PSR Payment Systems Regulator

Annual plan and budget 2021/22

Any enquiries related to this publication should be sent to us at:

Payment Systems Regulator
12 Endeavour Square
London
E20 1JN

This publication is available at:
psr.org.uk/publications/annual-plans-reports/payment-systems-regulator-annual-plan-and-budget-2021-22/

ISBN 978-0-9957935-5-2

PSR Payment Systems Regulator

Annual plan and budget 2021/2022

Foreword

Chris Hemsley
Managing Director

Payments are essential to our day-to-day lives and underpin our economy.

How payments work also affects the society we live in: the challenges faced by the vulnerable; how likely we are to fall victim to fraud; and how easily we can manage our money.

Behind these payments are several important payment systems. We rely on these systems to support markets, facilitate competition and drive innovation. This helps to deliver new products, find new ways to protect people from harm, and deliver services that give people and businesses more choice and control about how to pay and be paid.

We need the technology, the rules governing the use of these systems and the markets they support to all work well. This is where the PSR plays an important role – we regulate those systems, protect people and businesses, and promote competition and innovation in these systems and the markets that they support.

Payments are fast-moving and always changing. The last year has accelerated many of these changes. We are seeing a growth in digital payments that has the potential to deliver significant benefits to the way many of us live, while supporting our economy. These changes bring with them many opportunities as well as challenges. As the payments regulator in the UK, it remains vital that we continue to harness the opportunities and address the risks brought about by these changes. We do this by taking steps now to make sure our payment systems deliver payments safely, securely and at speed in the future.

While looking towards these opportunities, we also need to make progress on the challenges that we face today. These include tackling payment fraud, promoting competition in payments markets, and continuing to support those less able to embrace digital payments.

Reflecting this challenge, we have set out our plans to prioritise our work between the more immediate challenges and the changes needed to unlock future benefits.

Read more

Foreword (continued)

One of those immediate challenges has been compounded by the impact of COVID-19, which has accelerated the recent trend away from cash and towards digital payments, as many of us were pushed towards living more of our lives online. But the pandemic has also shown that many of us still need and want to use cash. At the beginning of the lockdown in April 2020, people still withdrew £1 billion a week from ATMs. In August 2020, that rose to £1.5 billion a week.

Reflecting this, our workplan continues to prioritise access to cash, building on recent progress. Over the last couple of years, LINK has developed policies to protect the geographic spread of ATMs and install new machines in areas that need them. We are also starting to see the impact of industry pilots across the UK, exploring how best to solve some of the more immediate problems in accessing cash.

This year, we will continue to work with industry, consumer groups and other regulators to protect access to the current cash network, while increasingly focusing on how we can support wider changes that will allow everyone who wants to use cash to continue to do so. These changes include legislation, reform and new ways of accessing cash.

Another area of continued focus is authorised push payment (APP) scams. We helped to bring about the current arrangements to provide reimbursement for innocent victims of these scams, which has increased the protection consumers receive. In February, we published a call for views on what further measures the industry could take to tackle this fraud and to protect the victims. We have seen important progress recently, with a substantial increase in the protections available to most customers and the roll-out of the name-checking service Confirmation of Payee (CoP) to most accounts. But more needs be done in this area for customers – including making life more difficult for criminals.

This work sits alongside a number of other important workstreams: our continued work on competition enforcement; work to protect access to payment systems; and the conclusion of our work to increase competition in the provision of services to businesses who accept digital payments (our card-acquiring market review).

Looking further towards the future, we want to see our payment systems support an innovative, competitive payments market. We also have an opportunity to address some of the issues we see in payments today, so that outcomes for people and businesses improve over time.

Read more

Foreword (continued)

One area of opportunity is the potential for people to use interbank payments (where a payment is made directly from one account to another) more frequently – particularly in a retail setting. Open Banking is leading to interbank being used for a wider set of payments. The renewal of the infrastructure behind most interbank payments provides a route to upgrading the capabilities here, and supporting greater competition and innovation. To support this, we will continue to focus a significant part of our resources on overseeing Pay.UK and its role in delivering that renewal programme (the New Payments Architecture (NPA)). We are also prioritising work to investigate what barriers there might be to interbank payments playing a greater role in everyday payments. One part of this is ensuring that there are strong enough protections for people making payments this way.

This year will also see the PSR publish our new strategy for payments. We've been examining the payments landscape and talking to stakeholders over the last 12 months. Our strategy will help us prioritise areas where we're needed most, and make these priorities clearer to our stakeholders. This will help us all to make the right decisions on our future focus.

Along with everyone else, we've had to adjust the way we work during the pandemic, and we recognise the new pressure this brings. We've successfully adapted and that has enabled us to continue our vital work over the last year by hosting large events virtually, making more use of digital communication channels, and the way we sought to engage on our emerging strategy. We will continue to adapt over the course of the coming year, building on what worked and learning from what didn't. Our staff have put in a huge collective effort to keep our work moving forward at pace. I'm proud of the way our team has really pulled together to allow us to stay focused on delivering for everyone in the UK who uses payment systems. And grateful for the way that our stakeholders have continued to engage with us, albeit in new ways and at more (physical) distance than we would like.

Our work programme reflects both our focus on issues that are affecting people and businesses today, and our important investment in work to improve outcomes in the future. I'm looking forward to our ongoing engagement and making sure that the UK's payments industry continues to be world-leading.

PSR Payment Systems Regulator

Our vision, aims and activities for 2021/22

Our vision

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

Our vision (continued)

Our annual plan and budget sets out our key aims, activities and expected costs for the year 2021/22. We publish this to provide a clear overview of what we are doing, why and how in a sector where we regulate 40 billion payments each year (worth over £92 trillion). In the summer, we'll publish our annual report on how we've performed against our plans for 2020/21.

Our mission is that payment systems are accessible, reliable, secure and offer value for money. Our approach will bring change to the payments industry, improving outcomes by injecting competition and innovation where it is needed most and putting the interests of the people and businesses that use payment systems first.

Delivering change

Since 2015, we have been instrumental in making the payments industry better so that people and businesses using payments have better choices and protections.

We have made great progress in fighting fraud, particularly in connection with authorised push payment (APP) scams where our work with industry has included facilitating the implementation of two key consumer protection measures – greater protection for victims of fraud (through the Contingent Reimbursement Model (CRM) Code) and new protections to prevent them happening in the first place (through the name-checking service Confirmation of Payee). These measures have helped to reduce consumer losses through prevention and to increase reimbursement, often in cases where consumers would not previously have received reimbursement. In 2020, £396.2 million was returned to consumers who lost money through APP scams or misdirected payments. There is more to do, and we continue to look for ways to make life harder for criminals while also pushing industry to do better.

On access to cash, we have been a leading voice, shaping the reform of cash provision in the UK. We have also used our regulatory powers to support the provision of free-to-use cash machines, so that people continue to have access to cash across the UK.

We have also intervened to reduce the risks associated with the renewal of the systems that deliver most of our interbank payments. This has included setting out how our focused regulation of these systems will protect people and businesses, by promoting competition and innovation.

Meanwhile, our important work to protect fair competition and access to payment systems continues. We have seen improvements in how firms can get access to payment systems following our interventions over the last six years. This supports new businesses bringing new services to market. These improvements also rely on our ongoing work enforcing requirements on firms – where we have successfully resolved a number of cases. This ultimately promotes competition and protects the interests of people and businesses.

Our vision (continued)

This year's plan

Recently, the pandemic has changed the way that many people live their lives. Increasingly reliable technology and the effects of lockdown have meant that many more of us now work from home. This reliance on the internet and digital communication is shaping the way we socialise and, to an extent, the way we pay for goods and services.

In such a changing environment, we must continue to ask whether payment systems are working in the interests of those who use them – whether that means supporting digital or cash-based payments. Our sole focus on this, and the input from our stakeholders through our consultation and engagement processes, means that over the coming year, and into the future, we can build on the foundations we have laid to continue supporting the choices people want to make in how they use payments.

Our vision (continued)

Prioritising our work for the future

We are a relatively small organisation of just over 100 people. To ensure we have the maximum impact, it's critical that we focus our work where we can improve outcomes for people and businesses. This often involves working closely with other organisations, as is illustrated by our work to ensure that people have access to cash and the appropriate protections from payment scams.

In the current COVID-19 environment it may not be possible to achieve all we would like to, but that means our focus on the outcomes we want to see is even more important. Throughout the year, we will continue to make prioritisation decisions to ensure that we fulfil our vital role in the payments sector.

A particular focus for this year is ensuring that Pay.UK's development of the NPA promotes the interests of those who use payment systems, by introducing more choice and supporting greater competition in payments markets. This includes overseeing Pay.UK's management of the programme and making sure that we have a suitable road map which stakeholders understand.

To deliver improvements, we use a mix of approaches. We work closely with industry and consumer groups to identify improvements, as this can often secure changes in a timely and effective manner. However, we are also able to use our full range of formal powers to effect change, secure compliance and enforce legal requirements.

We remain committed to making sure that payment systems work well for everyone who uses them – now and in the future.

