

Rt Hon Keir Starmer MP
Prime Minister
10 Downing Street
London
SW1A 2AA

16 January 2025

Dear Prime Minister, Chancellor of the Exchequer, and Secretary of State for Business and Trade

The PSR's approach to supporting growth

Thank you for your letter of 24 December 2024 on the role of regulators in supporting economic growth. We strongly welcome the Government's growth mission and are ready to play our full part in this shared endeavour.

Supporting growth is already at the heart of what we do. It is fundamentally embedded in our legal mandate, including our statutory objectives, which require us to promote competition and innovation, and in our duty to promote the interests of service users. Building consumer trust in payments is a key foundation for growth. The desirability of sustainable growth is one of our legal regulatory principles underpinning our approach.

We are clear about the growth opportunity in payments. With over £100 trillion flowing through the UK payments infrastructure annually, payments are an essential part of our economic lives and critical to business and the wider economy. Our fintech sector is an investment magnet and major growth opportunity, with a 10% global market share and significant forecast revenue growth. Through our regulatory approach, and as set out in our strategy update, [published today](#), we are fully committed to supporting growth, enabling payment businesses to thrive alongside protecting users.

Our five steps to promote growth this year

Building on our existing growth contribution and competition mandate, we are committed to five measurable areas of work that will go further in supporting economic growth as part of an ambitious agenda for 2025. This work will be spearheaded through a new senior leadership role, joining up the PSR Managing Director role with that of a new Financial Conduct Authority (FCA) Executive Leader of Payments and Digital Assets. This will improve regulatory clarity, speed up decision-making, and reduce duplication – while ensuring that each organisation plays to its strengths.

We will:

- **Continue to build and embed an efficient and effective whole-system regulatory approach that supports growth:** We will play our role in making sure that the UK's regulatory regime remains joined up and proportionate, providing the certainty to attract talent and capital into payments. We will continue to improve our effectiveness and efficiency as a regulator. A more data-led approach to regulation will mean that we only intervene where there is strong evidence to do so, and a stronger, collaborative supervisory framework will ensure our expectations are clear. We will also confirm our approach to cost benefit analysis, which we will use to consider growth in all our policies, where relevant. Consistent with the strong themes in the National Payments Vision (NPV), we will strengthen our relationships with other key regulators, including working with the FCA and the Bank of England to revise the joint Memorandum of Understanding and developing the Payments Forward Plan, providing greater regulatory clarity and certainty.

The PSR Board is committed to considering wider changes that can support pace, efficiency and growth from within. We will continue to review how the outcomes of the PSR can best be achieved through regulatory streamlining and simplification, exploring further opportunities for greater efficiency and coherence, in particular through closer alignment with the FCA.

- **Encourage innovation:** Building on our past work, we have announced in our strategy update today a focused innovation capability. This new capability will identify and address blockages to innovation, advise on regulation of proposed new business models, and engage with potential new competitors. It will operate alongside our horizon-scanning function, which considers relevant developments, such as the role of artificial intelligence in payments. We will measure our success through the impact we are having in supporting innovation, engaging with the payments innovation community to assess this.
- **Taking action on card fees:** Almost all merchants have to accept card payments to serve customers. While card payments often work well and play an important role in our economy, merchants have raised concerns about the cost of accepting cards and their limited ability to understand or negotiate fees. The resulting impact on businesses' ability to invest and grow could lead to direct economic constraints, particularly for small retailers. Given small businesses are the growth engine of our economy, accounting for 99% of businesses, this is a concern. Evidence from our market reviews shows that cross-border interchange fees have increased more than five-fold, by £150–200 million a year, since the UK left the EU. We have concluded that it is necessary to cap those fees and we are consulting on the appropriate levels. Domestic scheme and processing fees have also increased by over £190 million a year in real terms since 2018, and we will be publishing our findings and consulting on any proposed actions shortly. Across this work, we continue to engage closely with all parties to achieve an effective outcome.
- **Enable payments infrastructure for the future:** Payments infrastructure helps support the competition and innovation that the NPV emphasises. But the UK's payments infrastructure needs upgrading so it can let innovative businesses grow, support domestic and international investment, and increase efficiency. We will work with the Bank of England on an approach to upgrading the Faster Payments system, which processes near-instant bank transfers for millions of people. We will also assess, with the Bank, what the UK's retail payments infrastructure will need beyond this, and set out the governance to deliver it. We will set out the approach by end of Q2 of this year.
- **Realise the opportunities of open banking:** Open banking is already worth £4.1 billion, with over 11 million users, and has created around 5,000 skilled digital jobs in the UK. We support the vision of significant growth in new payment services and believe in the benefits of choice and competition for retailers. Working with the FCA, as the regulator for open banking, and with industry, we will advance work to introduce a new open banking payment method for particular payments, paving the way for more competition and choice. We will support the FCA as it broadens the use of open banking for e-commerce.



In addition to these initiatives, we will continue to embed our world-leading requirements for reimbursement of victims of authorised push payment fraud, helping to build trust amongst consumers and preventing fraud through increasing incentives to prevent fraud – which is a key barrier to economic growth. As set out in the NPV, we will commission an independently led review of our new rules, including their impact on investment.

We are clear that delivering change in a complex sector is challenging and must be balanced with appropriate consideration of risk. We very much welcome the proactive and engaged role taken by the Government following the NPV, including through the Payments Vision Delivery Committee. That continued engaged role will be important to support delivery.

These steps will support the Government's growth mission, and we are accountable for delivering them. I look forward to discussing them with your team, to deliver opportunities for payment systems which meet the needs of people and business, and provide strong support to economic growth.

Yours sincerely

A handwritten signature in black ink, appearing to read 'David Geale', written over a light blue horizontal line.

David Geale
Managing Director