

# Indicative Policy Work Programme

From 1 April 2015





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The top of the page features a photograph of two hands with fingers painted in various colors (red, yellow, green, blue). Each hand has a simple smiley face drawn on the palm with blue and yellow paint. The hands are positioned as if they are holding up the page.

# Introduction

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The Payment Systems Regulator becomes fully operational on 1 April 2015 and from that date, we will regulate key payment systems in the UK. Our vision is to have payment systems in the UK that are accessible, reliable, secure, and value for money.

The directions and policies set out in our Policy Statement lay the ground work for delivering our objectives of promoting competition, innovation and the interests of those who use payment systems and services. And we know there is much more to be done, by us, by the industry and by our stakeholders, if we are truly to deliver on our goal of world class payment systems for the UK.

This document describes an ambitious policy work programme that has been carefully developed to build on the solid foundation of our Policy Statement. It includes our two market reviews, a new card payment systems programme of work and our critical Payments Strategy Forum initiative, alongside a number of other enabling and supporting projects. We recognise that setting out our framework is just the start of our work; there is much more for us all to do.

For our policies and regulation to work we need to engage with all of our stakeholders. We will start by getting your views on the work we propose and what it means for you by holding a series of roundtables in the coming weeks. We are also conscious that any work programme needs to be flexible and respond to issues as they arise and so our work programme may continue to evolve throughout the year. By working together we can deliver better results for everyone who uses payment systems and services.

# Strategy setting projects

Our strategy setting projects aim to improve the overall **process for developing strategy** for the UK payments sector, and drive innovation and efficient delivery where that strategy relies on the industry working together.



## Payments Strategy Forum

Our Payment Strategy Forum project will set up a **new strategy setting process** for the payments industry. We will establish the Forum, appoint an independent Chair and set its Terms of Reference. We will also participate and support the Chair. The Forum will be representative of a wide range of payment systems users and industry participants.

Key to the Forum's success will be its ability to address criticism of the sector around the pace of innovation, where the industry needs to work together to deliver improved outcomes for those who use payment systems. The Forum will:

- Develop a long term strategic vision for the payments sector;
- Focus clearly on those areas that require the industry to work together to deliver that vision;
- Make recommendations on the key priorities for the industry over the coming years; and
- Hold the industry strongly to account for delivery.

The Forum will consider collaborative developments already underway in the sector, to build on good work that has already been started.

Alongside the Forum's work, we will consider what further work the PSR may do on these issues to ensure our objectives are being met.

## World Class Payments

We will ensure that the Forum builds on the good work already carried out by the industry, for example by considering the 'World Class Payments' project initiated under the auspices of the Payments Council, when it is developing its view on strategic priorities.

## Current Account Switch Service (CASS) and Account Number Portability (ANP)

As the Forum develops its view on the strategic priorities for the sector, we will make sure that it considers existing work on CASS and ANP including the recommendations in the Financial Conduct Authority (FCA) review of CASS and ANP.

The Forum may make recommendations on the work of this project.

## Ring-fencing

The requirement on major banks to ring fence their retail businesses is also relevant to the Forum's work and the Forum might want to consider any potential impact on payment systems and the organisations and customers who use those systems.



## Cheque Imaging

The industry is implementing a project to deliver a cheque imaging solution (the Future Clearing Model-FCM) which will also be of relevance to the Payments Strategy Forum's work. We recognise that the delivery of FCM is already underway, so we will work with the industry to try to align the delivery of the FCM with our objectives so that it delivers good outcomes for organisations and people who use payment systems and services.

# Markets projects

Our markets projects are aimed at improving markets and **promoting competition** so that payment systems support the best possible outcomes for organisations and people using them.



## Implementation of our access and governance directions and policies

In our Policy Statement we set out a number of directions on industry participants that are designed to improve how the industry participants involves its users in decision making, as well as improving the ability of payment service providers to access payment systems. These directions are aimed at improving inclusiveness and transparency, which in turn should improve the ability of the sector to deliver good outcomes for those using payment systems and the services provided over them.

