time to tackle this. It led to our work on the Contingent Reimbursement Model and to the implementation of Confirmation of Payee checks as standard for the largest banks.
- 4.33** In our work on consumer protection, we found that general consumer awareness of protection is low. This means although some consumers have some knowledge of different protections, many may not know precisely what protection is offered. They may only realise they are not adequately protected after making a payment.⁹ There is also a strong likelihood that many consumers underestimate the risks of something going wrong with their purchases. As a result, they do not consider the degree of protection a payment method offers.

9 <https://www.psr.org.uk/publications/consultations/cp21-4-consumer-protection-in-interbank-payments-call-for-views/>

4.34 We think it is likely that the ways in which Faster Payments is used will continue to evolve. To tackle consumer losses when using payment systems, systems and their participants need to consider when and how losses should be refunded to consumers, and how to avoid the loss taking place. We think there is likely to be further scope for changes to rules, standards and technology to make Faster Payments transactions safer.

4.35 As we discuss in Chapter 2, we consider it more likely now that new payment systems may be established and will offer services to consumers and businesses. If this happens, we will take an interest in how free users are to choose whether to use the service, and whether the system adequately protects against risk to users.

Outcome 3:

Payment systems enable effective competition in the provision of payment services

4.36 Competition helps create conditions where firms will offer good quality payment services at appropriate prices. It should also encourage firms to innovate, leading to a greater variety of services.

4.37 Businesses that are members of the same payment system can compete to provide services to users. In these cases, the arrangements set out by payment system operators may influence how effectively firms compete. Payment systems should not impose unnecessary barriers to participation, so that new entrants can access systems. Our work on access to payment systems has allowed for new participants to join the UK's interbank systems. This in turn has allowed those new entrants to provide new services to users.

4.38 Payment system operators do not only influence competition between payment service providers through the access conditions they set. Payment systems should support the development of new services and capabilities, so that new use cases and business models can be provided by payment service providers.

4.39 We think there are increasing prospects for competition between service providers for services supported by different systems. The renewal of the UK's interbank systems will follow a design which allows for more flexibility in the services that can be supported. For example, simple push payments sent over the central clearing system can be enhanced with further information or differing standards by overlay services.

4.40 We may see a future with fewer payment systems. But it may be one where payment service providers may more easily choose between which they use. We think that existing systems will each support more types of service. We also believe that as the UK's interbank systems implement a newer international messaging standard – ISO20022 – it may become simpler to switch payment volumes between systems which use that standard.

4.41 We expect payment systems to operate in a way that enables and supports competition both between payment systems (including between participants on different systems) and among participants in the same payment system. We will consider whether the governance structures, terms and fees applied by payment systems promote greater competition between them.

How UK payment systems are performing against this outcome

4.42 Today, the ability to use different payment systems for similar transactions is relatively limited. For example, retail transactions are largely made by debit and credit card payments, and the interbank systems do not provide the technical capability that would allow them to support this type of transaction. Open Banking will, however, start to change this for some retail uses.

4.43 The design of the NPA is intended to allow for the creation of new services which might compete with existing services. Through the use of overlay messaging some new services may be provided without requiring every system participant to make technology changes. However, the competitiveness of systems across payment types is not only a matter of technical infrastructure, but also a question of economics and commercial incentives.

4.44 Since 2017, more payments in the UK have been made by debit card than by any other payment method. These payments are generally made for retail purchases. Other payment methods that were previously used commonly to pay for goods and services – cheques and cash – are in decline, and the competition they provide for debit card services is reducing as a result. Given the very high and stable market share of one provider for debit card clearing services – over 90% of all debit cards in circulation in 2020 were Visa-branded cards – there is a long-term risk to competition in retail payments.

4.45 Payment systems gain revenue and recover their operational costs in different ways. Interbank systems are funded by transaction fees paid by participants. These systems have a not-for-profit model. Participants fund Pay.UK and its systems on a cost-recovery basis, and while banks may pass on the cost of participation to commercial clients, they normally will not charge consumers to make payments using these systems. The UK's ATM system, LINK, is also run on a not-for-profit model, but the rules of the system allow card issuers to pay interchange fees to ATM providers.

4.46 Conversely, the card systems used in the UK are established as listed companies and seek to generate profits to their shareholders. Card networks are supported by fees paid between participants (this includes interchange fees, paid from acquirers to issuers), as well as fees paid from participants to the payment system operators and technical infrastructure providers. The fee structure of card schemes is complex. It includes both transaction fees (which may differ by type of transaction or whether the transaction has been made across state borders) and licensing fees paid by participants as a condition of entry. In this model, the payment system operator, technical infrastructure provider and issuing firms all gain revenue as a result of membership of a card system.

- 4.47** There is a large overlap between participants in card systems and in interbank systems. However, there are card issuers that are not members of interbank systems, and banks that are members of interbank systems that do not offer payment cards to their customers. Financial services businesses offer credit card products and supply debit cards linked to current accounts. But a part of the basic offering of a current account is that money may be sent to or received from other UK accounts, which use interbank systems. For businesses that are members of both types of system, consumer payments represent a revenue source if they are processed by a card system but a cost if they are processed by an interbank system.
- 4.48** Within the rules of card systems, interchange fees are paid from acquirers to issuers. In practice, acquirers pass on the cost of these fees to their clients (the merchants). Across both types of system, the costs of operating the system are not normally passed on directly to consumers as individual charges for making payments.
- 4.49** Even before the implementation of the NPA, changes to the regulatory framework might have prepared the ground for more payment types to be processed by the interbank systems. The introduction of payment initiation service providers (PISPs) has not so far led to a large increase in using interbank systems for retail purchase transactions. This could be partly because some data or functionality required for these transactions is not supported by interbank systems. It could also be because banks have no commercial interest in encouraging the growth of independent PISPs and they lack the incentive to make the customer journey for these services attractive.
- 4.50** This raises another issue – the incentives on participants to support change. It is unlikely that participants will prioritise the enhancement of systems that represent a net cost to them over the enhancement of systems that represent a net revenue gain. Building consensus for system enhancements will be difficult. Interbank systems might not offer the full range of functionality required for some payment types, which will in turn mean that they cannot compete effectively with card systems for those payment types.

Outcome 4: Payment systems are efficient and commercially sustainable

- 4.51** The costs of operating UK payment systems are ultimately paid for by consumers and businesses, even if they do not always face the direct cost when they make a payment. It is important that operators run the systems efficiently, so they represent value for money.
- 4.52** When assessing a payment system's efficiency we also consider a number of costs. Payment system operators and technical infrastructure providers normally charge participants fees for using the payment system. Those participants (financial services firms) incur initial costs when they integrate their systems with central payment systems. They will incur further costs over time as they process payments and make any technological changes they need to continue using the system.

- 4.53** Operators need to charge fees to recover their investment and operating costs, and to support development and innovation in their payment systems. Operators and their technical service providers typically face high costs when establishing the system, but have relatively low ongoing ('marginal') costs (the cost of processing an additional payment is negligible). In this context, it is often not obvious how to establish an efficient level of charging. This is because charges need to support the ongoing operational costs of using the systems while also recovering investment costs.
- 4.54** Payment system fees will affect the incentives for participants to invest in the development of the system. It seems likely that firms – in particular, retail banks – will prioritise investment in systems they can make a profit from over systems they will make a loss from. As the payments landscape evolves, it will be important for us to understand how costs are passed through the payment systems. Certain costs may be paid disproportionately by certain types of user or participants, or high costs might discourage new firms from joining a system.
- 4.55** The overall cost of processing payments (across all parties) matters. As operators develop services, they should help their participants and users to make their own processing more efficient. We expect different payment systems to work cooperatively where it can help them combat the misuse of payment systems. Examples of misuse include fraudulent payments, payments to sanctioned accounts, or payments supporting crime or terrorism.
- 4.56** Payment systems need to invest in technology and processes to meet the changing needs of their participants and end users. They have to recover these costs over the long term. They also need to have funds available for future investment, as technology changes. This points to the need for a sustainable funding model. However, this is not the same as a need to fund all payment systems indefinitely. Payment systems change over time, and some will become less important and eventually close down.
- 4.57** We also considered environmental sustainability and how it should affect our work. Paragraphs 5.117 to 5.120 explain that this is an area we will keep under review.

How UK payment systems are performing against this outcome

- 4.58** There are several areas in the UK's interbank payment systems where arrangements do not always allow for efficient processing. Both Bacs and Faster Payments allow for simple push payments, but each system has a different proprietary messaging standard. This means that one system cannot easily be used as a substitute for the other. Businesses and payment service providers find it difficult to easily switch payments between systems. In addition, the overhead in connecting to both systems to support both bulk and single payment types is doubled. Current messaging standards do not allow for useful contextual information to be sent with a payment. This affects businesses' ability to reconcile payments to invoices. We think it is possible that as Faster Payments is used for more reasons, the limitations of the current standard used for messaging will become more apparent.