Key projects at a glance

Project	The outcomes we're working towards	What we'll do in 2021/22
Competition from interbank retail payments (page 14)	Customers benefit from innovations through being able to access a choice of payment methods which meets their needs, and which are delivered to merchants at competitive costs, as this is likely to ultimately affect the prices customers pay.	Undertake research, analysis and engagement to explore the extent to which digital payments innovations are materialising and the impact they could have. Seek to better understand the scale of any barriers to interbank systems being used for retail payments, and how to address them.
Consumer protection (page 16)	Developing consumer protection measures that benefit consumers and businesses, so they feel safe and secure making a payment directly from one account to another.	Evaluate responses to our call for views and assess the actions we should take to support the development of effective protection measures – including regulatory steps. Set out our proposed next steps in a statement by Q4 2021.
Authorised push payment (APP) scams and Confirmation of Payee (CoP) (page 19)	Scams are reduced, victims are protected, and financial fraud is tackled by coordinating efforts and sharing information.	Work closely with government, industry and consumer groups to identify ways to prevent APP scams and improve protection for victims.

Key projects at a glance

Project	The outcomes we're working towards	What we'll do in 2021/22
The New Payments Architecture (NPA) (page 23)	The NPA delivering a resilient way of making digital payments. Encouraging competition and innovation that is in the interests of merchants and consumers.	Oversee the procurement of central infrastructure services in the NPA. Explore ways to lower risks to the NPA's delivery. Assess whether we need to use our powers to ensure the NPA delivers its benefits of better prices for service users.
Access to cash (page 26)	Those who need to can continue to access and use cash from the ATM networks.	Oversee LINK and encourage innovation and competition in cash access. Work with stakeholders to ensure there is a long-term framework in place that provides access to cash.
Interchange Fee Regulation (IFR) (page 29)	Card systems and participants comply with the IFR, which aims to reduce costs for merchants and supports competition.	Publish our findings and details of how we've overseen the provisions of the IFR. Maintain international cooperation and coordinate with other UK bodies such as the Treasury and the FCA.

Key projects at a glance

Project	The outcomes we're working towards	What we'll do in 2021/22
Card-acquiring market review (page 31)	A market for card-acquiring services that works well – so merchants and ultimately consumers get a better deal.	Publish and consult on a remedies paper containing our proposals to help merchants get a better deal for card-acquiring services and lead to better outcomes for merchants, and ultimately consumers. Publish a final report setting out our findings, based on the evidence we've gathered.
Sector intelligence and analysis (page 34)	Ensure we have the right intelligence and analysis to mitigate risk, prioritise our work and focus our resources	Identify and analyse new trends in the payments sector and reflect this in the way we regulate. Collect intelligence on the impact of trends in the payments sector affecting consumers and businesses. Communicate intelligence and analysis to shape our interventions.

Key projects at a glance

Project	The outcomes we're working towards	What we'll do in 2021/22
Strategy (page 37)	Stakeholders are clear on our long-term focus, and our ongoing work supports the long-term outcomes we want to see.	Consult and encourage feedback from a broad range of interested parties about our strategy. Publish our final strategy, taking into account feedback we receive.
Access monitoring (page 42)	Payment service providers (PSPs) can access payment systems in order to offer payment services. Reducing unnecessary barriers to direct and indirect payment systems, to produce a better choice of payment services for users.	Assess developments in access to payment systems and compliance with the access regulations in Part 8 of the PSRs 2017. Assess applications under sections 56 and 57 of FSBRA and complaints under the PSRs 2017. Publish our annual report on access to payment systems and the governance of certain regulated payment system operators in the UK.

Key projects at a glance

Project	The outcomes we're working towards	What we'll do in 2021/22
Crisis communication (page 44)	Disruptions are managed effectively and don't cause unnecessary interruption to consumers, businesses and other payment system operators.	We'll oversee Visa Europe's compliance with Specific Direction 9 (SD9) and review whether our Direction remains effective and appropriate. We'll liaise with the Bank of England about the resilience and crisis communications of other payment system operators.
Cryptocurrency (page 46)	Any cryptoasset or stablecoin which acts as a payment system is developed in the interests of those using it.	Work closely with the Treasury, the Bank of England and the FCA through the Treasury's Cryptoassets Taskforce (CATF) to develop a UK regulatory regime for cryptoassets and stablecoins. Our future approach will be influenced by the conclusion of the Payments Landscape Review.

Supporting our objectives

We have statutory objectives to promote competition, innovation and the interests of service-users – all the people and businesses who use payment systems in the UK.

This means that much of the work we do is closely linked to our service-user objectives, and often supports our innovation and competition objectives. Projects with a particular emphasis on competition this year include our new project on interbank payments and our card-acquiring market review. There are projects with a focus on innovation, such as our strategy work and our contribution to the Treasury's payments landscape review. But most of our projects, such as our work on the NPA, promote users' interests while also supporting competition and innovation.

Competition from interbank retail payments

Across the UK, digital payments have become the most popular way for people to pay for goods and services, and their use continues to grow. This appears to have been accelerated by COVID-19. At the same time, the sector is undergoing a period of significant change, with developments such as Open Banking, the NPA and work across the industry to bolster consumer protection continuing to improve opportunities for retail payments over interbank systems.

Growth in the use of interbank payments has the potential to offer more choice, support innovative new products and inject competition into payments markets. However, there are a number of technical and commercial challenges that might limit the role that interbank plays.

Competition from interbank retail payments (continued)

We will launch a new piece of work to understand the potential for interbank payments to increase choice and competition. We'll look at the opportunities and risks, issues and barriers to this happening, and the likely impact on people making interbank payments at the point of sale.

Summary of the work so far

There have been a number of regulatory and industry initiatives increasing the potential for people to pay for goods and services through interbank systems such as Faster Payments. Pay.UK has been developing the NPA, which is, in part, aimed at meeting the growing needs of digital payments and supporting increased competition between payment systems. Open Banking, developed through the Competition and Markets Authority's (CMA's) Retail Banking Order and the second EU Payment Services Directive, has been giving PSPs and new entrants the ability to offer new payment solutions at the point of sale.

There have also been a number of recent initiatives by the PSR and industry focusing on bolstering consumer protection in interbank payments. Our work will be seeking to complement and build on these initiatives.

This project also links to initiatives seeking to enhance competition in card payments, as this is currently the main way in which people in the UK make retail payment transactions. The interim report of our card-acquiring market review found that competition in the supply of card-acquiring services was not working well for merchants with annual card turnover up to £50 million. We want there to be effective competition in payments markets, including through developments such as interbank systems being used at the point of sale, as this will ultimately deliver benefits to everyone such as greater choice and competitive prices.

What we'll do in 2021/22

- Carry out research, analysis and engagement on innovations in interbank payments, to see what new retail options are emerging, and the impact they could have on choice and competition.
- Do work to better understand the scale of any barriers to interbank systems being used for retail payments, and how market and regulatory developments might address them.
- Use the insights from this work to assess the best course of action we can take to support the spread of interbank payments at the point of sale.

Why this matters

We want to build on the work we have underway to ensure that customers benefit from these innovations through being able to access a choice of payment methods which meets their needs. We also want merchants to have access to competitively priced payment methods, as this is likely to ultimately affect the prices customers pay.

Consumer protection

We want to make sure consumers have enough protection when they make a payment from one bank account to another using interbank payment systems – particularly Faster Payments. Our main objective is to ensure that consumers and businesses are not disproportionately affected when something goes wrong with their payments.

This work focuses on the current use of Faster Payments, including the likely growth in use through Open Banking services. Our work on interbank payments has linkages with this work but is focused on longer-term reforms that might increase competition in payment markets.

Consumer protection (continued)

Summary of the work so far

In recent years, consumer behaviour has shifted considerably, and demand for real-time payments with instant transfer of funds has grown significantly. The UK led the field with the launch of Faster Payments in May 2008. This means payments of up to £250,000 can be sent to or from almost all consumer current accounts in the UK with very fast clearing times.

New developments – such as those developed through open banking – and innovations continue to improve opportunities for retail payments.

While we welcome this, we need to ensure that payment systems are improved with the interests of those using them in mind. That means making sure that those payments remain reliable and secure. If people are going to use interbank payment systems for increasingly varied purposes, adequate safeguards will be needed to manage any errors.

We started a new project in July 2020 to assess:

- what consumer protection is available to those who use interbank systems to make payments
- whether the protection is adequate
- what measures might be required

We want there to be protection measures in interbank payments that protect consumers and businesses and enable them to use interbank payments confidently.

Other organisations are also reviewing consumer protection for interbank payments. In July 2020, the Treasury issued a Call for Evidence for its Payments Landscape Review.[1] As part of this, it asked whether additional rules are needed to protect consumers using Faster Payments. In addition, the CMA, in its notice of approval of changes to the agreed timetable and project plan of its retail banking market investigation order 2017[2], has asked us and the Open Banking Implementation Entity (OBIE) to recommend options for addressing consumer protection for Payment Initiation Service Provider (PISP) payments.

Various businesses have also initiated research into the effectiveness of interbank consumer protection. This includes the working group on consumer protection co-chaired by Pay.UK and UK Finance, which contributed to UK Finance's Future Ready Payments 2030 report[3] and recently published a summary report[4] providing insights into the current payments and consumer protection landscape.

Our project builds on their work and intends to collect the insights from the different initiatives to steer the debate. Our goal is to see if there are any areas of consumer protection that need to be strengthened and to propose changes.

1 HM Treasury, *Payments Landscape Review: Call for Evidence* (July 2020)

2 Competition and Markets Authority, *Notice of proposed changes to the Open Banking roadmap* (May 2020)

3 UK Finance, *Future Ready Payments 2030* (February 2020)

4 Pay.UK, *Consumer protections in payments* (November 2020)

Consumer protection (continued)

What we'll do in 2021/22

- We'll analyse responses to our February 2021 call for views on where additional protection may be required, and which processes are needed to enable consumers to claim protection. The feedback we receive will help us to assess the best action we can take to support the development of effective protection measures, including regulatory steps.
- We plan to set out our proposed next steps in a statement by Q4 2021.