Our **implementation project** will review how and when the industry complies with the directions, and crucially whether, after an initial period, the directions are achieving the desired effects in the market. If we consider that further measures are needed, the project will make recommendations, or work may be taken forward in our other projects.



## Market review into the supply of indirect access to payment systems

This project will examine indirect access to payment systems including the structure of the market, the nature of competition, the factors which limit the choice available to those who access payment systems indirectly and what a competitive indirect access offering looks like.

It will look at appropriate actions on indirect access, inform the development of our framework for improving indirect access, and it work closely with our implementation project on our access directions.



## Market review into the ownership and competitiveness of infrastructure provision

This project will gather evidence to allow us to determine whether the current ownership of payment systems infrastructure, and vertical relationships between various parties, lead to a state of competition that works in the interests of users of payment systems or whether changes may be warranted.

In particular it will consider barriers to entry, possible foreclosure of adjacent markets and ownership of infrastructure, including of Vocalink.



## Cards payment systems programme of work

There are some significant changes underway that will affect card payment systems in the UK – notably the introduction of new Interchange Fee Regulation (IFR) at European level. The regulation, and how it is applied nationally, will be important to card payment systems and all those who use them.

As interchange fees will interact with other types of card scheme fees, we are setting up this programme of work to develop our policy position on all card scheme fees. The project will also develop our approach to implementation of other aspects of the regulation and it will seek information about other concerns around card payment systems, e.g. on access, transparency, governance and how service users are represented in decision making.

If we consider further action is needed in these areas, the project will develop appropriate policies, including considering whether some of our directions on interbank systems should be extended to card payment systems.

# Supporting projects

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To enable our strategy setting and market projects, we have a number of supporting projects. These include our ongoing monitoring of innovation as well as the development of key success measures that we can use to demonstrate the impact our policies have on achieving our objectives.



## **Innovation horizon scanning**

Our innovation project carries out regular monitoring and assessment of innovations in payment systems worldwide and in the UK to identify developments that are relevant to our objectives, and ensure our other workstreams take these into account.

The aim of the project is to ensure that our regulation does not introduce unnecessary barriers to innovation, and to identify if, and how, regulation may act as a barrier to commercial innovation, so that we can take appropriate action.



## **Policy success measures**

Our success measures project is looking at how we can measure our impact. We want to be able to demonstrate clearly how our policies have contributed to the achievement of our objectives of promoting competition, innovation and service users' interest.

The project will develop an appropriate set of metrics and gather data to report against those metrics after the end of our first year of operation.



# Pipeline projects

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Finally, we have a small number of projects that are exploratory, where we will carry out an initial review of the issues and decide whether to initiate more work based on the evidence we see.



## **ATM Interchange Fees**

This project will explore whether there are concerns among our stakeholders about ATM Interchange Fees, and if so whether these concerns might relate to our objectives.

After an initial information-gathering stage the project will recommend whether or not to pursue more work.



## **Consumer redress**

This project is looking at what redress is available to consumers in the event of operational failure in payment systems. We want to understand whether there are any gaps in, or any aspects of, consumer redress where the PSR should and could play a role (along with other stakeholders such as the FCA and the Financial Ombudsman Service).

After initial information gathering and assessment, the project will recommend whether further policy work is needed by the PSR.

# Strategy setting projects

Payment systems are strategically important to the UK economy, so the framework in which they develop is also important. Our strategy setting projects aim to improve and strengthen strategy setting in the sector, speed up delivery of new innovation where parties have to work together (whilst ensuring commercially competitive innovation is not hampered), and promote the interests of those who use payment systems and the services they support.

## Payments Strategy Forum project



### What is it?

We are establishing a new **Payments Strategy Forum** for the UK payments sector. We will set the Forum up, appoint an independent Chair and develop its Terms of Reference. We are being supported by a working group of our stakeholders. We will also provide the secretariat and participate in the Forum.

The Forum will have broad representation from the payments sector, including industry participants and representatives of those who use payment systems and the services they support. Its task will be to develop a strategy for long-term developments in the payments sector. It will focus clearly only on where the industry needs to work together to deliver that strategy, identifying priorities and making recommendations for delivery.