- 4.59** We think that the design of the NPA will remedy these issues. It should allow for more information to be passed with a payment clearing message, as well as allowing for any new information gaps to be filled by the use of overlay services. We think it is also likely to allow for greater competition in the market for retail purchasing services.
- 4.60** For interbank payments to develop in a way that delivers the best outcomes for users, the NPA programme needs to address these technical issues. It will also require a set of rules that support effective use of that technical capability. To do this, Pay.UK's governance needs to allow it to effectively develop and promote the systems under its remit. This may point to the need for further evolution of Pay.UK's current role, possibly supported by legislative change and changes to its governance.
- 4.61** Following the implementation of Open Banking standards and the introduction of PISPs in recent years, some businesses already use an overlay service to initiate payments from large retail banks with the consent of the account holder. The NPA will bring more opportunities for businesses that are not members of the system to be involved in payment transactions. We recognise that the standards that apply to payment transactions are not always merely technical messaging standards. For some types of payment transaction, there will be a need to set rules or minimum standards governing the interaction between counterparties, businesses and consumers across the network (for example, in the event of a disputed payment). We think there is currently a gap. No single agency is well placed to establish minimum standards of this kind. Even where Pay.UK can establish and monitor standards, they will apply only to its members.

5 Our priorities

In this chapter, we set out how we will help to achieve the four outcomes. These are our priorities:

- Ensure users have continued access to the payment services they rely on and support effective choice of alternative payment options
 - Ensure users are sufficiently protected when using the UK's payment systems
 - Promote competition between and within payment systems; protecting users where that competition is not sufficient
 - Act to ensure the interbank systems provide the infrastructure, rules and incentives that foster innovation and competition in payments
-

5.1 In Chapter 4, we outlined the four outcomes we would like to see in payments. In summary, they are:

- Access to payment systems that meet everyone's needs
- Protection for people and businesses making payments
- Effective competition in payment services
- Efficient and sustainable payment systems

5.2 In this chapter, we explain our approach to achieving these outcomes. We also note the work we have already done that should help to bring them about.

5.3 To ensure these outcomes, we need to establish priorities for our work and focus our efforts on approaches we consider most effective.

5.4 We recognise the payments sector is dynamic. There could be new developments in the future that affect our priorities and make unforeseen demands on our time and resource. We analyse the UK payments landscape on an ongoing basis to identify possible long-term trends, risks and opportunities of potential strategic significance. Where we identify issues affecting payments markets, we will consider how our involvement can be most effective. In doing this, we will work closely with other organisations, including where they are best placed to act.

How we plan to achieve the four outcomes

Priority 1:

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

Why this is a priority

- 5.5** Payment systems keep the entire economy going, and their safe and secure operation is relevant to all individuals and organisations in the UK and other countries.
- 5.6** This sector does not stand still. Companies find new ways of delivering payments because it is more efficient or because they find there is demand from users for easier and more convenient ways of making payments.
- 5.7** Within the last decade, the UK's payments sector has continued to innovate and, as user needs have changed, so has the use of different payment services. In 2017, the volume of debit card transactions overtook the volume of cash transactions for the first time, and the use of cash has dropped over 50% since. In many ways, this decline was also reinforced by COVID-19, which accelerated the move away from using physical currency to paying via more digital means.
- 5.8** Many people still rely on cash in their everyday lives. It is important that their interests are protected so they are not left without a convenient way to pay. Everyone should have easy access to a payment method that works for them. A range of payment options is needed to fulfil the different needs of all users.
- 5.9** But we think it is also important that each user has choice. Greater choice is likely to mean more users have a convenient way of making or receiving payments for different types of transactions. It is also important that alternatives are available if someone's first choice of payment method is unavailable.
- 5.10** Choice also matters because it tends to support competition. If users have a choice of payment service, they can pressurise providers to ensure their product is high quality (for example, easy and convenient to use) and low cost (for users who are charged for payments). But choice alone is not sufficient to bring about competition. Consumers also need to be able to act on those choices, which means they need to be able to access their preferred payment services.¹⁰

¹⁰ We note that effective competition does not necessarily require *all* customers to have an alternative. It can be effective where a sufficient proportion of users have a real ability to switch to an alternative choice. As long as certain criteria are met, customers overall get a competitive deal as a result of the group which is able to switch.

- 5.11** There are instances where users may not always be able to act on their choice of payment method. They may be constrained by the methods accepted by their payee. In some cases, payees may try to influence the payer's choice of payment method by making some methods more obvious or convenient than others.
- 5.12** As new payment systems are implemented, we will need to ensure users are able to access payment services in a way which is fair and which enables them to benefit, as we do when regulating existing systems. New systems may raise new issues. Systems or their participants may impose barriers to their use for consumers and businesses. In addition, those users may be asked to make new types of trade-off to gain access to systems. For example, consumers may only be allowed access to new systems if they consent to broad uses of their transaction data, or their access may be defined by ownership of a certain device.
- 5.13** Strengthening choice and improving access means there is more likely to be effective competition. This can deliver a range of good outcomes for consumers and businesses. More competition between payment systems should encourage payment systems and PSPs to keep prices down and improve the quality of their products and service. It should also provide alternatives for users if any individual payment systems fail.
- 5.14** We also see competition as one of the best ways for us to promote innovation. When competing for customers, businesses will have incentives to innovate – for example, to provide attractive products and services, or to reduce the costs of producing or supplying them.
- 5.15** While competition is an important way to deliver better outcomes, it is not necessarily sufficient by itself. There are inherent features of payment systems and markets that indicate the need for regulation. In addition, effective competition relies on a set of rules and general compliance with them. The prohibition on cartels is one general example. But payment systems also have rules that govern participation and affect the terms on which competition can take place.
- 5.16** Proprietary networks may also impose access criteria that represent barriers to entry for PSPs. Open and transparent access to payment systems for PSPs is essential for effective competition and innovation in payment services. It is vital that a range of PSPs can access the payment systems on reasonable terms so they can provide their services to their users.
- 5.17** We need to ensure PSPs can access payment systems and also that users can access payment services on a fair, open and transparent basis.

What we are already doing

- 5.18** We are carrying out a programme of work to make sure people can make payments in the way they want.
- 5.19** In regard to ATM provision, we undertook a significant piece of work with LINK – the UK’s biggest ATM network – to make sure it delivers on its commitment to maintain the existing geographic spread of free-to-use ATMs for cash access. We also worked with the FCA and the University of Bristol to develop a comprehensive map of access points across the UK. We used data provided by, and worked with, industry to identify and develop sustainable solutions to ensure people have access to cash over the long term. We are closely engaging with government and other relevant authorities, industry, consumer groups and other stakeholders with an interest in cash.
- 5.20** Establishing an open and accessible UK payments industry has been a top priority for us. In the last few years we focused on promoting a range of access options to allow PSPs to choose the form of access that suits their circumstances. We require operators to have proportionate, objective and non-discriminatory access requirements. We require them to publish these, notify us of any changes and report annually on how these criteria are being applied and are working. We also require the four main sponsor banks (Barclays, HSBC, Lloyds and NatWest) to publish certain access-related information. This includes an up-to-date description of their indirect access propositions, the key characteristics of that access and any eligibility criteria sponsor they may set for customers.

What we will do

- 5.21** In our description of Outcome 1 in Chapter 3, we set out some relevant factors:
- We think most organisations and individuals currently enjoy a good and growing choice of payment services
 - However, there are still gaps, such as direct debit and direct credit not allowing enough flexibility
 - The declining use of cash is also a threat to this outcome, as many people still rely on it
 - New payment methods and services were introduced in recent years to fill some of the gaps, but take-up has often been slow
 - New technologies offer the potential to fill the gaps, but also face challenges to mass adoption
- 5.22** We want to ensure users’ needs are met in terms of reasonable cost and quality of new and existing payment systems. While encouraging informed users is important, we will intervene as appropriate to ensure users’ needs are met and PSPs do not impose terms and conditions that are detrimental to individuals, merchants or any other payment user in the UK.

We will support development of new services that meet user needs

- 5.23** We think there are significant opportunities for the payments ecosystem to develop and introduce new services and more efficient payment methods over the next decade. The entry of new systems and services will lead to increased competition in the provision of services. It also has the potential to fill the gaps so that all users have access to payment services that meet their needs. **We will seek to make sure the arrangements are in place to support the development of new services that meet users' needs** (such as transparent access conditions and appropriate governance).
- 5.24** During the lifespan of the PSR Strategy, new payment systems are likely to be designated for our oversight. We are working to ensure that our approach to the regulation of any newly designated payment systems is robust and proportionate. For example, this might apply to any new cryptoasset-based system the Treasury designates a payment system under FSBRA. A starting point for our approach is likely to be that systems which consumers regard as offering the same service should be held to the same regulatory standards.
- 5.25** We expect any new payment system that offers services to UK users or participants to be reliable and accessible. We expect systems and services to be developed with the needs of users in mind. However, we understand that decisions made by payment systems and participants may lead to different outcomes for different groups of users. We will continue to have due regard to our Public Sector Equality Duty in relation to our decision making. And **we will make sure we understand the perspective of vulnerable consumer groups towards new ways of paying and the choices available to them**. Limited access to technology, physical or mental disability, age and income levels – among other things – may affect a user's experience of making payments. It is important that the system as a whole – system operators, technology providers, participants and PSPs – considers the experience of those consumer groups when designing and implementing payment services.
- 5.26** Some implementations of new payment systems – for example, any cryptoasset-based system or central bank digital currency – will have wider implications for the economy and for existing payment models in competition with them. Not all of these issues will necessarily fall to us to address. The Bank of England is responsible for financial stability as it relates to financial market infrastructure, and the FCA is responsible for the supervision of firms that carry out regulated activities.¹¹ We will work with the Treasury and other regulators to **consider when designation to us is appropriate, ensure that regulatory approaches are aligned, and the division of responsibilities are clear**.¹²

We will protect access to cash

- 5.27** **We will continue to protect access to cash for those that rely on it**, including through the work we are already doing to monitor LINK's commitments, and to develop sustainable solutions to maintain access to cash.