Why this matters

We want to encourage payment systems to develop and innovate in ways that benefit their users. As part of that development, we want to see measures that protect consumers by making it easier for them to make a claim when something goes wrong, and benefit businesses by providing them with certainty about what happens when a payment is disputed. This should be done without introducing disproportionate costs to the system or its participants.

We think doing so will increase confidence in interbank services. This may contribute to greater use of interbank systems (including retail payments) which could lead to greater competition between payment systems and ultimately lower costs, higher quality and greater choice of payments.

Authorised push payment (APP) scams and Confirmation of Payee

Authorised push payment (APP) scams – when someone is tricked into sending money to a fraudster posing as a genuine payee – pose significant harm to consumers. Working to prevent these scams and get the right outcomes for victims is a priority for us.

We'll play an active role both in reducing fraud and in working towards a comprehensive approach to protecting victims of APP scams.

APP scams and Confirmation of Payee (continued)

Summary of the work so far

APP scams

To address the growth of APP scams, in April 2018 we set up a steering group to develop and agree a voluntary industry code that sets out when victims of APP scams should be reimbursed. The Contingent Reimbursement Model (CRM) Code aims to reduce both the occurrence and the impact of APP scams. It sets out standards for signatory PSPs – a group including the largest banks in the UK – and for their customers who are covered by the Code (consumers, micro-businesses and small charities). Following the introduction of the CRM Code in May 2019, we've been active in our focus on its outcomes and effectiveness. While it has improved outcomes for consumers, we don't think it has gone far enough in achieving our aims. Our data analysis shows that only 40–45% of APP scam losses have been making their way back to victims, leaving many out of pocket.

We launched a call for views in February 2021 asking for comments on the nature and scale of the issues we're seeing under the Code, and on possible ways to significantly reduce APP scam losses incurred by customers.

Confirmation of Payee (CoP)

Under Specific Direction 10 (SD10), we directed the UK's six largest banking groups (representing around 90% of bank transfers over the Faster Payments Scheme and CHAPS) – to implement CoP by March 2020. By July 2020, we confirmed that implementation of CoP by those banks was substantially completed, with certain agreed exceptions on a small number of accounts – for example, those with technical challenges.

Since then, we've continued to oversee compliance with SD10 and have been gathering data from the banks to help us measure the impact of CoP on accidentally misdirected payments and certain types of APP scams. We've also been working on Phase 2 with Pay.UK, which sets the rules and standards required for PSPs to implement CoP. Phase 2 will create the technical capability for more PSPs to begin offering the service to their customers.

APP scams and Confirmation of Payee (continued)

What we'll do in 2021/22

- Engage with Pay.UK and industry on the implementation of Phase 2 of CoP, which will roll out CoP to more PSPs in 2021. Using their input, as well as the analysis of the impact of CoP so far, we'll examine whether further action is needed to enable more PSPs to begin offering the service to their customers.
- Take account of the feedback from our February 2021 call for views on APP scams and work with government, industry and consumer groups to reduce scams and move forward with a consistent and customer-focused approach to reimbursing victims.
- Engage with the Lending Standards Board (LSB) as it works to ensure the governance of the Code is effective and support it to ensure the Code is fit for purpose.
- Work with stakeholders – including both the LSB and the Financial Ombudsman Service to understand consumer experiences of the Contingent Reimbursement Model (CRM) Code; engage with CRM Code signatories to assess their progress and experience. Use this engagement and information to inform our policy approach to improve consumer outcomes.
- Analyse the impact of Confirmation of Payee (CoP) on reducing accidentally misdirected payments and certain types of APP scams; this will inform the action we take.
- Support the FCA's work on mule accounts, to help reduce the use of these accounts for financial crime.
- Work closely with all relevant authorities in order to coordinate our collective efforts and improve outcomes for customers.

APP scams and Confirmation of Payee (continued)

Why this matters

APP scams are a significant and growing problem. Fraudsters trick people into transferring money to them by posing as a legitimate payee or constructing fraudulent reasons for a payment. The scammers are clever, organised criminals and people have lost life-changing sums of money as a result of this activity.

The New Payments Architecture

The New Payments Architecture (NPA) is the UK payments industry's proposed new way of organising the clearing and settlement of interbank payments – payments transferred directly from one bank to another. It's strategically important as it has the potential to lead to more competition and innovation in payment services – something that is vital to the interests of those who use payment systems. We'll continue to oversee Pay.UK's work to facilitate delivery of the NPA, and we'll take action where needed to ensure the NPA is resilient and delivers good outcomes for people and businesses.

Pay.UK is the operator of Bacs, Faster Payments and Cheque and Credit, and is the body responsible for facilitating the delivery of the NPA. This includes procuring a provider for the NPA's central infrastructure services (CIS).

The New Payments Architecture

(continued)

Summary of the work so far

In January 2020, we issued a call for input on issues that could affect competition and innovation in the NPA. In February 2021, we began a consultation on:

- ways to lower the risks to the successful delivery of the NPA
- risks to competition and innovation once the NPA is operational

This followed a number of developments relating to Pay.UK's NPA programme – including its decision to pause the competitive procurement process while it discussed options to de-risk the NPA programme with us and the Bank of England.

We consider the risks associated with the current NPA delivery approach are unacceptably high. The current programme is unlikely to provide value for money; it could also stifle competition and innovation in payment services and delay the benefits of the NPA.

Our consultation is the first step in considering how these risks can be managed while maximising the benefits of the NPA.

In addition, we have a separate, but related, workstream considering how best to manage the competition and innovation risks associated with the NPA. We'll publish a policy statement in Q4 2021.

The New Payments Architecture
(continued)

What we'll do in 2021/22

- Work closely with the Bank of England to ensure that the systems remain resilient and reliable through any transition from legacy to new infrastructure.
- Explore ways to lower the risks to the NPA's delivery and ensure the programme is robust. We're consulting on these issues now. We'll publish our updated thinking in Q3 2021.
- Assess how we can mitigate risks to competition and innovation once the NPA is operational. We'll publish a policy statement on this topic in Q4 2021.
- Assess whether we need to use our powers – both in the short and long term – to ensure the NPA delivers its intended benefits.

Why this matters

Millions of us rely on interbank payments every day – whether receiving wages, paying bills through Bacs or transferring money using internet banking via Faster Payments. They are an important part of life and are central to the functioning of the UK's economy.

The NPA presents an opportunity to deliver improved resilience, meet the growing demands for digital payments and support increased choice, competition, resilience and security in payments to benefit people and businesses across the UK.

We're overseeing Pay.UK's work delivering the NPA, to assure an outcome that supports our statutory objectives – to promote competition, innovation and the interests of service users.

Access to cash

People's ability to get access to cash has been significantly affected by COVID-19, with restrictions reducing ATM availability and usage. Over the past 12 months, cash use has declined at a faster rate than in previous years. This has coincided with increased use of digital payments, but cash continues to be of critical importance to a significant number of consumers.

It therefore remains important that people and business have good access to cash, and that this access is maintained across the UK. Reflecting this, we'll continue to support the cash needs of both UK consumers and small businesses, through our regulation of LINK and support for the wider cash system.

Access to cash (continued)

Summary of the work so far

We've worked closely with a range of stakeholders to address short-term and long-term issues around access to cash. This includes work with other public bodies through the Joint Authorities Cash Strategy (JACS) Group (involving the FCA, the Treasury and the Bank of England), as well as industry and wider stakeholders such as academic, consumer and SME groups.

Last year we worked with the University of Bristol, the FCA and industry to publish a report about the availability of cash access across the UK. Overall, we found that, as of March 2020, there was good coverage across the UK: 90% of neighbourhoods had a free-to-use source of cash within 1km.

However, COVID-19 has had a significant impact. The initial restrictions in March 2020 reduced ATM transactions by 60% compared with 2019. Transactions increased towards the end of the year, but remained well below 2019 levels. This reduction in ATM usage has affected the business models of ATM providers.

In the early days of the pandemic, we and the FCA established a mechanism to regularly collect and monitor information from industry on the availability of cash access points, through the Banking Access Coordination Group. This helped us to identify emerging issues, share best practice and agree coordinated actions to return access where it has been lost as quickly as possible. Through this work, we supported consumers' access to both essential banking services and their cash throughout the pandemic.

Earlier in the year, we also reviewed our Specific Direction 8 (SD8), which we originally issued to LINK in October 2018. We concluded that SD8 should stay in place and have been working with LINK throughout this year to ensure that processes are in place to address the risks of gaps emerging in the current ATM network.

In the second half of 2020, we built on our engagement with industry by convening a series of industry-led working groups to identify sustainable, long-term solutions for access to cash. This led to a number of proposals in December 2020, which we're keen to see progress on. We're also supporting the Treasury in developing legislation to protect access to cash, following the announcement in the 2020 Budget and subsequent Call for Evidence in October last year.