Responsibility will rest with the industry for delivery, and the Forum will hold the industry to account.

### Why are we doing it?

Despite having delivered some very significant innovations, such as faster payments (FPS) and mobile

payments (Paym), UK payment systems have been criticised for innovating only 'at the pace of the slowest'. This is perceived to be the case where co-operation between several parties is needed to deliver innovation. There are also concerns that users of payment systems and services do not have adequate influence over strategic innovation in payment systems.

The Forum will give the industry and its users an opportunity to address these criticisms. Its broad representation will address the inclusiveness challenge, and we will actively support the Forum and the independent Chair to ensure the delivery of innovation is timely. We will keep the operation and delivery of the Forum under close review, and if we think it is not delivering we will consider intervening.

### How will we do it?

We have set up a working group of our stakeholders to assist us in designing a robust process for appointing an independent Chair of the calibre and capability to drive the Forum's work. The working group is also advising us on the terms of reference for the Forum.

We will work with the Forum during its first year of operation to align its deliberations with our objectives and, along with the independent Chair, we will review its work at the end of that year. Importantly we will expect the Forum to consider and, if appropriate build on, existing collaborative innovations in the sector, including:

- The Current Account Switch Service (CASS) and Account Number Portability (ANP), including the findings of the FCA review of CASS;
- The World Class Payments project initiated by the sector under the auspices of the Payment Council; and
- The impact of ring-fencing by the retail banks on payment systems.

We will be keeping these developments under review too, to ensure that they align with our objectives and are consistent with the interests of organisations and customers who use payment systems and services, particularly in terms of their costs and benefits.



### ***What will the benefits be?***

An inclusive and dynamic process for developing strategy and priorities for the sector should speed up the pace of innovation, ensure that innovation supports the priorities of users of payments systems and services and help deliver a world class payments sector for the UK.



### ***What is it?***

The industry has agreed with the Treasury to implement a cheque imaging solution, the Future Clearing Model (FCM), by 2017.

Whilst we will expect the Payments Strategy Forum to take an interest in this work, given its timescale we have started to work with the industry to try to ensure that the development of FCM is aligned with our objectives, ensuring it is innovative, efficient and consistent with the interests of organisations and customers who use payment systems and services.

### ***Why are we doing it?***

The development of cheque imaging is intended to meet the needs of consumers and organisations who want to continue to use cheques as a method of payment, whilst at the same time bringing the benefits of new technology and systems to those customers.

Whether the FCM meets this objective depends on the model chosen, the costs and benefits and how it is implemented. We want to influence the design of the FCM as the industry develops it so that it aligns as far as possible with our objectives and delivers good outcomes for users of payment systems and services.

### ***How are we doing it?***

We are engaging with the steering group for the project and we have already secured agreement that the group will follow the same governance approaches that we are requiring of other key inter-bank payment system operators. This will ensure that governance and decision-making are appropriately transparent and representative. We are also developing a process for how the FCM project provides assurance to us.

Insofar as is appropriate we will ensure that the Forum considers the progress and outcome of the FCM project in the context of developing longer term strategies for the payments sector.

### ***What will the benefits be?***

Transparency in governance and decision-making will bring the same benefits to this new model as to existing payment systems – ensuring the voice of those who use payment systems and services is heard and considered. This is particularly important during the development phase when key decisions are being made that will affect the outcomes customers see.

# Markets projects

Engagement with our stakeholders over the past year has shown us that there are clear concerns about how the payment systems market is working. As a result, one of our first actions as a new regulator has been to set out a number of directions and policies on access and governance to improve the functioning of the market. These, along with the projects outlined below, are aimed at promoting competition, which in turn should improve innovation and promote the interests of those who use payment systems and services.

## Implementation of our access and governance directions and policies



### **What is it?**

This project will implement, monitor and assess the effectiveness of our initial policies and directions on access and governance. It aims to develop a robust framework for assessing compliance with our directions so as to ensure they are implemented in a way that meets our objectives. It will also review the policies after their first year to see how effective they have been and whether further action is needed.