11 However, the Bank of England is responsible for the supervision of firms they authorise and regulate.

12 See paragraph 3.51 and Annex 1 for an explanation of the split of responsibilities between regulators.

We will support and protect competition

- 5.28** Beyond that, **we will support and protect competition, given its potential to fulfil user needs**. We have seen some businesses finding ways to help meet specific consumer needs during the COVID-19 pandemic – including to help those who rely on cash but have found it harder to access. We want to see the industry developing solutions to meet all user needs. If we do not see that happening, we will consider whether regulatory action is required.
- 5.29** For PSPs to be able to offer competitive and innovative products and services to users, those PSPs must be able to access payment systems on a fair, open and transparent basis and be able to choose the form of access that suits them best. We will continue to **promote a range of access options**, including direct and indirect access to payment systems.

The limits to what we can do

- 5.30** Currently, we do not run an authorisation regime, unlike some other UK regulators, and our approval is not required before new payment systems offer services in the UK. Our focus is different from that of the UK's other financial services regulators, and at present we do not expect to set supervisory tests or conditions for entry for any new payment system.
- 5.31** Our regulatory powers as defined under FSBRA can only be applied to those payment systems that are designated to us by the Treasury. If new payment systems seek to establish themselves in the UK or offer services to UK users, they will need to be designated to us before we can act to ensure fair access, oversee the interests of users, or act against any market abuses that may take place.

Priority 2:

Ensure users are sufficiently protected when using the UK's payment systems

Why this is a priority

- 5.32** The interbank systems now support more services and participants than they were originally designed for. Accordingly, there are some gaps in service and quality – for example, the systems' limited ability to tackle authorised push payment (APP) scams.
- 5.33** Our work on APP scams highlights the need for protection. Despite the many steps we have taken, APP scams are still the second largest type of payment fraud, both in the number of scams and value of losses.¹³ And they can have a devastating effect on victims. As criminals become more creative and sophisticated, these problems could worsen.

13 UK Finance, Fraud – the facts 2020, <https://www.ukfinance.org.uk/policy-and-guidance/reports-publications/fraud-facts-2020>.

5.34 The UK's payment systems also continue to evolve alongside the changing needs of those who use them. With people making more payments online, they face different risks that need different levels of protection. This is especially crucial for vulnerable and disadvantaged people whose lives could change if they lost a large sum of money – and who may not be able to choose alternative payment methods.

5.35 When the market works well, it should meet users' changing needs. Competition between PSPs – and across different payment systems – lets people choose the best payment method for their needs. This pushes PSPs and payment systems to try to set their services apart from their competitors. To do this they need to innovate and ultimately provide better quality and more widely available services. It is crucial for us to support this competition, and the development of good alternatives to existing payment services.

5.36 However, we consider that:

- competition on its own will not deliver good enough protections
- market rules or other incentives could lead to competition between firms acting against the outcomes we want

5.37 For example, a race to provide cheaper services could reduce levels of protection and take advantage of consumers' limited understanding of risk.

5.38 Consumers should be able to rely on basic standards of safety when using our payment systems, regardless of which PSP they hold their account with.

5.39 Elements of the design of FPS – for instance, the inability to request recall of payments already sent – have made these types of fraud particularly difficult to tackle. We think that payment systems as a whole – PSOs, infrastructure providers and PSPs – have a responsibility to work collectively to ensure consumers do not come to harm as a result of using the system. We think this means that the protection of consumers should naturally form part of payment systems rules and standards.

5.40 Over the coming years, we think more retail purchase payments are likely to be processed using our interbank systems, whether they are Open Banking Payments or other arrangements that use the NPA. Switching purchases to these systems may – depending on the final commercial agreements – be in merchants' interests. However, consumers are unlikely to be persuaded to change their behaviour unless they can be reassured that they will not lose money because of their choice of payment options. We think that for the retail purchase use case to be a success for our interbank systems, we are likely to need to establish standards for purchase protection. As the ecosystem builds these business cases, there is an opportunity to build protection which is proportionate and tailored to the risks involved.

5.41 As we have seen through our work on APP scams, a well-functioning protection mechanism needs PSPs to coordinate their efforts. This is unlikely to happen through competition alone. Where PSPs are not coordinating effectively, the payment system operator may need to do more to ensure the right level of protection.

What we are already doing

- 5.42** During our work on APP scams, it became clear that the industry needed to improve its technology. However, a number of factors have slowed progress on new services such as Confirmation of Payee.
- 5.43** Our work began in 2016 with a super-complaint from the consumer organisation Which? This highlighted that it may be difficult to align banks' incentives to invest in protection measures. For example, a compensation scheme might benefit other banks' customers; and a bank's anti-fraud measures might also benefit other banks, even if they took no action themselves.
- 5.44** Payment systems by their nature involve dependencies between participants. A primary role of platforms is to enable parties to coordinate their actions. However, this may be difficult for Pay.UK or other collective bodies to achieve, even if all participants stood to gain from it and their interests were fully aligned – which is unlikely to ever be the case.
- 5.45** We recognised these issues and intervened, directing the six largest banks to implement Confirmation of Payee. In November 2021, we published further proposals on coordinated approaches to APP fraud. These included directing PSPs to publish data on their APP scam performance, and asking industry to improve intelligence sharing, to improve detection and prevention of APP scams.
- 5.46** We are looking at how else interbank payment protections can be improved. This includes considering whether similar coordination issues are hampering protection for new payment types, such as retail purchases.
- 5.47** Open Banking and other innovations are improving opportunities for interbank retail payments, especially using Faster Payments. However, people may have limited options when something goes wrong with a purchase made with an interbank payment. In a recent Call for Views, we asked what more can be done to improve the protection for these purchases, and whether further regulatory action is needed.
- 5.48** We expect Open Banking-initiated interbank payments to grow significantly. We are considering what is needed to increase:
- trust in interbank payments
 - competition between card and interbank payments
- 5.49** We are also working with other regulators and government to identify an appropriate regulatory framework for Open Banking-initiated payments.

What we will do

5.50 In our description of Outcome 2 in Chapter 3, we set out these relevant factors:

- A range of protections apply to credit and, to a lesser extent, debit card transactions.
- Faster Payments as a system imposes few conduct requirements on its members.
- Faster Payments is now used for a range of uses for which it was not originally designed. Different uses of Faster Payments lead to different risks, with APP scams being one key example.
- We think it is likely that the ways in which Faster Payments is used will continue to evolve. Protections will need to be suitable for any new uses.

5.51 Protection in interbank payments is an ongoing priority for us. We continue to work on approaches to tackling the challenges of APP scams, as well as protections for new services using interbank systems. This includes Open Banking. In November, we set out our position that there should be **mandatory reimbursement for victims of APP scams who have done nothing wrong**. We are consulting on two ways of achieving this so that, when legislation is changed to allow this, we can act quickly to bring about the right outcomes.

5.52 We want interbank payments to provide credible alternatives for more payments use cases. But alternatives will only be beneficial to users (and therefore credible) if the protections associated with those alternatives are appropriate. There are a number of challenges here, and a lot of work to be done. For example:

- The interbank systems have a not-for-profit model. Participants fund Pay.UK and its systems through transaction fees on a cost-recovery basis, and may not gain revenue directly from their investment in these systems (depending on the services offered and the types of user). Pay.UK needs adequate funds to be able to undertake the coordination (and other tasks) that enable the continued development of the interbank system. Participants may have different interests in funding additional Pay.UK initiatives, and may have incentives to 'free ride' on investments made by others. Since resources and funds will be limited, Pay.UK will need to make trade-offs between different initiatives.
- The high and increasing popularity of debit cards, the payment method used most often in the UK, is largely down to convenience. This is particularly the case since the advent of contactless cards and devices, which provide an almost 'frictionless' experience. For another payment service to provide a credible alternative, it will need to be convenient enough for consumers to use it instead of a debit card.
- Open Banking has provided new ways of initiating payments from consumers' accounts. It will be important that Open Banking technology allows for mass retail payments, but also that appropriate protections are developed to provide trust and confidence.

- As further uses for interbank systems are developed, it will be important that adequate protections for users are developed alongside them.

5.53 One approach to creating the protections necessary for interbank payments to provide a credible alternative to card payments could be that we decide what the relevant protections should be and how they should be designed and funded. We could then require them to be created using our direction-making powers.

5.54 However, inevitably the system operator will understand the technical capabilities of its system better than a regulator. And participants in the schemes understand their customers' needs better than the regulator. A more effective approach is therefore likely to be for us to create the conditions where Pay.UK and its participants have the incentives and funding to create and develop the relevant protections. It is likely to happen more quickly and efficiently if commercial incentives exist on relevant participants to make it work, and that the governance of the system rules supports competition.

5.55 To achieve this, **we will consider how best to develop Pay.UK's governance of the interbank rules**. We want to give Pay.UK a stronger role to lead the development of protections (and other conduct rules), coordinating its participants where necessary. Systems and participants will need to align their responses in agreeing, implementing and enforcing these types of rule. As payment systems are called upon to support more types of payment, there may be a greater need for coordination around conduct rules. Without it, system users will be unable to rely on system-wide standards of service or redress. Looking ahead, similar considerations may also be relevant within the Open Banking payments ecosystem.