Access to cash (continued)

What we'll do in 2021/22

- Complete our second review of our Specific Direction 8 (SD8), which requires LINK to maintain a broad geographic footprint of free-to-use ATMs. This will help to ensure that people can use ATMs when and where they need to. We'll decide whether further action is needed before SD8 expires in January 2022.
- Continue to work jointly with the FCA to identify any new or emerging gaps in access to cash coverage, through our data-led monitoring framework for access to cash, and to identify how to address gaps in coverage as soon as possible.
- We'll continue to work with other authorities – as well as industry and consumer groups – to identify and encourage industry to develop sustainable proposals to protect access to cash in the long term. We'll also support the Treasury in developing legislation to protect access to cash.
- Continue to engage with industry to support and monitor industry innovations in cash access, such as those included in the Community Access to Cash Pilot scheme. Feedback from such pilots can identify barriers and challenges, which can be useful in informing future innovations.

Why this matters

Despite falling use, cash remains an important payment method for many, particularly the vulnerable. For example, this includes those who have been unable to shop for themselves and need cash to reimburse friends and family. Digital payments are not yet suitable for every need or circumstance. This means supporting access to cash is important, both for people's current needs and as they change over time.

Interchange Fee Regulation (IFR)

The IFR caps interchange fees on UK consumer debit and credit card transactions, and also contains a number of business rules. We're the main authority for the IFR in the UK, and we have published guidance on our approach to monitoring and enforcing the IFR.

Summary of the work so far

We're the main authority for the IFR – we assess compliance with all provisions of the IFR including caps and business rules.

The IFR mainly imposes requirements on payment card schemes and issuing and acquiring PSPs. Following the UK's withdrawal from the EU, the onshored IFR replaced the EU IFR in the UK at the end of the transition period on 31 December 2020. The IFR interchange fee caps do not apply for cross-border card payments between the UK and EU where one of the PSPs involved is based outside the UK.

Interchange Fee Regulation (continued)

What we'll do in 2021/22

- Consult on amendments to our IFR Guidance that are consequential to the UK's withdrawal from the EU earlier this year. The Guidance was first published in 2016 and had minor amendments in 2020 when we reviewed and updated our Powers and Procedures Guidance (PPG).
- Collaborate on IFR matters with other bodies such as the Treasury and the FCA, as well as EU national competent authorities and the European Commission.
- Dependent on our progress with other priorities, we'd like to conduct a review of our IFR Guidance. We envisage this would occur towards the end of the financial year.

Why this matters

An interchange fee is paid from a merchant's bank (known as an acquirer) to a card user's bank for most transactions when a card payment is made (except for American Express cards).

The IFR aims to reduce costs for merchants by capping interchange fees and supporting competition throughout the different levels of the card payments ecosystem through business rules provisions.

We recognise the cards market is fast-changing, with new business models and trends emerging. We'll ensure our Guidance remains up to date and reflects the lessons learned not only from our compliance work, but also from other relevant projects such as our market review of card-acquiring services, and our enforcement cases.

Our work monitoring and enforcing the IFR is complemented by our work on the market review into card-acquiring services and the planned work on interbank competition.

Card-acquiring market review

We're carrying out a market review into card-acquiring services and we intend to finish it this year. Every time somebody makes a card payment, the merchant uses card-acquiring services to accept it. These services are critical to the UK economy because they enable consumers and businesses to use their cards to pay for goods and services. The crucial role card-acquiring services play in the payments sector means it's important that they work well for merchants and consumers.

Card-acquiring market review (continued)

Summary of the work so far

We started this review because stakeholders raised concerns with us indicating that the supply of card-acquiring services may not be working well for merchants and, ultimately, consumers.

In January 2019 we published the final terms of reference for the market review. We've been gathering and assessing information from a wide range of parties.

In September 2020, we published our interim report and launched our consultation on our interim findings:

- For the largest merchants (with an annual card turnover above £50 million), we provisionally found that the supply of these services works well.
- We provisionally found that the supply of these services doesn't work well for merchants with an annual card turnover up to £50 million. These merchants could make savings by shopping around or negotiating with their current supplier – but many don't.
- We've proposed some measures that we think will help these merchants get a better deal and lead to better outcomes for merchants and, ultimately, consumers.

After publishing our interim report, we engaged with stakeholders to obtain their views on the report through a series of bilateral meetings, two webinars and a live Twitter event. We also continue to engage with the PSR Panel and other authorities including the FCA, the Treasury and the Bank of England.

We're currently finalising our findings and making progress with our remedy design work based on stakeholder feedback received in the course of the market review.

Card-acquiring market review (continued)

What we'll do in 2021/22

- Publish and consult on our proposed measures to help merchants get a better deal for card-acquiring services and lead to better outcomes for merchants and, ultimately, consumers.
- Publish a final report setting out our findings from our market review. This will confirm any action we intend to take.
- If we decide to take action, we'll publish a final remedies notice.
- Our interim report includes a provisional finding relating to scheme fees. We will explore this further as part of concluding our market review with a view to taking appropriate action if necessary.

Why this matters

Card payments are now the most popular way for people to pay for goods and services, and their use is growing.

For merchants to accept card payments, they need to use card-acquiring services. The costs of these services ultimately affect the prices their customers pay.

COVID-19 may accelerate many well-established trends, such as the growth in card payments. If these trends continue, it's even more important that the supply of card-acquiring services works well for merchants.

Sector intelligence and analysis

It is important to have good quality intelligence and analysis about payment systems and the markets they support, including on the impact of key payment trends.

We already rely on good quality data and analysis to inform our policy development and to decide when and how to intervene.

Having delivered on many of our initial priorities, we are now focusing on formalising our strategy for the next three to five years. As part of this, we are investing in developing our information-gathering and analysis approach, working with others where we can. This will help us remain across, and ahead of, the rapid changes in the market, technology and people's choices. With this, we can better plan our work and understand the diversity of issues affecting people and businesses. This work will help us choose the issues we tackle and how best to intervene to improve outcomes.

Sector intelligence and analysis
(continued)

Summary of the work so far

There are significant technological advances under way in the payments sector. Existing payment infrastructures are in the process of being modernised through projects such as the NPA, while new payment mechanisms, such as payment by interbank and digital currencies, are emerging. The way payments are made and received has been significantly affected by the economic impact of COVID-19. Many trends, such as declining usage of cash, have been accelerated over the past year. It seems likely that there will be a lasting impact on payments as a result, but there remains uncertainty as to the degree of this lasting change.

As the sector evolves – and the needs and preferences of those making and receiving payments change as well – we must ensure that we have the right policies and protections in place while promoting the interests of users of payment systems. Our enhanced approach to sector information will help us focus on important payment developments and it will inform our policy making.

We had to scale back our sector intelligence and analysis work in 2020 as we responded to the priorities posed by COVID-19. We plan to resume work in this area with a data-led, proactive approach.

Sector intelligence and analysis
(continued)

What we'll do in 2021/22

- Improve our identification and analysis of trends in the payment sector and how these affect the way we should regulate. This will support us in shaping our interventions.
- Engage with our stakeholders to collect intelligence and undertake analysis to understand how trends in payments might affect consumers and businesses.

Why this matters

The aim of this work is to ensure that we stay abreast of developments in the fast-changing payments sector so that we can refine our regulatory approach. Intelligence gathering and analysis helps us to identify and manage risks before they materialise, as well as be at the forefront of developments and be agile and effective in our response to them. This will enable us to adapt our approach, taking account of emerging trends where they affect the way we regulate.

Our work will complement projects such as our strategy-setting work (see page 37) and help us to coordinate our efforts to address different challenges. Ultimately, this ensures that we use our resources effectively and intervene where appropriate.

We're aiming to develop our information gathering processes, which includes continuing to work collaboratively with the FCA and Bank of England. Where appropriate, this will involve making fuller use of their data and research to reduce the regulatory burden on firms providing information, particularly in light of COVID-19.

Our strategy work

We are aiming to publish our final strategy document in Q3 2021. The strategy will lay out our objectives, priorities, and areas we aim to focus on over the next three to five years. This will provide our stakeholders with a good understanding of our work and approach and help them understand why we make the decisions we make – for example, what work we prioritise.

We will continue to work to ensure that:

- Everybody has access to payment services that meet their needs in terms of functions, quality, cost and other factors.
- Users' interests are adequately protected when using payment services so that they use systems and services with confidence.
- Payment systems are designed and operated to enable effective competition in the provision of payment services.
- Payment systems are efficient and sustainable.

Our strategy work (continued)

Summary of the work so far

We recognise that the industry is dynamic and fast-moving, and we're focused on ensuring we can meet our objectives in such an environment. As technology develops and the NPA begins to take form, we expect to see further developments in terms of products and services, and those operating in the market. While this offers opportunities, it may also pose threats. We plan to allocate our resources in an efficient manner, so that we can respond to changing needs and concerns, and focus where we can have optimum impact.

In 2020 we embarked on a campaign of engagement to hear different perspectives on our work and our approach. We broke our initial engagement down into three themes (competition, innovation, and choice and availability in payments), each with high-level outcomes.

To help us explore these themes we had contributions from members of staff and a range of external stakeholders, including the British Retail Consortium, the Emerging Payments Association, UK Finance, Vendorcom, Toynbee Hall, and the Financial Services Consumer Panel. Taking the form of blogs, think-pieces, video discussions and webinars, these contributions helped shape the debate and make this phase of our work more engaging.

These discussions were invaluable in helping us learn what our stakeholders think, want and expect from the PSR in the future. These conversations have influenced our draft strategy.