### **Why are we doing it?**

Our policies and directions are aimed at improving a number of aspects of the operation of the payment systems markets and include:

- improving how payment systems take account of the views and interests of their users,
- making direct access easier to obtain, and
- increasing the information available from the four main sponsor banks to help those seeking indirect access to payment systems.

This project will involve working with stakeholders on industry-led developments such as the development of a Code of Conduct for sponsor banks and the development of technical access solutions, to ensure they are implemented in a way that achieves our objectives. And, in due course, we want to assess how effective these policies are so that we can decide whether we need to take further action.

### **How are we doing it?**

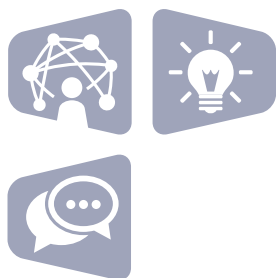
Our directions and policies, while clear, are not overly prescriptive. We want the industry to have the freedom to implement them in the way that is most effective for their business and their users, so we will work with the industry to understand their plans for implementation.

At the same time, we will develop a framework to assess compliance with each of the deadlines. We will also develop a framework to evaluate the effectiveness of the policies at the end of our first year of operation and work with our stakeholders to ensure we understand their views on this before we make decisions on whether any further action might be needed.

### **What will the benefits be?**

If our policies and directions are effective, it should be easier for new Payment Service Providers to gain access to payment systems, thus improving the level of competition in the market. Improved service user representation should also ensure that decisions by payment system operators (including those around access) take account of service users' interests, thus improving outcomes for those who use these systems and services.

## Market review into the supply of indirect access



### ***What is it?***

The objective of this market review is to develop a deeper understanding of indirect access to interbank payment systems. We will focus on the economic structure of the market and nature of competition, the factors which limit the choice available to those who access payment systems indirectly and what a competitive indirect access offering looks like.

The market review will work alongside other policy projects, in particular the implementation project, to take into account changes and developments in the market. It will inform our framework for how we regulate indirect access. The review will not cover access to card payment systems.

### ***Why are we doing it?***

As well as general concerns about being able to access payment systems, our stakeholders have told us that there are specific difficulties around gaining indirect access – that is access to an interbank payment system through a ‘sponsor bank’. We want to explore these concerns further, including issues around choice of sponsor bank, structure and levels of fees, other terms and conditions and the fact that payment service providers (PSPs) who use the service of sponsor banks may have to reveal commercially confidential information to those banks who may be their competitors.

The review will allow us to identify whether these concerns warrant intervention by us, and if so what types of intervention would be most successful and proportionate.

### ***How will we do it?***

We are consulting on the terms of reference for the review so as to check that we have identified the right issues and we will publish a final terms of reference in May 2015. We will also publish a timetable for the review and give an indication of how we will engage with our stakeholders, including how and when we will gather data and evidence. We recognise this will be very important, given that many of our stakeholders will be engaging with us and other authorities on multiple policy projects.

### ***What will the benefits be?***

By gathering evidence on the concerns raised, we will be able to make robust, proportionate decisions on what, if any, interventions might be required. We will use our work to establish a framework and principles for regulating indirect access, which we would apply to our assessment of any applications for indirect access services.

# Markets projects (continued)

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**Market review into the ownership and competitiveness of infrastructure provision**



## ***What is it?***

This market review is aimed at gathering evidence to determine whether the current ownership and vertical relationships in infrastructure in payment systems lead to a state of competition that works in the interests of those who use them, or whether changes may be warranted.

It will focus on infrastructure related to central clearing functions and infrastructure used at the boundary between payment service providers and central clearing functions. This will include services provided by firms such as Vocalink and the infrastructure underlying the Bacs, FPS and LINK systems. It will not look at infrastructure underlying CHAPS, C&CC, NICC or card payment systems.

## ***Why are we doing it?***

The arrangements for infrastructure in the payment systems market have successfully delivered relatively robust and resilient payment systems over the years and may have provided incentives to keep costs down.