Priority 3:

Promote competition between and within payment systems;
protecting users where that competition is not sufficient

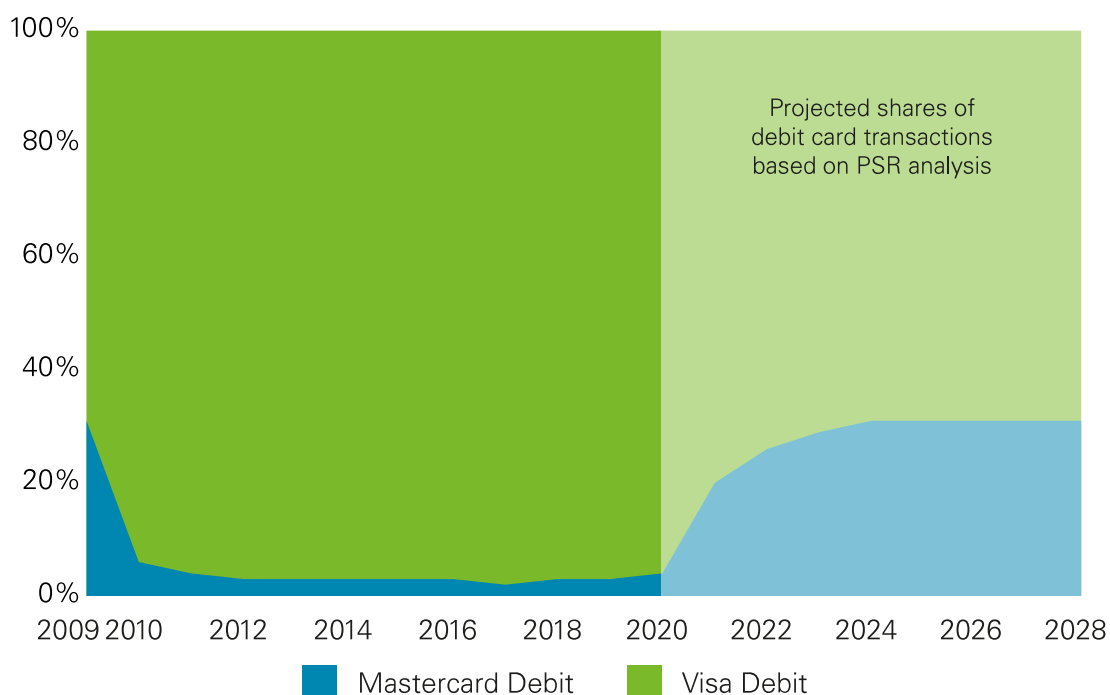
Why this is a priority

5.56 The growth in the use of debit cards as the most popular payment method in the UK highlights the value consumers place on convenient methods of making retail purchases. We have also seen a rapid increase in the use and importance of online and digital payments for many merchants, as well as for business-to-business payments. Card payments underlie the vast majority of those payments.

5.57 It is not clear that there is sufficient competition in retail payment methods to provide good long-term outcomes. A number of factors point to this being a risk we should consider further.

5.58 In 2020, over 90% of debit cards in circulation in the UK were Visa cards. Two thirds of credit cards were Mastercard cards. Between them, the two card schemes accounted for 99% of all card transactions by volume. As Figure 3 shows, these shares have been relatively stable since 2011. However, due to some switching announced by debit card issuers, we expect some movement of debit card transactions from Visa to Mastercard over the next few years.¹⁴

Figure 3: Proportion of volume of debit card transactions by scheme



Source: 2009-2020 UK Finance; 2021-2028 PSR projection of issuer switching

Notes:

NatWest, Santander, First Direct and TSB have announced their intention to switch issuing debit cards from Visa to Mastercard. PSR has projected forward estimated shares of debit card transactions by scheme, assuming current account market shares stay stable. PSR projection assumes a third of customers are switched each year. Current account market shares are based on October 2020 data.

5.59 There have been long-running concerns about pricing for cards transactions, including whether the incentives they provide result in good outcomes for consumers. For example, litigation in several countries sought to establish whether interchange fees, paid in card systems from the merchant’s bank to the cardholder’s bank for each transaction (but borne by the merchant and likely to be passed on to the consumer), are a legitimate way of allocating costs and incentives across the network.

14 <https://www.mastercard.com/news/europe/en-uk/newsroom/press-releases/en-gb/2021/february/natwest-group-and-mastercard-expand-payments-partnership/>
<https://newsroom.mastercard.com/eu/press-releases/santander-to-issue-mastercard-debit-in-the-uk/>
<https://www.mastercard.com/news/europe/en-uk/newsroom/news-briefs/en-gb/2020/august/first-direct-selects-mastercard-as-partner-for-debit-cards/>
<https://newsroom.mastercard.com/eu/press-releases/tsb-to-issue-mastercard-debit-and-credit-cards-in-2018/>

- 5.60** The rules and structure of charges for these payments may also dampen the functioning of effective competition. Consumers in the UK do not directly pay to make most payments – and so their choices are not affected by differences in the costs of providing different payment methods.¹⁵ And because making a payment requires the payer and payee to use the same system, a consumer or merchant’s choice of payment method is heavily affected by how many other people use that system.
- 5.61** Direct participants in payment systems can influence the competitiveness of payment systems by guiding their customer. For example, if a PSP (such as an issuing bank) considered the costs of participating in a system were too high compared with the benefits or revenues, they may withdraw from that scheme altogether. Or they may try to direct users to an alternative system that offers similar services. As a consequence, participants in payment systems which could potentially compete with each other may all have incentives to prefer one system over another.
- 5.62** For those reasons, we think it is possible that while payment systems may have the technical capability to support similar services and to compete with each other, the different commercial models underlying those systems, and the incentives that result, may prevent competition from operating effectively.
- 5.63** The decline in the use of cheques and cash in recent years (even before COVID-19) means the competitive impact they have on retail debit payments is low and falling. There is not currently a widely used alternative interbank payment method. One of the aims of Open Banking is to provide an alternative retail payment method, but its use is currently not widespread.
- 5.64** The very high and stable market shares in debit payments might not indicate that there is an underlying competition problem if there is a significant threat of new providers entering the market. This threat can act to make incumbent providers – even those with high market shares – act in a competitive way. This is referred to as the ‘contestability’ of a market.
- 5.65** However, payment systems have a number of inherent features that act to discourage entry of new businesses. These include high fixed costs associated with building the payment systems, and network effects that can prevent sufficient numbers of customers from adopting a new system.
- 5.66** New payment technologies could provide a route for new entrants to launch new services. A number of firms are interested in developing payment services (and potentially payment systems) based on cryptoassets. If combined with existing customer networks (built outside payments), this could provide a credible route for new entry into the market.

¹⁵ Surcharging – charging consumers for the use of certain payment methods – was banned when the Payment Services Regulations 2017 came in in January 2018.

- 5.67** Overall, while we are mindful of the potential for new entry, we think there is a significant risk the UK payments market will move towards a future without sufficient rivalry. Over time, this could undermine the outcomes that consumers and businesses receive from payment systems and payment firms.
- 5.68** The development of effective competition between payment systems will take time. We may need to intervene in the meantime – whether that is to remove or reduce barriers to effective competition developing, or to take action to protect users in the shorter term.
- 5.69** When making these choices about whether and when to act, and which tools to use, we will consider the potential trade-offs between shorter- and longer-term actions and the wider consequences of those choices.
- 5.70** In broad terms, when facing problems stemming from insufficient competition, we have the following options:
- Creating or improving the conditions for the development of effective competition – for example, by removing any barriers to such competition. If well designed, this will produce efficient outcomes and have long-lasting benefits with minimal adverse or unintended consequences. However, getting it right is difficult and takes a long time – perhaps several years – and the benefits may take some time to be felt even once reform is implemented.
 - Taking action to address the harm, or potential harm, directly. This could be in the form of price caps or minimum service standards, for example. The advantage of this approach is that the benefits (such as lower prices) are felt as soon as the policy is implemented. However, it is still difficult and takes time, particularly if we want to determine an appropriate price cap. Regulatory intervention of this type may have less efficient outcomes in the long term – for example, by distorting investment incentives or reducing the scope for innovation. We would normally only want to take this type of action as a short-term measure, until competition becomes effective and improves outcomes for users without the need for regulatory intervention.
 - Undertaking an enforcement investigation if we have a reasonable suspicion that there has been a breach of the IFRs, the PSRs, competition law or any direction we have given under FSBRA. Depending on the nature of the investigation, it could take from a few months to two years or more. The outcome of an investigation could include financial penalties on any party that has breached the law, a requirement to stop or correct an action or behaviour that has breached the law, or a range of other sanctions. More detail is in our powers and procedures guidance and our IFRs, PSRs and CA98 guidance documents.¹⁶
- 5.71** As we described in chapter 2 above, we also consider our administrative priority framework and our powers and procedures guidance in deciding what, if any, action to take.

¹⁶ For more information, please see <https://www.psr.org.uk/publications/general/powers-and-procedures-guidance-june-2020/> and <https://www.psr.org.uk/publications/policy-statements/ifr-guidance-2021/>.