Our strategy work (continued)

What we'll do in 2021/22

- Launch our draft strategy document for review and comment in Q2 2021.
- Implement a communications programme to explain our draft strategy and engage with a wide range of interested people and organisations, so we understand the views of users and providers of payments.
- As relevant, reconsider our thinking based on any feedback, and amend the final document based on feedback obtained from the roundtables, consultations and digital engagement.
- Publish our final strategy in Q3 2021.
- Embed the strategy into how we prioritise work.

Why this matters

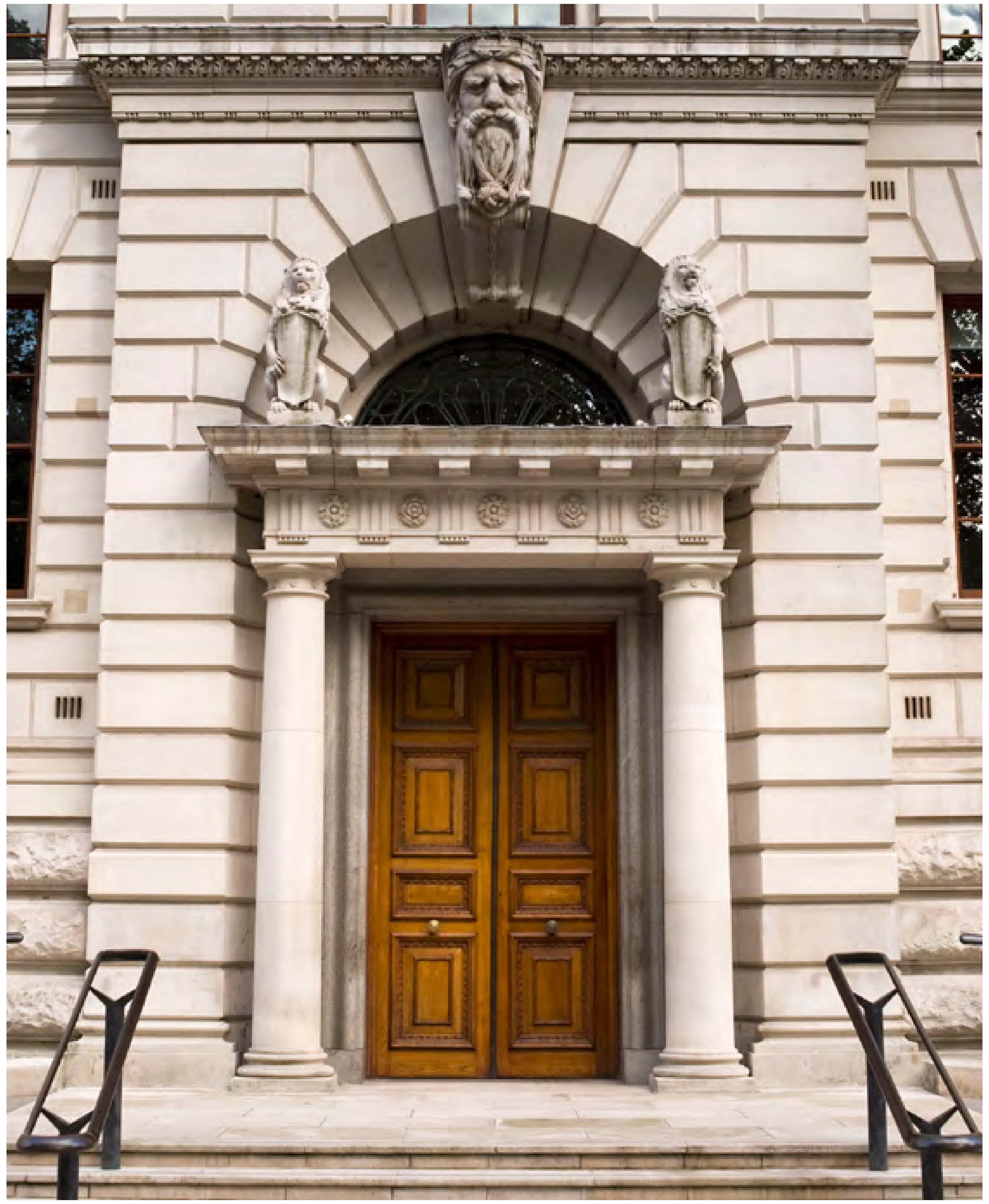
In recent years we've made significant progress in working with industry, regulators, and government to establish a robust payments sector, and we've delivered significant improvements that have helped people making and receiving payments – such as protections from payment fraud. Now we need to ensure that the sector remains open to innovation and competition with the rise of new providers and the increased adoption of the digital economy.

Our aim in designing our future strategy is to clearly establish the outcomes we want to see for people making payments in the future, and the key areas we'll focus on to achieve those outcomes. This will allow us to evaluate our successes and highlight where more needs to be done. It will also help others understand what we prioritise and why, and the potential implications for them.

Engaging with stakeholders in developing and finalising the report will ensure that users and providers of payment systems and services feed into our agenda and understand why we make the choices that we do. It will also help us make sure we get it right. The report will enhance our transparency and provide direction for the payments sector, as we work towards set goals and plans.

Publishing our strategy is not the end of the project. We'll need to embed the approach and priorities into how we work and what we do. We'll need to reflect on our organisation and its capability, how it works, and how we can evolve where necessary for the future. We also recognise that there are times we may need to re-prioritise to meet changing threats, concerns and opportunities. We may update the strategy if there are significant changes in the sector or external environment.

Treasury-led reviews



Alongside the FCA and the Bank of England, we'll continue to play an active role in feeding into two Treasury-led initiatives, the Payments Landscape Review and the Future Regulatory Framework Review, providing resources, feedback and expertise. These reviews have brought together policy makers and regulators to make sure that regulation and infrastructure keep pace with new payment models.

Summary of the work so far

In his Mansion House speech in June 2019, the then Chancellor of the Exchequer announced two reviews of the payments landscape and the future regulatory framework for financial services. The Treasury is leading both reviews, working closely with the other relevant authorities (the PSR, the Prudential Regulation Authority, the FCA and the Bank of England).

Treasury-led reviews (continued)

What we'll do in 2021/22

- Continue to engage with the Treasury on the reviews. This will involve close collaboration to future-proof the regulatory framework for payments.
- Contribute to the Regulatory Initiatives Grid (RIG), which presents the timelines for each regulator's activity. It's designed to help the industry understand potential impacts and plan ahead. We'll be setting out the forthcoming initiatives that we expect to have significant impacts on our stakeholders, and we'll continue to participate in the Regulatory Initiatives Forum, which agrees the RIG.

Why this matters

The Payments Landscape Review aims to ensure that regulation and infrastructure keep pace with new payment models. In addition, the Future Regulatory Framework Review takes stock of the overall approach to regulation of the financial services sector and how the regulatory framework may need to adapt in future. It can also help to manage resources effectively to avoid duplication of effort for both the regulators and the regulated.

Monitoring access to payment systems

PSPs need access to payment systems in order to offer payment services. We work to make sure access is fair and open, and monitor and compliance with regulations and directions on access.

Summary of the work so far

Opening up access

Improving access to payment systems and ensuring that regulated payment systems take account of users' interests has been a priority for us since our launch in 2015. Our initial directions, and the work we've done since with operators, banks and other authorities, have helped make access cheaper, quicker and easier. As a result, more PSPs have gained connections to Bacs, CHAPS and Faster Payments each year. We review access numbers and issues and require operators to report to us on their compliance with our directions on access and governance.

Access guidance

We've also been reviewing our approach to the framework regarding the regulation of payment systems access. This framework is contained in Part 8 of the Payment Services Regulations 2017 (PSRs 2017) and sections 56 and 57 of the Financial Services (Banking Reform) Act 2013 (FSBRA), depending on the type of access and whether the payment system is designated under the Settlement Finality Regulations or regulated under FSBRA.

Part 8 of the PSRs 2017 contains provisions relating to access to non-designated payment systems, indirect access to designated payment systems, and access to payment accounts services by certain payment service providers.

Sections 56 and 57 of FSBRA concern disputes where PSPs apply for direct access to regulated payment systems (including access to Cheque and Credit) or apply to alter the terms of their access.

Monitoring access to payment systems (continued)

Our guidance on these issues is currently published in separate documents which cover the FSBRA and PSRs 2017 provisions respectively. We're considering combining our guidance and updating it to make sure it remains relevant.

What we'll do in 2021/22

- As the responsible authority, we'll monitor and enforce compliance with the access regulations in Part 8 of the PSRs 2017 to make sure PSPs have appropriate access to payment systems (including credit institutions' obligations to provide certain PSPs with access to payment accounts services).
- Assess applications under sections 56 and 57 of FSBRA (which give us the power to grant access to payments or vary access agreements), as well as complaints about non-compliance with the access regulations in the PSRs 2017.
- Publish our annual report on access to payment systems and the governance of certain regulated payment system operators to provide an overview of how this part of the payments sector is working, the issues we have identified and what we plan to do in response. This will cover two years of data and developments; we didn't publish an access and governance report in 2020 as we reprioritised work during the restrictions caused by COVID-19.

Why this matters

Reducing unnecessary barriers to access is an important part of our work. This is likely to produce a better choice of payment services for people and businesses who make and receive payments.

Crisis communication

Our work includes focusing on whether payment systems are operated in a way that promotes the interests of all the businesses and consumers that use them. This includes considering whether those systems deal with disruption to their operations in a way that reduces the impact on people and businesses. This work sits alongside that of the Bank of England, which has principal responsibility for promoting resilience of payment systems.