But there is a concern that ownership and vertical relationships may also have limited competitive pressure, which in turn may have hampered innovation and may not be in the interests of those who use payment systems and services.

The review will allow us to identify whether these concerns warrant intervention by us, and if so what types of intervention would be most successful and proportionate.

## ***How will we do it?***

We are consulting on the terms of reference for the review so as to check that we have identified the right issues, and we will publish a final terms of reference in May 2015. We will also publish a timetable for the review and give an indication of how we will engage with our stakeholders, including how and when we will gather data and evidence. We recognise this will be very important given that many of our stakeholders will be engaging with us and other authorities on multiple projects.

## ***What will the benefits be?***

By gathering evidence on the concerns raised, we will be able to make robust, proportionate decisions on what, if any, interventions might be needed and be successful. If necessary any interventions will be aimed at improving the market in a way that is in the interests of users of payment systems and that addresses concerns about innovation.

## Card payment systems programme of work



### **What is it?**

This programme of work is being started to develop our policy position on card payment systems, especially (but not limited to) any decisions on setting national caps on interchange fees in line with the forthcoming EU Interchange Fee Regulation (IFR) and how this might interact with other card payment system fees. It will also develop our policy for implementation of other aspects of the IFR including compliance and functional separation and it will gather information on other concerns around card payment systems, e.g. on access, transparency, governance and how service users are represented in decision making. If appropriate, the work will develop policies to address concerns.

### **Why are we doing it?**

There are some significant changes underway that will affect card payment systems in the UK – notably the introduction of new Interchange Fee Regulation (IFR) at European level. The regulation, and how it is applied nationally, will be important to card payment systems and those who use them.

As interchange fees will interact with other types of card payment system fees, we are setting up this project to understand and develop our policy position on all card payment systems fees so that we can take a coherent approach to how any decisions under the IFR. We will also develop our approach to implementation of other aspects of the regulation, including compliance.

And while we did not hear the same level of concerns about card payment systems as we did about interbank payment systems in responses to our consultation (specifically about access, transparency, governance and how service users are represented in decision making), we do want to explore whether those concerns we have heard are more widespread to decide whether, and if so how, we should intervene.

### **How will we do it?**

We are launching a programme of work that will involve engaging with our stakeholders to gather evidence and data that will allow us to assess concerns they may have. We will also need to collect information on payment card fees. We will carry out an initial analysis of this data and set out our proposals for consultation before finalising any of our policies.

If we consider further action is needed in these areas, the project will develop appropriate policies, including considering whether some of our directions on interbank systems should be extended to payment card systems.

### **What will the benefits be?**

The project will deliver a clear framework for how we carry out any functions we have under the IFR, giving the market certainty and transparency on how we will regulate.

By considering interchange alongside other issues we can ensure that any policies are proportionate, that we understand how they impact on different aspects of the market, and that there are no unintended consequences.

Any interventions will be aimed at addressing concerns, removing barriers, enabling the market to function better and promoting innovation and the interests of users of card payment systems and services.

# Supporting projects

In this section we describe some of our larger 'supporting' projects which impact on, or feed into, all of our policy projects.

## Innovation horizon scanning



### **What is it?**

This project focuses on monitoring innovation developments in the payments sector, engaging with our stakeholders, including the FCA which is running 'Project Innovate' and flagging innovation developments to our other projects where these are relevant to their work. It aims to ensure that across our entire programme of work, we take into account how any of our regulation might impact on innovation, as well as identifying where regulation may be creating an unnecessary barrier to innovation.

### **Why are we doing it?**

One of our key objectives is to promote innovation and we are conscious that much innovation happens in the commercial, competitive parts of the payments market. We want to facilitate and encourage such innovation and make sure our regulatory approach does not unintentionally stifle new ideas. And where we identify barriers to innovation we will want to seek to remove or reduce them, while also ensuring that we protect security and stability. We will seek to ensure that constraints imposed by security and stability requirements minimise potential adverse effects on innovation.

### **How are we doing it?**

Our team is engaging widely with the sector, through events, publications and by scanning developments in other jurisdictions and sectors. The project reports quarterly to the PSR senior management on issues it has raised and flagged to the policy projects and also presents quarterly to the PSR board. The policy projects are responsible for taking the innovation concerns on board in their individual projects.