Work we are already doing

- 5.72** Over the last few years, we undertook a market review of the supply of card-acquiring services. This followed concerns that the supply of these services may not be working well for merchants, and ultimately consumers. In 2020, we published our interim report on the supply of card-acquiring services. This stated that merchants could make savings by shopping around and either switching or negotiating with their current provider – but many small and medium ones do not. In 2021 we consulted on proposed remedies to help improve competition in this area.¹⁷
- 5.73** We are also the lead competent authority for the monitoring and enforcement of the UK Interchange Fee Regulation (IFR), monitoring compliance with all provisions of the UK IFR – including caps and business rules. We published guidance on our approach to monitoring and enforcing the IFR, and this role will remain an important part of our work.¹⁸

What we will do

- 5.74** In our description of Outcome 3 in Chapter 3, we set out some relevant factors:
- The UK faces a long-term risk to competition in retail payments
 - For businesses that are members of both cards and interbank systems, consumer payments represent a revenue source if they are processed by a card system but a cost if they are processed by an interbank system
 - The introduction of Open Banking has not so far led to a large expansion of using interbank systems for retail purchase transactions
- 5.75** So far, we have focused on encouraging competition within payment systems by different PSPs. Going forward, we want to focus our resources to **promote competition between payment systems**. We think greater competition between systems will lead to better and more affordable services for participants and users. We are keen to ensure competition is effective.
- 5.76** We could take different approaches to bolster competition. The main ones appear to be either **supporting and developing the interbank systems to provide greater competition**, or to rely on the entry of new services and systems (for example, cryptoassets). While we will continue to promote arrangements and conditions that are conducive to efficient new entry, at this stage we favour focusing on the role of interbank payments, including Open Banking. That appears to have the greatest chance of providing a credible alternative for retail debit payments.

17 For more information on our work on the market review of the supply of card-acquiring services, please see: <https://psr.org.uk/our-work/market-reviews/market-review-into-the-supply-of-card-acquiring-services/>.

18 For more information on our work on the monitoring and enforcement of the UK IFR, please see: <https://psr.org.uk/our-work/card-payments/the-ifr/>.

- 5.77** This places importance on the role of Pay.UK. We are under no illusion about the challenge, as existing work on the NPA emphasised. This work is already underway with respect to the renewal and future governance of the UK's interbank payment systems (see Priority 4 below), but these are complex issues to address.
- 5.78** Our card-acquiring market review noted that Visa and Mastercard have significantly increased their scheme fee revenues since 2014. Cross-border interchange fees also rose significantly in the past few months. These developments pose important questions as to whether there are sufficient competitive constraints on card schemes. **We will take forward a piece of work to examine the basis for these fees.** This work will consider the range of tools available to us to protect users and also **consider whether shorter-term measures such as caps for scheme fees or cross-border interchange fees might be appropriate.** Any such action would not be a 'quick fix', as these are complex issues that need thorough investigation. But, if put in place, these measures could protect users in the intervening period until we develop and implement any longer-term measures to introduce more competition.
- 5.79** If we do not see real prospects for improvements in competition in the long term, we don't rule out the potential need for us to regulate in order to protect consumers and businesses. We recognise that would present a number of challenges. In particular, how we would regulate complex pricing arrangements, and how we would regulate in a way that still promotes innovation and high service quality. However, our objectives require us to intervene robustly if other measures are not producing the competition outcome we seek.

Priority 4:

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

Why this is a priority

- 5.80** The UK's interbank payment systems are going through a phase of rapid transformation. Important changes have either taken place or are currently in train:
- Bacs, FPS and the Cheque and Credit Clearing Company have been consolidated under one payment system operator, Pay.UK
 - Widespread adoption of enhanced technology allowed for some additional payments messaging functionality to be put in place between participants without changes to central clearing services – for example, Confirmation of Payee messaging
 - The CMA order concerning competition in the market for retail banking services resulted in the creation of OBIE, whose role included setting technical standards which allowed new firms to initiate payments from existing consumer accounts

- Pay.UK and its members continue to progress the creation of the New Payments Architecture, which will replace the central clearing and settlement infrastructure for UK payments

5.81 We think payment systems have roles to play in ensuring and incentivising good conduct from members that provide payment services and in providing protection to their users. In the current environment, however, we think that without further changes there will likely be challenges to achieving good outcomes for consumers and businesses. We think there is great potential for innovation and effective competition in the UK's interbank systems, but that more needs to be done before it can be achieved.

The ability to develop, set and enforce payment system rules and standards in interbank systems

5.82 A payment system's rules form part of the conditions of participation for its member payment service providers. Payment system users generally do not have any direct commercial relationship with PSOs, but with the PSP that provides their payment services. To allow for universal and predictable outcomes for all users of payment systems – for example, the requirement that payments settle to user accounts within set timeframes – system rules determine at least a minimum standard of conduct between participants.

5.83 Historically, the reach and remit of these rules and agreements differed between payment systems. Oversight and development of the two major card payment systems, Visa and Mastercard, are today undertaken by multinational, private corporations. They operate the system, develop its rules and ensure compliance to them, support brands and marketing, and develop (and increasingly acquire) new technologies and new services to add to their portfolios. Participants in these systems face regular changes to the rules and associated functionality and must pay particular attention to compliance with the scheme.

5.84 The UK's interbank systems are owned and operated by Pay.UK. This is a not-for-profit entity which is required to take the interests of all participants into account when performing its functions. Even within the systems operated by Pay.UK, the remit of rules differs. FPS imposes behavioural standards on participants relating to clearing times and settlement arrangements but does not impose any further conduct requirements on its participants. By contrast, participants in the Direct Debit scheme offered by Bacs are constrained by the Direct Debit Guarantee under which consumers must be refunded if there is an error in payment.

5.85 Rule changes are much less common in the UK's interbank systems than in the card systems. Even where it seems clear there is broad support for rule changes to bring about better outcomes for users, the interbank systems find it difficult to reach consensus across members and to bring about change. We want to ensure Pay.UK has the capacity and ability to act to bring about change.

- 5.86** How rules and standards apply across the interbank systems is further complicated by the introduction of Open Banking Payments following the CMA order, and by the introduction of PISPs following PSD2. PISPs are entitled to initiate payments that will normally be sent using FPS, but are not participants in FPS and so cannot be bound by its rules. As more Open Banking Payment use cases develop, we will need to examine whether the current model of rules and standards can support their growth. We think Open Banking payments will not thrive unless cooperative agreements and basic standards can be set across participants. We think those agreements and standards should be overseen by the PSR, just as they would be for any other major payment system.
- 5.87** We expect new agreements and arrangements will need to be put in place to support payment services supported by the NPA. Similarly, we expect rules and standards to be put in place that protect users' interests, and to take action if we see that is not happening.

Functionality supported by the interbank payment systems

- 5.88** Pay.UK also oversees the creation of the NPA, which is the industry's proposed new way of organising the clearing and settlement of interbank payments. The NPA has the potential to future-proof payment services in the UK by providing a robust and sustainable infrastructure in which – through good governance – innovation and competition can thrive.
- 5.89** It promotes innovation by having a 'thin', competitively acquired central layer. This consists of the underlying architecture and a set of open, standardised interfaces to enable complementary 'overlay' services to be run over it. In the future, we expect innovation in these overlay services will not only replicate existing functionality from the old interbank systems, but also enable new types of payments to be made over interbank payments. This should address some of the problems we see with interbank payments today. It should also lay the groundwork to fulfil our long-term aim of having an interbank payment system which serves as an effective competitor to the card schemes.
- 5.90** We are beginning to see the use of overlay services in our interbank payment systems. Confirmation of Payee messaging and Open Banking payments both rely on messaging between participants that does not require change to the central clearing and settlement technologies. We are encouraged by progress in this area, and will promote the use of similar technologies to assist in fraud detection and to bridge gaps in functionality that would allow for more uses of our payment systems – for example, for retail purchases.
- 5.91** Although the vision of a modern interbank platform is now well understood and widely accepted, more needs to be done before this vision can be realised. We'll continue to have an important role to play alongside Pay.UK and others, to ensure the implementation of the NPA in the next few years delivers on its vision.

Commercial models in the interbank payment systems

- 5.92** New uses of our payment systems will not grow unless it is in the commercial interests of payment service providers to sign up to the system's agreements. Payment systems are cooperative networks, and unless participants gain more benefit from cooperation than they stand to lose in costs they will not sign up to new agreements and may leave

existing ones. Arrangements must be consistently applied, and participants should be incentivised to promote and maintain networks in our interbank systems. We think that commercial models that incentivise participants to work together in order to provide services to users will naturally be more sustainable than commercial models where participants have opposing incentives.

5.93 We think detailed regulatory oversight of payment systems and their participants is less likely to be needed if commercial models can align interests between participants and users. For example, at present, some PSPs are more likely to promote the use of card networks than they are to promote the use of the interbank systems. This is because these PSPs receive revenue from the use of cards. We would like to see a self-sustaining community of payment providers who have incentives to work towards providing better, safer and faster services for businesses and consumers.

What we are already doing

5.94 The renewal of the UK's retail interbank infrastructure presents a significant opportunity to deliver improved resilience, meet the growing demands for digital payments and support increased competition, to the benefit of people and businesses in the UK.

5.95 For competition in the NPA to be effective and to create conditions for innovation, Pay.UK must follow certain principles in the design of the NPA. These include ensuring there is a 'thin' central infrastructure services (CIS) design (with only essential functions delivered in the CIS) and a wide range of access options.

5.96 In addition, we need safeguards against any CIS provider's potential ability to distort competition in related markets. For example, because it has an unfair advantage over rival providers of similar overlay services.

5.97 The NPA has been a key focus for us. Alongside the Bank of England, we are monitoring Pay.UK's work during the development of the NPA. Together, we're working to ensure that the NPA is resilient, taking account of and promoting good outcomes for all users.