In this context, we continue to oversee the compliance of Visa Europe (Visa) with our Specific Direction 9 (SD9), which requires Visa to ensure it gives its participants, stakeholders and service users enough information in the event of a major incident.

Crisis communication (continued)

Summary of the work so far

On 1 June 2018, Visa experienced an incident resulting in a partial failure of its ability to process authorisations. As a result, many consumers across Europe were unable to complete card purchases for a number of hours. A subsequent independent incident review by Ernst & Young LLP (EY) showed that Visa's communications with internal and external stakeholders during the incident were not timely, regular or actionable.

We issued SD9 in May 2019. Since then, Visa has tested its crisis communications processes twice and provided us with reports on these tests. It's incorporating our feedback into its procedures.

What we'll do in 2021/22

- We'll work closely with Visa on its yearly crisis communication processes tests.
- While we assess Visa's SD9 compliance, we'll also review whether our Direction remains effective and appropriate.
- We'll continue to liaise with the Bank of England in regard to the resilience and crisis communications of other payment system operators.

Why this matters

Visa is responsible for around 90% of the debit card market – so if it has an outage, it could affect a large number of payments. Our work on resilience – including SD9 – ensures that we manage disruptions effectively and don't cause unnecessary inconvenience to consumers, businesses and other payment system operators.

Cryptocurrency and stablecoins

Cryptoassets and stablecoins are digital currencies which use cryptography and are often underpinned by distributed ledger technology. In recent years, these digital currencies have become increasingly prevalent due to advances in technology. There is also growing interest among consumers and businesses. We're working with other authorities to make sure the UK has the right regulatory approach.

Cryptocurrency and stablecoins (continued)

Summary of the work so far

Cryptoassets and stablecoins are becoming increasingly widespread across the financial and payments industries. Research conducted by the FCA estimates that 2.6 million UK consumers have bought cryptoassets.[5] These new products may have use cases for consumers and businesses in the future. For instance, some stablecoins have the potential to be used for payments. This could involve facilitating the transfer of funds between consumers or purchasing goods and services using digital wallets across distributed ledger platforms.

In September 2020, we joined the Treasury's Cryptoassets Taskforce (CATF) alongside the Bank of England and the FCA. The CATF's aim is to coordinate the UK's regulatory approach to cryptoassets and stablecoins. The Treasury published a consultation on the government's broader regulatory approach to cryptoassets including stablecoins.

What we'll do in 2021/22

- We'll continue to work closely with the Treasury, the Bank of England and the FCA through the CATF in order to develop a UK regulatory regime for cryptoassets and stablecoins.
- We'll continue to monitor the risks posed by cryptoassets more broadly through the CATF.

Why this matters

Regulatory authorities and central banks across the world remain mindful of the opportunities and risks associated with these new products. We're focused on making sure any cryptoasset or stablecoin which is used for a significant number of payments is developed and operates in accordance with our statutory objectives. This could involve making sure there is effective competition, appropriate access provisions, and rules to protect users.

5 https://www.fca.org.uk/news/press-releases/fca-research-reveals-11million-spike-cryptoasset-buyers

Competition casework

We'll continue to analyse the payments sector and will intervene to promote competition and improve outcomes for people using payment systems. This includes enforcing legislation to tackle anti-competitive conduct.

We have powers to take enforcement action in relation to compliance failures in respect of:

- our directions and requirements (general or specific) given or imposed under the Financial Services (Banking Reform) Act 2013 (FSBRA)
- obligations, prohibitions and restrictions imposed by the Interchange Fee Regulation (IFR), and directions (general or specific) we give under the Payment Card Interchange Fee Regulations 2015
- requirements and directions by or under the Payment Services Regulations 2017 (PSRs 2017) (implementing the second Payment Services Directive)
- requirements and directions imposed by or under the Payment Accounts Regulations 2015 (PARs)
- infringements of the Competition Act 1998 (CA98)

Competition casework (continued)

Summary of the work so far

In 2017/18, we opened one investigation under CA98 and seven investigations under the IFR. In 2020, we also opened one access case.

Over the course of 2020/21, we've built up our enforcement capability in addition to running those investigations.

What we'll do in 2021/22

We may open new competition or regulatory enforcement investigations if we identify suspected compliance failures with the IFR, the PSRs 2017, the PARs and FSBRA. When we decide whether to open investigations, we'll take account of our Administrative Priority Framework (APF) and consider the potential impact of our interventions, our wider organisational priorities, and our strategy.

Competition enforcement

We'll continue our first CA98 investigation.

We'll also continue to be an active member of the UK Competition Network (UKCN), working in close cooperation with other concurrent regulators to address competition concerns.

Regulatory enforcement

We expect the majority of our current regulatory investigations to conclude in 2021/22. The cases relate to the IFR and access.

Enforcement revenues

We are working with the Treasury to finalise a Direction regarding enforcement revenues.

Competition casework (continued)

Why this matters

We're prepared to take timely, targeted and effective enforcement action.

It's crucial that we have a credible and agile enforcement function that changes behaviour both directly and indirectly, acts as a deterrent and enables us to meet our statutory objectives if other measures prove insufficient. We've been clear that we'll take action if businesses ignore our directions.

Not every potential compliance failure or infringement of competition law, either identified by us or brought to our attention, will result in enforcement action. We decide when and how to take action taking account of our APF and the impact our action might have.

One of the purposes of doing so, and imposing appropriate sanctions, is to communicate to regulated parties that we'll identify and address non-compliance. This should encourage them to comply with their obligations, and remedy non-compliance. Simply having the ability and capacity to exercise our enforcement powers can be an effective regulatory tool to achieve firms' compliance with the law.

Our enforcement work will help to ensure the payments sector works well and that effective competition translates into better prices, choice and innovation.

Regulatory enforcement

We have powers to take regulatory enforcement action in relation to:

- our directions and requirements (general or specific) given/imposed under the Financial Services (Banking Reform) Act 2013
- the Interchange Fee Regulation (IFR) and directions (general or specific) we give under the Payment Card Interchange Fee Regulations 2015
- the Second Payment Services Directive (PSD2) and directions (general or specific) we give under the Payment Services Regulations 2017 (PSRs)
- requirements imposed by or under the Payment Accounts Regulations 2015 (PARs)

Regulatory enforcement (continued)

Summary of the work so far

Over the last three years, we have been building our enforcement capability in addition to running investigations into potential non-compliance with the IFR and, most recently, non-compliance with PSD2.

What we'll do in 2021/22

We have four open enforcement investigations. Three of these relate to potential non-compliance with the IFR and one relates to potential non-compliance with PSD2.

We expect our ongoing IFR investigations to conclude in 2021/2022. We'll manage our resources flexibly so we can deal with the various potential outcomes of our casework.

We could open further regulatory enforcement investigations if, during the course of our monitoring and compliance work, we identify suspected compliance failures with the IFR, the PSRs 2017, the PARs or FSBRA. Our decisions to open investigations are made taking account of our Administrative Priority Framework (APF) and are guided by consideration of our organisational priorities and strategy.

We continue to build our capability for enforcement work by developing our processes and revising our published guidance where appropriate. Following the publication of our revised Powers and Procedures Guidance (PPG) in July 2020, we have been considering how our Penalties Guidance needs to be updated, both in line with the revised PPG and more generally. Like the original PPG, our Penalties Guidance was published in 2015, before the PSR was operational. It needs updating to account for the fact that we now have a much wider enforcement remit and have substantially developed our internal procedures and processes over the last five years.

Regulatory enforcement (continued)

Why this matters

It is crucial that we have a credible enforcement function to assist in delivering our statutory objectives where other measures are insufficient to achieve this.

Being able to take timely, targeted and effective enforcement action in appropriate cases is an important part of discharging our duties as a regulator.

We decide when and how to take action taking account of our APF and guided by consideration of our wider organisational priorities and strategy.

Our enforcement work supports our service user and competition objectives by holding regulated parties to account for non-compliance with their obligations, ensuring the payments sector is working well for people and businesses.

PSR Payment Systems Regulator

Working with our stakeholders

Working with our stakeholders

We place great importance on our working relationships with other authorities, industry and consumer stakeholders.

We work with our stakeholders in different ways. Some are more formal than others, but each has a clear goal to deliver the right outcomes. The last year has seen changes to the way we engage – driven by both the enforced changes that COVID-19 has brought about, but also our own drive to try new ways of working with and reaching people.

Our digital-first approach has enabled us to host roundtable events on a range of subjects and for different groups of stakeholders. We've been able to attend more conferences and panel discussions, as well as giving more speeches, publishing thought-pieces and using video to explain our work. Our annual stakeholder survey showed that people responded very positively to our higher levels of engagement, and that they now have a much better understanding of what we do and how we can help them.

The intelligence we have gathered over the years has furthered our knowledge of the diversity of the people and organisations that use payment systems and their needs. Over the coming year, we will continue to engage with stakeholders across the different regions and nations within the UK, as part of our strategy engagement and on specific issues as they arise.

Working with other authorities

There are a range of different people we are trying to deliver benefit to, and a number of organisations with a role to play. In particular, we work closely with the Bank of England (the Bank) and the FCA to coordinate our regulatory activities. The table on the right sets out the top-level objectives for each authority and how they relate to payments.

	Bank of England	FCA	PSR
Objectives	Ensure financial stability and promote resilience of payment systems.	Protect consumers, protect financial markets and promote competition.	Promote the interests of people and businesses using payment systems; promote competition and innovation.
Activity related to payments	Supervising payment systems, service providers and their users; delivering settlement and trustee functions, operating the RTGS and CHAPS systems, regulating the resolution of firms; issuing notes; regulating the safety and soundness of firms; aiming to ensure critical services are continued in the event of financial failure. The PRA also has a secondary competition objective.	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.