### **What will the benefits be?**

Our regulation will be proportionate and targeted and we expect our approach to promote innovation in the commercial competitive sector, which will be in the interests of users of payment systems and services.

## PSR policy success measures



### **What is it?**

This project aims to develop a small set of outcome-related measures against which we can assess our success in delivering our statutory objectives of promoting innovation, competition and the interests of those who use payment systems and services.

### **Why are we doing it?**

We have been established to deliver better outcomes in the payment services market. We believe it is important that we gather evidence to demonstrate how well our policies and regulatory approach are working so that we can learn and improve our approach over time. We also think it is important that we are transparent with our stakeholders; as such they should be able to see an assessment of our outcomes.



### ***How are we doing it?***

The project will develop measures, metrics and a methodology for gathering the necessary data to measure success. It will gather data during our first year of operation and develop an appropriate reporting arrangement to publish our findings after the end of that period.

### ***What will the benefits be?***

Stakeholders will be able to see clearly what we have delivered and we will be able to learn and improve our regulation over time.

# Pipeline projects

The projects in this section are more exploratory in nature in that they are seeking to identify whether further work is needed or not and are based on specific concerns raised by stakeholders. We may add to this list during the year as new issues arise.

## ATM interchange fees project



### **What is it?**

This project will assess whether there are concerns with ATM interchange fees, whether these are problems that might affect our objectives and recommend whether we should initiate work to identify appropriate policy solutions.

### **Why are we doing it?**

Although we had not concentrated on this in our November 2014 consultation paper, some stakeholders raised concerns about ATM interchange fees in their response. We want to explore these concerns further to consider whether we need to take action.

### **How are we doing it?**

We will engage with our stakeholders to gather more information about their concerns. We will assess the concerns and whether they affect our objectives and come within our remit. If we think that further action might be appropriate we will initiate a project to develop appropriate policy proposals and consult before we make any intervention.

### **What will the benefits be?**

Clarity on whether or not there are aspects of ATM fees that require further work by the PSR and if so, a proposal for work to address those issues.

## Consumer Redress project



### **What is it?**

This project is examining the scope of consumer redress in the event of systemic failures of payment systems. We want to identify any gaps or aspects of consumer redress where the PSR should and could play a role. Any role we do play will be alongside other stakeholders such as the FCA, the Bank of England and the Financial Ombudsman Service (FOS).

### **Why are we doing it?**

We recognise that there is a consumer redress landscape already in place, but we are concerned that there may not be clarity for consumers as to their right to redress in the event of significant failure of payment systems.

We want to explore this concern to decide if there is a role the PSR should play, and whether we should take any further action, including working with other regulators and bodies.

### ***How are we doing it?***

We are exploring the consumer redress landscape, mapping the roles of the various bodies in the sector and engaging directly with payment systems to understand their consumer redress processes.

We will assess the evidence and if we identify any areas where we think the PSR should and could play a role, we will develop appropriate proposals, working closely with relevant stakeholders.

### ***What will the benefits be?***

The project will deliver clarity for consumers about their rights and means of seeking redress, clarity for payment systems operators on how to deal with consumer redress and clarity of roles between regulators and other consumer bodies. If any gaps are identified, closing them will improve the consumer redress landscape – something that is clearly in the interests of users of payment systems and services.



# Conclusion and next steps

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This is our first policy work programme, and we are aware that it is ambitious. Given the need to progress many of these issues in a timely way we propose to initiate and continue with the work programme as set out in this draft document.

We are aware that some of our stakeholders may wish to comment either on what is in this work programme or on other issues we should be considering.

So we are proposing a series of roundtables in April where we will present the work programme and seek feedback. We will keep the work programme under review and are conscious that, particularly in our first year, it may need to change to take account of developments.

For the avoidance of doubt, we are not including our business as usual work in the work programme, for example our complaint and dispute handling or our organisational work. For further information on those aspects of our work please see our Annual Plan and Budget 2015/16.



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