5.98 In January 2020, we issued a call for input¹⁹, asking for stakeholders' views on issues that could affect competition and innovation in the NPA. This followed our work setting out our expectations and thinking about the development of the NPA, which we summarised in open letters to Pay.UK in 2018²⁰ and 2019.²¹ These covered risk, competition, innovation, rules and standards, governance and decision making, and stakeholder engagement.

19 <https://psr.org.uk/publications/consultations/cp20-2-call-for-input-competition-and-innovation-in-the-uk-s-new-payments-architecture/>

20 <https://psr.org.uk/publications/announcements/psr-s-open-letter-to-the-new-payment-system-operator-npsol/>

21 <https://psr.org.uk/publications/general/psr-s-open-letter-to-pay-uk-limited-may-2019/>

5.99 In February 2021, we consulted on introducing measures that would require Pay.UK to manage risks to competition and support innovation. The proposed measures include requirements on procurement, pricing and governance.

What we will do

5.100 In our description of Outcome 4 in Chapter 3, we set out relevant factors:

- There are several areas in the UK's interbank payment systems where current arrangements do not always allow for efficient processing
- The design of the NPA should remedy these issues and allow for greater competition in the market for retail purchasing services
- The NPA will bring more opportunities for firms that are not members of the system to be involved in payment transactions
- But for interbank payments to develop in a way that delivers the best outcomes for users, Pay.UK and others must be able to develop and promote the systems under their remit in the interests of those users. We are concerned that the interbank ecosystem is not able to act effectively to bring about change.

5.101 For the NPA to support competition and innovation, we expect Pay.UK to operate it effectively by coordinating activities even when individual incentives of participants are not aligned.

5.102 The governance and development of the interbank system evolved differently from other payment systems.

5.103 As with many other large digital platforms, card systems operate globally and coordinate many complementary technologies and businesses to enable them to deliver services and facilitate transactions. The system operators derive their revenues from these services and transactions.

5.104 Unlike the card schemes, the interbank system cannot coordinate or invest in its activities in the same way. Like the card systems, they were originally owned and operated by a collective of banks, but ownership transferred to Pay.UK. Banks have a role as guarantors alongside a wide range of other stakeholders and are overseen by an independent Board. Pay.UK is therefore intended to undertake a similar role for the interbank payment system, as Visa and Mastercard do for their respective card systems, but to act in the interests of all stakeholders when doing so.

5.105 The Pay.UK arrangement is intended to better align its operation and management with the needs and interests of all stakeholders in the system, rather than with the interests of a small collective of owners or a single owner. However, this may also mean it is difficult for a consensus-based organisation to always act quickly or effectively. Whether we are required to intervene is likely to depend upon the capacity of Pay.UK to address these issues itself. A number of factors need to be addressed first.

5.106 Without adequate funds, Pay.UK may not be able to undertake the coordination and other tasks that enable the continued development of the interbank system. Participants may have different interests in funding additional Pay.UK initiatives, and may have incentives to benefit from (or ‘free ride’ on) investments made by others. Since resources and funds will be limited, Pay.UK will need to make trade-offs between different initiatives.

We need to ensure there is a sustainable funding model in place for Pay.UK. Funds should be allocated in a way which supports and promotes innovation and competition in overlay services.

5.107 As we highlighted under Priority 2, Pay.UK will also need to develop conduct rules and policies to support new services. An example could be the development of a ‘consumer protection’ scheme to support retail purchases made over the interbank system. Participants in the interbank system may have incentives to develop such a scheme but Pay.UK might lack the capacity to do so.

5.108 Where rules and policies are applied to participants, Pay.UK currently has little enforcing ability. The only significant sanction available is to exclude those participants from the payment system. Doing this would be so disruptive to consumers and businesses that it is unlikely to be a proportionate response to most breaches of payment system rules. This means the sanction is unlikely to be used and, as a result, Pay.UK may be unable to maintain compliance among its participants. **We will support developments to Pay.UK’s governance of the interbank rules so it has greater ability to enforce compliance with its rules and changes in those rules that improve outcomes for users.**

5.109 Since the introduction of Open Banking Payments, Pay.UK no longer controls all technical standards that relate to payments that pass over its systems. After the introduction of the NPA, more organisations could be responsible for the ownership and maintenance of standards relating to payments, the provision of infrastructure to support new functionality, and possibly establishing new conduct agreements between participants. We think there will likely also need to be an enhanced commercial model governing some forms of participation in the interbank systems that will incentivise participants to join and maintain any new arrangements. All such rules and standards will need to work for both participants and users. There are many challenges associated with progressing changes to the interbank payment systems. Rule and standard setting bodies will need to:

- Establish where current payment systems do not meet user needs and so change is required
- Design changes to rules and standards that can be applied to the system that take account of the interests of both users and participants
- Prioritise among competing requests for change to ensure those changes that will have the most impact are the highest priority
- Effectively manage the process of change
- Ensure rules and standards are adhered to once introduced.

- 5.110** Pay.UK and the future Open Banking entity will need to decide between requests from different stakeholders for new capabilities, both in terms of whether they are supported and when they are scheduled. With lower barriers to participation and more diverse participants serving different customer needs, these conflicts are likely to be more acute than in the past. They will require a strong independent operator making effective decisions so effective solutions which meet user needs can be brought to market quickly. Even if interests are aligned, it could be challenging to coordinate many different stakeholders and consider the interests of potential entrants, who may not be represented at all. **We will support and promote such coordination where we think it is needed but is not happening.**
- 5.111** We will also need to ensure that the scope and remit of our regulation keeps pace with changes in the interbank systems. The establishment of new payments infrastructure, the increased use of overlay services and the presence of new entrants to our interbank systems should work to mitigate some of the features of payment systems that lead to inertia and misplaced incentives. But there is work to be done to ensure good outcomes and that rules, standards and agreements work in users' interests. There will still be opportunities for indirect network effects and coordination difficulties to slow progress. **We will work with HM Treasury so that new systems and arrangements come under our remit when we think it is necessary to achieve good outcomes.**

Ongoing work to support our objectives

- 5.112** We have set out above our 'strategic priorities' for the coming years, and the actions we will take to help meet those priorities. We will also continue to undertake other important work, which might not relate directly to the actions set out, but which nevertheless contributes to meeting the four priorities. This work will be guided by our strategic priorities.
- 5.113** We want payment systems and services to be competitive, so we will:
- continue our work to open up access to payment systems – both direct and indirect – making it easier, quicker and cheaper for new service providers to enter and provide competition and innovation in payment services
 - continue monitoring compliance with our directions, the Payment Services Regulations (PSRs) 2017, the Payment Card Interchange Fee Regulations (PCIFRs or 'IFR') 2015, and the Payment Accounts Regulations (PARs) 2015, and consider competition enforcement where we see anti-competitive behaviour
 - deal with complaints about anti-competitive behaviour or compliance with the above legislation appropriately
- 5.114** In due course, we will update our Administrative Priority Framework to reflect the PSR Strategy, to ensure our priorities are embedded in our decisions through that formal mechanism.

Issues we will keep under review

- 5.115** In assessing our priorities, we considered a wide range of payments issues. These include those stakeholders raised with us in our informal engagement period on the PSR Strategy, as well as in our general engagement. By choosing a set of priorities, there will naturally be some issues we are choosing not to focus on as strategic priorities.
- 5.116** Of the other issues we considered, the two raised with us most consistently are use of data and issues in cross-border payments. We also received feedback about the importance of ESG – environmental, social and governance matters. We discussed the importance we place on the social impact of payment systems and on how payment systems are governed in Chapter 3, which deals with the outcomes we want to see. We considered whether and how we can usefully play a role in the environmental sustainability of payment systems. We will keep these three areas – data, cross-border payments and environmental sustainability – under review. Where evidence leads us to see a detrimental impact to competition in payment systems and our strategic outcomes, we will consider whether greater focus in these areas would be a better use of our resources.

Environmental issues

- 5.117** We understand many governments and authorities are concerned about the environmental sustainability of the financial services industry. We have thought about how this should affect our work. Aside from payment processing, the link between the actions of financial services businesses and achieving better outcomes for the environment is sometimes more obvious. For example, the Bank of England's work on green finance highlighted the importance to financial services businesses of their exposure to risk due to climate change, and led to the publication of guidelines for insurers.²²
- 5.118** We think the decarbonisation of UK energy production will improve the environmental sustainability of payment systems, as digital payment systems rely on electricity consumption to operate. While some related technologies are energy intensive (notably certain cryptoassets, such as Bitcoin), they are not widely used for payments in the UK. Any new system used widely for payment in the UK is unlikely to rely on the type of computational processing required by the technology underlying certain cryptoassets.
- 5.119** However, we recognise the importance of current climate change and biodiversity emergencies. As such, we would wish to scrutinise closely any proposed payment system which seems likely to be seriously harmful to the environment. As new payment systems are established, there may be a role for us to ensure there is transparency around the relative environmental impact of different payment systems.

²² For more information on the Bank of England's work on green finance, please see: <https://www.bankofengland.co.uk/climate-change/>.

- 5.120** The drive for greater sustainability will also affect the nature of payments and therefore what payments need to do. For example, the deployment of electric vehicle charging might create a need for, or a case for, different ways of paying. The movement to a more sustainable economy will be one factor that creates new use cases in payments and might require changes to how payments work. It will be important that payment systems are flexible enough to allow for new payment services, particularly where those services provide environmental benefits.