Working with other authorities (continued)

To make sure we're working effectively across the regulators, we have formal agreements in our Memorandum of Understanding (MoU) with the Bank, the FCA and the PRA. This sets out the high-level framework we use to cooperate with one another in relation to payment systems in the UK and for which each body has a different mandate. It is reviewed annually.

We also have a legal duty to coordinate the exercise of certain regulatory activities with the Bank, the PRA and the FCA. This coordination improves our knowledge and approach to financial regulatory issues.

We continue to work closely with the FCA to combat authorised push payment scams, and on access to cash. As well as the FCA, we'll continue to work with other relevant stakeholders to help ensure payment systems work well for those who use them.

In addition, we work closely with the Bank to make sure our respective approaches and desired outcomes for the NPA programme are aligned.

We are also part of the Authorities Response Framework with the FCA, the Bank and the Treasury.

Alongside the Bank, the PRA and the FCA, we are supporting the Treasury in its review of the payments landscape and the future regulatory framework for financial services (see page 40).

We'll continue to work closely with these stakeholders and other regulators and competition authorities in 2021/22 – particularly in relation to our shared competency with the FCA in enforcing compliance with Regulation 105 of the PSRs 2017.

We support this coordination with secondments between us and other regulators. This helps us share and develop skills and knowledge. We currently have four outward and five inward secondees and expect others to follow during the year.

Our concurrent competition powers and our role as lead regulator under the IFR lead to regular engagement with the Competition and Markets Authority (CMA) and other competition authorities. We have an MoU with the CMA setting out the working arrangements between us in relation to our concurrent competition powers. We'll continue to participate in networks such as the UK Competition Network and the UK Regulators Network so that we can share experience and best practice on regulatory and competition matters. We'll incorporate this into our regulatory approach.

We'll continue to engage with regulators and authorities in other countries to share best practice, and look to take a consistent approach, as far as possible, to competition issues and supporting innovation through collaboration.

Where possible, we'll cooperate to advance our objectives, and coordinate to reduce costs and administrative burden for our regulated communities.

The PSR Panel

Establishing and maintaining the PSR Panel is one of our statutory requirements and an important element of our stakeholder consultation process. The Panel is an independent group of experts who contribute towards the effective development of our strategy and policy. The members represent those who make payments as well as those who provide payments. They include people drawn from consumer and business groups, payment system operators, and payment service providers. Maintaining the PSR Panel is one of our statutory requirements and an important element of our stakeholder consultation process. The Panel provides advice and input on our general policies and practices, as well as highlighting emerging issues arising in the wider payments landscape.

The Panel's advice is a key channel for us to understand how our stakeholders may respond to our policies and approach. We'll consult it during the year through regular meetings and ad hoc workshops with groups of Panel members on specific issues.

Stephen Locke chaired the Panel from its inception in 2014 but stood down in December 2020. We are very grateful to Stephen for his contribution to establishing the Panel and to the PSR's work more generally.

He has been replaced as Chair by Ruth Wandhöfer. The other members are Robin Abrams, David Brooks, Natasha De Teran, David Gaselee, Flora Hamilton, Andrew Hewitt, Matthew Hunt, Conor Langford, Jeff Moody, Mark O'Keefe, Jo Oxley, Anne Pieckielon and Paul Thomalla. In 2021/22, we'll be assessing how we can develop approaches that will continue to make best use of the Panel's expertise.

The UK's withdrawal from the European Union

Until the expiry of the transition period on 31 December 2020, after the UK left the EU on 31 January 2020, our work on the UK's withdrawal was primarily focused on a no-deal scenario. We worked with the Treasury, the FCA, the Bank of England and other regulators to manage risks relating to the payments sector and onshore relevant legislation. We also engaged with key participants in the sector such as Visa, Mastercard, UK Finance and Pay.UK to understand the risks they faced, and the contingency plans they developed to mitigate these risks.

The UK agreed a Trade and Cooperation Agreement (TCA) with the EU in December 2020 but it has limited implications for financial services and payments. Further negotiation may take place between the UK government and the EU on this matter. In the year ahead, we'll continue to assess the development and implications of the UK's future relationship on our work. This will include our IFR monitoring and enforcement work, and our engagement with other EU authorities.

PSR Payment Systems Regulator

Our organisation

Our people

The effects of the pandemic continue to shape how we deliver the work of the PSR. While the roll-out of vaccines provides all of us with some hope, it's likely that remote working is here to stay for some time yet. The health, safety and wellbeing of our people continues to be a key priority. We are more focused than ever on ensuring that the PSR is a great place to work through our wellbeing strategy, learning and development offering, and most especially our focus on our people continuing to feel connected and valued.

We are also continuing to develop our plans for how we'll work once we're able to make more use of our office. This includes making sure people can work in a fully hybrid way, defining the best working patterns for our organisation to ensure that we can successfully deliver our work programme and our longer-term strategy. A benefit to offering greater flexibility is that it will appeal to a broader, more diverse candidate pool. We are also making greater use of technology and adapting our approach to how we attract, retain and develop our talented, diverse workforce.

Our people (continued)

We'll continue to focus our resourcing strategy to ensure that we have the right mix of payments expertise and regulatory, economic and legal skills, coupled with the appropriate level of experience necessary to deliver our anticipated work programme for 2021/22. With around 110 people, we continue to carefully balance our mix of permanent and flexible resources to achieve an efficient operating model. We continue to achieve a great deal with limited resources, given the volume and speed of industry change.

Our People Strategy for 2021/22 continues to align our organisation to deliver our objectives. We continuously assess our skills base to ensure we are able to adapt quickly to address changing priorities. In particular, we will:

- continue to develop our programme management skills and increase capability around how we engage with our stakeholders, including a continued emphasis on the use of technology
- continue our programme of leadership and management development for our people managers
- maintain our focus on building an inclusive culture, ensuring that diversity and inclusion runs through all of our processes – guiding how we recruit, allocate work, and help people to progress
- maintain a collaborative, engaging and challenging environment which supports the health and wellbeing of our people and encourages them to continue their growth and development, particularly as we continue to work remotely or via a hybrid approach longer term

We are a diverse and inclusive workplace with respect to gender, race, sexual orientation, disability or whatever contributes to making us who we are. Our employee-led networks have been working even harder to find new ways to help to raise awareness and build an open and inclusive workplace.

As a signatory to the Women in Finance Charter, we have an appreciation and understanding of our different experiences, interests and values, and we are committed to delivering priorities which have broad significance to the society which we serve.

Our cross-organisational employee engagement team is committed to finding new ways to engage remotely while broadening awareness of diversity and inclusion and creating an inclusive culture. It also provides access to corporate social responsibility opportunities which include charitable engagement and volunteering, providing our people with the opportunity to contribute and give something back to our local communities during these exceptional times.

Our budget for 2021/22

Our annual budget for 2021/22 reflects our operating costs from 1 April 2021 to 31 March 2022. We estimate our current regular costs to be approximately £17.1 million a year; however, we need to increase this spend for the next 12 months to deliver the complex work programme we have ahead of us. This is mainly driven by pressures relating to delayed work as a result of COVID-19, increased oversight of the NPA programme, and the imperative for us to begin work to address competition in retail payments. We expect these extra costs to be no more than £1.7 million, taking our overall budget for 2021/22 to a maximum of £18.9 million.

We expect this increase to be temporary and, being mindful of the impact of COVID-19 on our fee payers, we are funding this increase through our reserves. This means that this year, our regulatory fees will be the same in real terms. Our budget will allow us to increase our overall headcount, with some temporary appointments taking us to around 120 staff. This will enable us to do the priority work needed to continue to help and protect people and businesses using payments now and in the future. In 2021/22 we'll look at where we can create further efficiencies in how we work.

Our budget for 2021/22 (continued)

Staff costs and professional fees

Staff costs are our largest operating expense. We continue to run a lean staffing model, using flexible resources and agile working across different projects to achieve our objectives. This year we anticipate staff costs increasing by 11% to £13 million. We also pay professional fees for specialist services to support our work; we expect these costs to be around £2.5 million in 2021/22.

Other operational costs

As an independently accountable subsidiary of the FCA, we continue to use its operational support for services such as finance, human resources and information services where it's effective and efficient to do so. We'll continue to reimburse the FCA on an annual basis for the cost of such services. We expect this combined with our other operational costs to be around £3.3 million.

Annual funding requirement

We'll continue to recover our costs through the annual fees paid by participants in relevant payment systems.