Use of data

- 5.121** The automation and digitisation of payments involves large volumes of data being passed between participants via central systems. Payments data is often extremely sensitive. Transaction data – particularly when coupled with other sources of data – will often contain information that users would not wish to be made public. Such data may also be very commercially valuable for advertising or other non-payments services. The use of sensitive data is regulated under various pieces of legislation, including the GDPR, which provides limited exceptions to the basic principle that customers must consent to the processing and storage of their personal data.
- 5.122** The amount of data sent between participants for each transaction differs between payment systems. Each system has its own messaging standards, which can allow payments to be processed efficiently. There may sometimes be tensions between the efficiency of standardised messaging and the benefits of innovations which require additional data or other changes to standard messages. Payment systems need to assess any disruption caused by changes to messaging against the needs of users and participants that can only be met by changing the data that can be transmitted between parties.
- 5.123** The messaging and processing which supports transactions via the card systems is generally richer in data than that for transactions made via the interbank systems. Payment system participants that hold deposit accounts for end users will have much information about the user (as may PISPs with access to those accounts under Open Banking arrangements), but little view across the system. Payment systems and their technology infrastructure providers may have a system-wide view of data being used in payment transactions and be able to observe trends or patterns in payments. However, they won't hold much information about users or their account profiles.
- 5.124** The technical infrastructure providers for some systems have exclusive use of system-wide data. In some cases, a cooperative approach to the use of payments data may bring benefits. For example, it may be possible to assess trends and patterns in fraudulent payments (and so predict broad risks) only at the system level. Participants that manage deposit accounts will hold more contextual information on users and will be able to assess whether a general risk applies specifically to their customers.

- 5.125** Previously, we considered whether a different approach to the use of data could result in system-wide benefits, particularly in interbank systems. We looked at whether changing the contractual arrangements for the use of system-wide data might bring benefits to the system as a whole – perhaps, for example, for anti-fraud cases. We also looked at making data available in such a way that sensitive data was excluded, perhaps to allow for commercial uses. We concluded at the time of our review that any intervention on current systems was unlikely to be effective or proportionate.
- 5.126** With the design and delivery of the NPA, there may be further opportunities to make use of system-level payments data in the interbank system. One of the NPA's aims is to establish ISO20022 as the standard for messaging in UK interbank payments. This should allow for richer data to be passed between participants in interbank payments. It will bring benefits to participants but may also mean that more useful data is held at a system level. We requested that Pay.UK make synthetic data publicly available during the NPA implementation programme. This would allow interested firms to assess if system data may be developed to provide benefits across the system.
- 5.127** The market for user data changed in recent years. Many services available over the internet offer user data for advertising and other purposes. Such arrangements could become more common in digital payment services in future. Large internet service providers, such as Google, Apple and Amazon, already provide smartphone-enabled wallets and other payment services to UK users.
- 5.128** We'll keep uses of payments data under review as the market evolves. We are keen to ensure that if payment providers – service providers or systems – start offering access to payment services in return for broad uses of consumer or transaction data, any agreement is fair and works in the interests of users. We will always want to understand whether the ways in which data is used in payments support or hinder effective competition.

Cross-border payments

- 5.129** We recognise that cross-border payments are important to the UK's users. Feedback we receive tells us they are often a source of dissatisfaction. Cross-border payments are often described as lacking in transparency, slow and inefficient. This feedback normally comes in relation to correspondent banking arrangements or remittance payments, rather than to cross-border card system transactions.
- 5.130** We considered whether we should address cross-border payments as one of our strategic priorities. The systems designated to us do not process cross-border correspondent banking or remittance payments. It is therefore unlikely our powers would allow us to address such issues in systems that are not designated to us.

- 5.131** Other authorities are currently working to solve some of the problems in cross-border payments. One of the objectives of the Bank of England's real-time gross settlement (RTGS) system renewal programme²³, for example, is to coordinate synchronisation between settlement of payments in this country and others. The Bank of England is currently also working with other central banks to develop a road map to improve cross-border payments. It is working in collaboration with the G20, the Financial Stability Board, the Committee on Payments and Market Infrastructures (CPMI) and other relevant international organisations and standard-setting bodies. A report setting out the plan for action, including timelines was published in October 2020.²⁴ The Treasury's Payment Landscape Review also highlighted the issue of cross-border payments.
- 5.132** We do not propose to focus on cross-border payments, but we will keep the issue under review. If we learn of issues our powers will allow us to tackle, we may make cross-border payments a higher priority in the future.

23 <https://www.bankofengland.co.uk/payment-and-settlement/rtgs-renewal-programme/functionality-of-the-new-rtgs-service>

24 <https://www.fsb.org/2020/10/fsb-delivers-a-roadmap-to-enhance-cross-border-payments/>

6 How we will measure progress

Measures for each strategic outcome

- 6.1** As we implement and deliver our strategy, we want to understand whether payment systems and payment services in the UK are closer to or further away from the outcomes we want to see. This will help us assess whether the strategic priorities remain the right ones, or whether they need to be revised/refined. We will always base our work on evidence.
- 6.2** In this chapter, we suggest some indicators we will use to support assessment of progress against our outcomes.
- 6.3** **We will undertake a review of progress in 2024:** midway through the five-year term of our strategy. The purpose of the review will be to determine whether the strategic outcomes, priorities and actions remain appropriate, and – if not – how they should be changed.
- 6.4** **We will publish data and information against some indicators of progress towards the outcomes annually.** This will sit alongside our Annual Report, which examines how we have fulfilled commitments that we put in our Annual Plan.
- 6.5** We set out below the indicators we aim to report against for each outcome. We do not yet have all the data and information we would like to measure how the outcomes are changing on a consistent and ongoing basis. Over the coming 12 months we will explore in more detail the information sources we can access, and which we may need to develop new sources for (such as information requests or commissioning studies or surveys). We may refine or supplement these indicators as we explore these information sources.
- 6.6** As far as possible, we will quantify and measure the impact our work has towards achieving our outcomes. But we recognise many other factors will affect the outcomes. We also think sometimes the impact may be indirect and difficult to measure.
- 6.7** Initially, we will primarily consider our impact by reporting annually on the actions we have committed to in this strategy, and on the actions we commit to each year in our Annual Plans. We will supplement this with data on the indicators we set out below.
- 6.8** We will develop our ability to measure and evaluate our impact over the coming years, including through the establishment of our new Strategy and Analysis department. We intend to make sure our work is supported by good information. However, we do not intend to make data collation and analysis the PSR's primary focus. We also want to ensure our information and data requests are proportionate and do not constitute an undue burden on the firms we regulate.

- 6.9** Instead, we intend to identify good measures which indicate our impact where they exist or could be readily established. We will also rely on other measures that may only partially or indirectly measure our contribution. We know that we work in an environment where many different causes may contribute to outcomes, and care will need to be taken in assessing the relevant data. We want to support the examination and scrutiny of our work, and we think that monitoring these measures is likely to tell us and others more about whether we are delivering or not. And where our contribution is difficult to measure, making relevant information available can still prompt a valuable discussion about our impact.
- 6.10** For all the indicators below, where available, we will also look at international data to help provide context and comparison to the UK payments sector.

Outcome 1:

Everyone has access to payment services that meet their needs

- 6.11** In Chapter 5, we explained we intend to support the development of new services that:
- support user needs
 - allow for competition to provide new services to users
- 6.12** We will also continue to protect access to cash through our regulation of LINK and its cash machine network.

Indicators

- Trends in the number and type of new and innovative payment methods and services
- Trends in use of different payment methods and for different users over time
- Trends in the uptake of existing alternative payment options for groups that currently rely on cash
- Availability levels (and outages) of central payment systems
- The number of 'protected' ATMs which have not been replaced under LINK's direct commissioning scheme
- Qualitative and quantitative information on users that can't make or receive payments, or incur costs in doing so
- Satisfaction levels of all user groups across a range of measures (including trust, convenience, cost, dispute resolution, unmet needs)

Outcome 2:

Users' interests are adequately protected when using payment systems and services, so they can use them with confidence

- 6.13** We said we would focus on improving consumer protections within interbank systems where necessary and look to achieve that aim by strengthening Pay.UK's governance arrangements. We have been working for some time on protecting consumers from fraud. Currently, we are considering whether some form of protection should be extended outside cases of fraud.

Indicators

- Levels of authorised push payment fraud (by value and volume) over time in comparison with a 'no action' counterfactual
- Fraud prevention: the rate of transactions stopped by fraud warning messages (for example, Confirmation of Payee)
- Fraud resolution: rate of reimbursement, including levels of reimbursement under the Contingent Reimbursement Model Code
- The number and nature of consumer protection-related complaints or disputes raised with payment providers (excluding APP scams measured above)
- Consumers' knowledge of protections associated with different payment methods and perceptions of risk when using payment systems

Outcome 3:

Payment systems enable effective competition in the provision of payment services

- 6.14** As we explained in chapter 5, the benefits of competition are likely to take some time to take effect, even once the conditions for competition have been created. As such, we think it is useful to divide the indicators for this priority between indicators that show the emergence of effective competition and indicators of the outcomes we want from competition.
- 6.15** It is inherently difficult to devise metrics to measure progress towards competition, and no single measure will tell us whether an industry is competitive. For this reason, a qualitative assessment of the competition indicators looked at over time will be needed.

- 6.16** Furthermore, ultimately, we want to measure not just the level of competition in the provision of payment services, but the outcomes of this competition. Our strategy is to promote competition, particularly between payment systems. However, we recognise this is a long-term strategy and do not expect the outcomes, such as lower fees, better quality and greater innovation, to materialise immediately. Nevertheless, it will be important to monitor both the indicators of competition and its outcomes in case they show us that outcomes for payment services users are getting worse. These will help us identify whether we need to intervene to either remove barriers to competition developing, or protect users until competition is sufficiently effective.
- 6.17** The focus of our measurement will be on indicators of competition between payment systems, consistent with the emphasis of our strategy. However, we will continue to consider competition within payment systems as well. Outcomes of competition for consumers could be similar, whether that competition is within or between payment systems. In fact, different types of competition may result in overlapping outcomes to some degree.

Indicators

Indicators of the level of competition

- Changes in shares of supply and market concentration for various payment services and user groups over time (both within the same payment systems and across different payment services)
- Trends in entry and exit of payment system participants
- Trends in payment system users switching between payment systems

Indicators of the outcomes from competition

- Changes over time in key price indicators (such as merchant fees, interchange fees, interbank transaction fees or transaction charges for business customers)
- The level of revenue and cost for systems and their participants
- The number of new services or products coming to market
- The level of usage of new payment systems or existing payment systems providing new functionality
- Availability levels of central payment systems
- Satisfaction levels of representative user groups across a range of measures (including trust, convenience, cost, dispute resolution and unmet needs)

Outcome 4:

Payment systems are efficient and commercially sustainable.

6.18 In Chapter 4, we highlighted the importance of a governance structure that allows Pay.UK to effectively develop and promote the systems under its remit. We also described the role successful delivery of the NPA can play in supporting innovation and competition in interbank payments. Pay.UK will need to take a number of actions to ensure the full potential of the NPA can be realised and that the risks associated with the transition are appropriately managed. Our measures under this priority therefore cover both progress within the NPA programme and wider impacts of Pay.UK's approach to governance and our oversight of it.

Indicators

- Proportion of transactions migrated from existing interbank payment systems (Faster Payments, later Bacs) to the NPA
- Entry by new overlay service providers using the NPA central infrastructure (and volumes of transactions supported)
- Number of direct participants using new central infrastructure and percentage of total Faster Payments transactions for each participant member of new services offered by overlay providers
- The nature and number of rule changes made by Pay.UK and proposals for rule changes considered from different participants
- The extent and nature of compliance sanctions
- The resolution time and rate of disputes raised with Pay.UK
- Satisfaction of payment system participants (including with service levels, value for money, etc.)
- Implementation by Pay.UK of the decisions we made following our consultation on the delivery and regulation of the NPA, leading to the effective procurement of a central infrastructure service provider

Summary of the indicators

6.19 We summarise the measures we propose to adopt for each strategic outcome, and provide an illustration of each in Table 3:

Table 3: Indicators for each strategic outcome

Outcome	Indicators of progress
Everyone has access to payment services that meet their needs	<ul style="list-style-type: none"> • Trends in the number and type of new and innovative payment methods and services • Trends in use of different payment methods and for different users over time • Trends in the uptake of existing alternative payment options for groups that currently rely on cash • Availability levels (and outages) of central payment systems • The number of ‘protected’ ATMs which have not been replaced under LINK’s direct commissioning scheme • Qualitative and quantitative information on users that can’t make or receive payments, or incur costs in doing so • Satisfaction levels of all user groups across a range of measures (including trust, convenience, cost, dispute resolution, unmet needs)
Users are adequately protected when using payment systems and services, so they can use them with confidence	<ul style="list-style-type: none"> • Levels of authorised push payment fraud (by value and volume) over time in comparison with a ‘no action’ counterfactual • Fraud prevention: the rate of transactions stopped by fraud warning messages (for example, Confirmation of Payee) • Fraud resolution: rate of reimbursement, including levels of reimbursement under the Contingent Reimbursement Model Code • The number and nature of consumer protection-related complaints or disputes raised with payment providers (excluding APP scams measured above) • Consumers’ knowledge of protections associated with different payment methods and perceptions of risk when using payment systems

Outcome	Indicators of progress
<p>Payment systems enable effective competition in the provision of payment services</p>	<ul style="list-style-type: none"> • Indicators of the level of competition: <ul style="list-style-type: none"> ○ Changes in shares of supply and market concentration for various payment services and user groups over time (both within the same payment systems and across different payment services) ○ Trends in entry and exit of payment system participants ○ Trends in payment system users switching between payment systems • Indicators of the outcomes from competition: <ul style="list-style-type: none"> ○ Changes over time in key price indicators (such as merchant fees, interchange fees, interbank transaction fees or transaction charges for business customers) ○ The level of revenue and cost for systems and their participants ○ The number of new services or products coming to market ○ The level of usage of new payment systems or existing payment systems providing new functionality ○ Availability levels of central payment systems ○ Satisfaction levels of representative user groups across a range of measures (including trust, convenience, cost, dispute resolution and unmet needs)

Outcome	Indicators of progress
<p>Payment systems are efficient and commercially sustainable</p>	<ul style="list-style-type: none"> • Proportion of transactions migrated from existing interbank payment systems (Faster Payments, later Bacs) to the NPA • Entry by new overlay service providers using the NPA central infrastructure (and volumes of transactions supported) • Number of direct participants using new central infrastructure and percentage of total Faster Payments transactions for each participant member of new services offered by overlay providers • The nature and number of rule changes made by Pay.UK and proposals for rule changes considered from different participants • The extent and nature of compliance sanctions • The resolution time and rate of disputes raised with Pay.UK • Satisfaction of payment system participants (including with service levels, value for money, etc.) • Implementation by Pay.UK of the decisions we made following our consultation on the delivery and regulation of the NPA, leading to the effective procurement of a central infrastructure service provider

Annex 1

Roles of regulatory authorities in payments

- 1.1** As the economic regulator for the payment systems industry, it is important we work with and talk to other regulators and competition authorities whenever it helps meet our objectives. We regularly work with the Bank of England, the Financial Conduct Authority (FCA) and the Competition and Markets Authority (CMA), to ensure the activities we undertake are consistent with those of other regulatory authorities in payments, not duplicative and consider the regulatory burden placed on industry.
- 1.2** The **Bank of England** has several roles in UK payments. It supervises organisations that run infrastructures for financial markets – including payment systems – to ensure those systems are resilient. It operates the CHAPS payment system used for high-value sterling transactions. These are largely used for wholesale transactions between financial institutions, as well as some time-critical transactions, such as buying property. It also acts as the settlement agent for several other payment systems in the UK.
- 1.3** The Bank of England, through the **Prudential Regulation Authority (PRA)**, also authorises and supervises deposit takers (including banks and building societies) in the UK to ensure that they are financially resilient and sound.
- 1.4** The **FCA** authorises or registers other PSPs that are not deposit takers. It also supervises all PSPs, including the retail banks and building societies, to ensure markets are working well. To do so, it has objectives to ensure consumer protection, competition and market integrity. The FCA is responsible for supervising the conduct of firms providing payment services under the Payment Services Regulations 2017. Beyond that, the FCA is responsible for regulating other activities (such as aspects of deposit taking and lending) under the Financial Services and Markets Act.
- 1.5** The **CMA** has competition law powers that apply across the whole economy. For the participation in payment systems, the PSR can (concurrently with the CMA) exercise its competition law powers to enforce the prohibitions on anti-competitive agreements and on abuse of a dominant position. It can also make market investigation references.
- 1.6** The **PSR** focuses on payment systems. We seek to create the right environment for competition and innovation in payment systems. We're focused on the interests of the people and businesses that use payment systems. Our statutory powers apply to participants of payment systems. This includes payment system operators, infrastructure providers and payment service providers.

Table 4: Roles of the FCA, PSR and the Bank of England with respect to payments

	FCA	PSR	Bank of England and PRA
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	Conduct regulation including authorising and supervising PSPs, 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, and regulating the resolution of firms. Issuing notes, regulating the safety and soundness of firms, and aiming to ensure critical services are continued in the event of financial failure. The PRA also has a secondary competition objective.

Table 5: Firms regulated by the FCA, PSR and Bank of England

	FCA	PSR	Bank of England and PRA
Regulated payment service providers	<p>Credit institutions – banks and building societies (conduct supervision)</p> <p>Payment institutions – money remitters, payment card issuers and merchant acquirers (authorisation, conduct and prudential supervision)</p> <p>E-money institutions (authorisation, conduct and prudential supervision)</p> <p>Open banking firms – payment initiation service providers, and account information service providers (authorisation, conduct and prudential supervision)</p>	<p>Payment service providers with regard to their participation in payment systems (i.e. banks, building societies, e-money issuers)</p> <p>Payment service providers with regard to their compliance with the Interchange Fee Regulation and the access provisions of the Payment Services Regulations.</p>	<p>Credit institutions – banks and building societies (authorisation and prudential supervision)</p>
Not regulated under the PSRs 2017 but subject to some FCA oversight	<p>Credit unions – registered with the FCA and subject to BCOBs</p> <p>Agents of payment service providers – registered at FCA</p>		<p>Credit unions (prudential supervision)</p>

FCA	PSR	Bank of England and PRA
<p>Payment systems and infrastructure</p>	<p>Operators of payment systems recognised as Financial Market Infrastructures and designated by HM Treasury: Bacs, CHAPS, Faster Payments, LINK, Visa Europe</p> <p>Vocalink</p> <hr/> <p>Operators of payment systems designated by HM Treasury: Mastercard, Cheque and Credit Clearing</p> <p>Independent ATM deployers</p> <p>Card payment systems monitored for IFR compliance: AMEX, Diners, China Union Pay, JCB</p>	

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