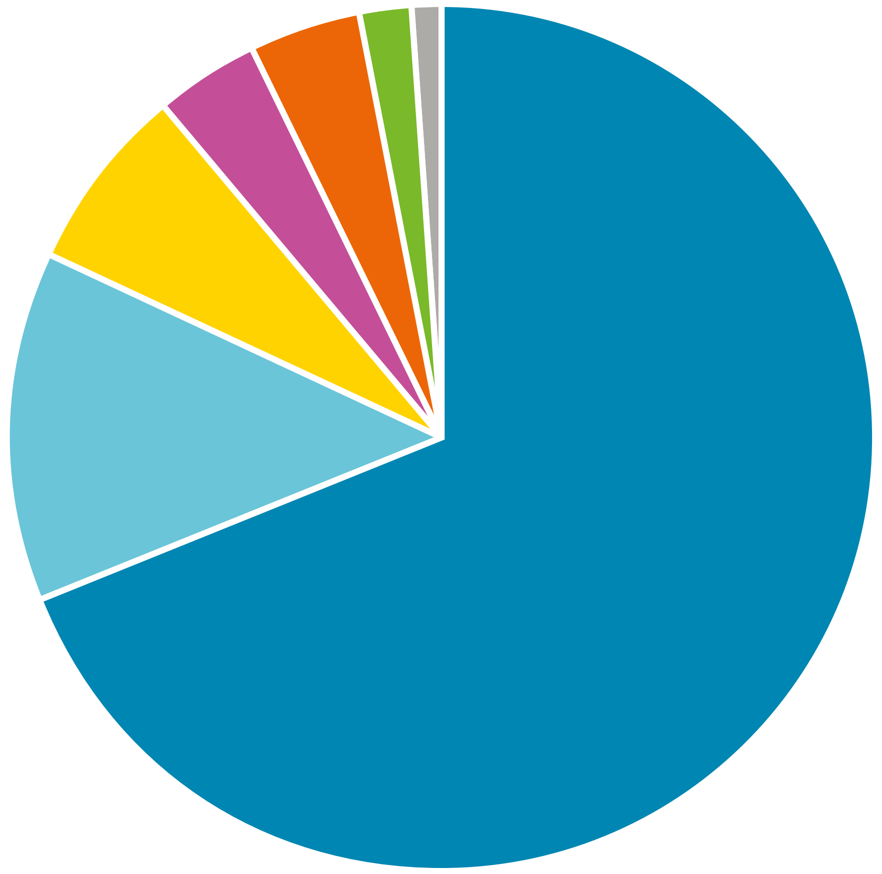
These include fees paid by the payment service providers that directly participate in any of the payment systems we regulate, and the operators of alternative arrangements designated under the Payment Accounts Regulations 2015.

Our budget for 2021/22 (continued)

Value for money

Our overarching value for money (VFM) strategy is to have as much impact as possible in delivering our statutory objectives, while minimising costs. Our efforts to further improve our effectiveness, efficiency and economy are ongoing, and we include VFM criteria in our decision-making processes at all levels. We also review our internal processes, do benchmarking exercises and ensure flexibility in our workforce. All these measures combine to allow us to continue operating efficiently and effectively. We'll also continue to work closely with other regulators to share expertise, best practice and resources where possible.

Budget costs



	FY21 cost	% Total
Staff costs	£13,026,000	69%
Professional fees	£2,574,000	13%
Accommodation	£1,372,000	7%
Information services	£764,000	4%
FCA recharges	£716,000	4%
Training, events, recruitment	£359,000	2%
Other (subscriptions, memberships, COVID-19)	£118,000	1%
Total	**£18,929,000**	**100%**

Factors influencing our regulatory approach

There are a range of economic, social and market factors which we need to take into account in developing our strategy and approach to advancing our objectives. The wider economic environment and factors influencing how we all pay for things have clearly been particularly disruptive over the last year. The impact of COVID-19, and the measures which have been needed as a result, have also had a material impact on how we pay for things. The transition period following the UK's withdrawal from the EU also ended. As noted on page 40 as well, there has been central government work reviewing how payments, and other related parts of the economy (especially digital markets), are regulated.

Factors influencing our regulatory approach (continued)

It continues to be important for us to consider and take account of the other longer-term trends we identified in last year's Annual Plan.

An appreciation of such factors informs our work and planning processes so that we can operate efficiently and effectively. We'll continue to work closely with other regulators and the government as we develop regulation and policy and aim to ensure that we achieve the right outcomes. Ultimately, we want those who make and receive payments to be able to do so easily and safely.

There are several key issues that have an impact on how we work to achieve our statutory objectives.

Demographics, accessibility, and affordability

Those making and receiving payments use different options which are influenced by factors such as age, location, abilities, market size and income levels. The rapid changes over the last year – such as the increased use of contactless payments and the change in online digital sales – will have had a significant impact on the way people choose to pay and how businesses accept payments. We'll continue to review this across our work when considering the needs of those who make and receive payments (which includes a range of businesses – especially small businesses). We'll need to ensure that the market supports varying choices and needs so that everyone has ways to pay that work for them.

We also want to ensure that payment services are available to people regardless of factors such as age, race, disability or gender, and represent good value for money.

Technology and innovation

Technology and innovation have the potential to increase competition, enhance efficiency, and transform business models relating to the way we make and receive payments. These changes have the potential to offer major benefits to consumers and businesses. As the NPA is shaped, our focus is on ensuring the market continues to work well, and that innovations continue to produce the payment options that users need. We continue to assess how developments in technology provide different ways to pay, both over existing channels and through new products such as stablecoin.

Factors influencing our regulatory approach (continued)

Data access and use

Access to and use of data is key to the rate of innovation, and the ability of the payments sector to deliver new and improved services. We recognise that increased use of data from payment systems brings both opportunities and concerns. As we monitor developments in payments data, we'll pay close attention to the way companies collect and use it.

Safety, security and resilience

It's important that people have confidence in payment systems. One way we can maintain this confidence is to work towards enhanced safety and security and maintaining resilience in the payments landscape. Along with the Bank of England, the PRA and the FCA, we have specific duties and responsibilities in pursuing these aims. We'll continue to work closely with these authorities to ensure that payment systems are operated and developed in a way that promotes the interests of service users.

Macro-economic developments

Like the rest of the economy, the payments sector and the wider financial services industry will need to take the impact of recent events into account. The shape of the economic recovery across the country, as well as the effects of the UK's withdrawal from the EU are factors which will significantly affect the sector. The economic recovery will also be affected by work to reach the UK's net zero carbon emissions target and other environmental goals. We'll account for this in our regulatory approach. We'll continue to work with the Treasury, the FCA, the Bank of England and other authorities to manage any risks relating to the payments sector and its participants.

Emerging issues

As with all markets, there are unknown or emerging risks which we may need to address. We're working to enhance our intelligence gathering processes so that we can respond proactively to such risks.

PSR Payment Systems Regulator

Our role and powers

Our role

As an economic regulator, we're here to make payment systems work well for those that use them. We have three statutory objectives to help us achieve this:

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

These objectives are set out in the Financial Services (Banking Reform) Act 2013 (FSBRA). We consider them in everything we do under FSBRA.

Our role (continued)

Under FSBRA, the Treasury has designated the following payment systems as regulated payment systems: Bacs, CHAPS, Faster Payments, LINK, Cheque and Credit[6], Mastercard and Visa. We regulate the following participants in relation to those systems:

- System operators (such as Pay.UK, Visa, Mastercard and LINK).
- Payment service providers (PSPs) (such as banks, building societies, merchant acquirers and payment institutions).
- Providers of infrastructure for the systems (such as Vocalink).

We're a competition authority with powers, concurrent with the CMA. We also have functions under other legislation which allows us to advance, where relevant, our competition objective.

We're also the lead competent authority for the Interchange Fee Regulation (IFR) in the UK. The IFR mainly imposes requirements on payment card schemes and issuing and acquiring PSPs.

We regulate operators of designated alternative switching schemes under the Payment Accounts Regulations 2015 (PARs) – this presently includes the Current Account Switch Service (CASS).

We're also a competent authority in relation to certain provisions of the Payment Services Regulations 2017 (the PSRs 2017), which implement the revised EU Payment Services Directive. These provisions concern access to payment systems[7], access to certain payment account services and information on ATM withdrawal charges.

6 As amended. The Belfast Bankers' Clearing Company (Northern Ireland Cheque Clearing) no longer oversees cheque and paper credit clearing.

7 Access to payment systems is governed by provisions under both the PSRs 2017 and FSBRA. As to which applies in relation to accessing a particular payment system, this will depend on whether the payment system is a regulated payment system and whether it has been designated under the Financial Markets and Insolvency (Settlement Finality) Regulations 1999.

Our powers

We have a range of powers under FSBRA, in particular in relation to regulated payment systems. These include:

- providing directions, both generally and specifically in relation to participants
- changing or establishing rules regarding the operation of payment systems
- granting access to certain regulated payment systems
- varying agreements relating to payment systems
- requiring the disposal of interests in an operator of a regulated payment system or an infrastructure provider in relation to such a system

We have powers to review, investigate, enforce and direct in connection with our monitoring and enforcement roles under the IFR and the PSRs 2017.

We have powers under the Competition Act 1998 in relation to participation in any payment system, including systems which are not designated as regulated payment systems under FSBRA. We can also conduct market studies and make market investigation references under Part 4 of the Enterprise Act 2002 in relation to such participation.

In many cases, clear communication with the industry about what we want to see achieved leads to industry outcomes without us needing to use our powers (for example, requirements or directions) – but we do use these powers when appropriate, and we oversee compliance.

Our enforcement approach also plays an important role in the advancement of our statutory objectives, whether involving enforcement of directions (specific or general) made under FSBRA, our concurrent competition powers, or our role as monitor and enforcer of the IFR, PSD2, or the PARs.

We decide whether to pursue enforcement action and review our approach to ongoing investigations on a case-by-case basis, having regard to our statutory objectives and our Administrative Priority Framework. In determining whether enforcement action is appropriate, we'll consider all matters that appear to us to be relevant in each specific case.

12 Endeavour Square
London E20 1JN
Telephone: 0300 456 3677
Website: **www.psr.org.uk**