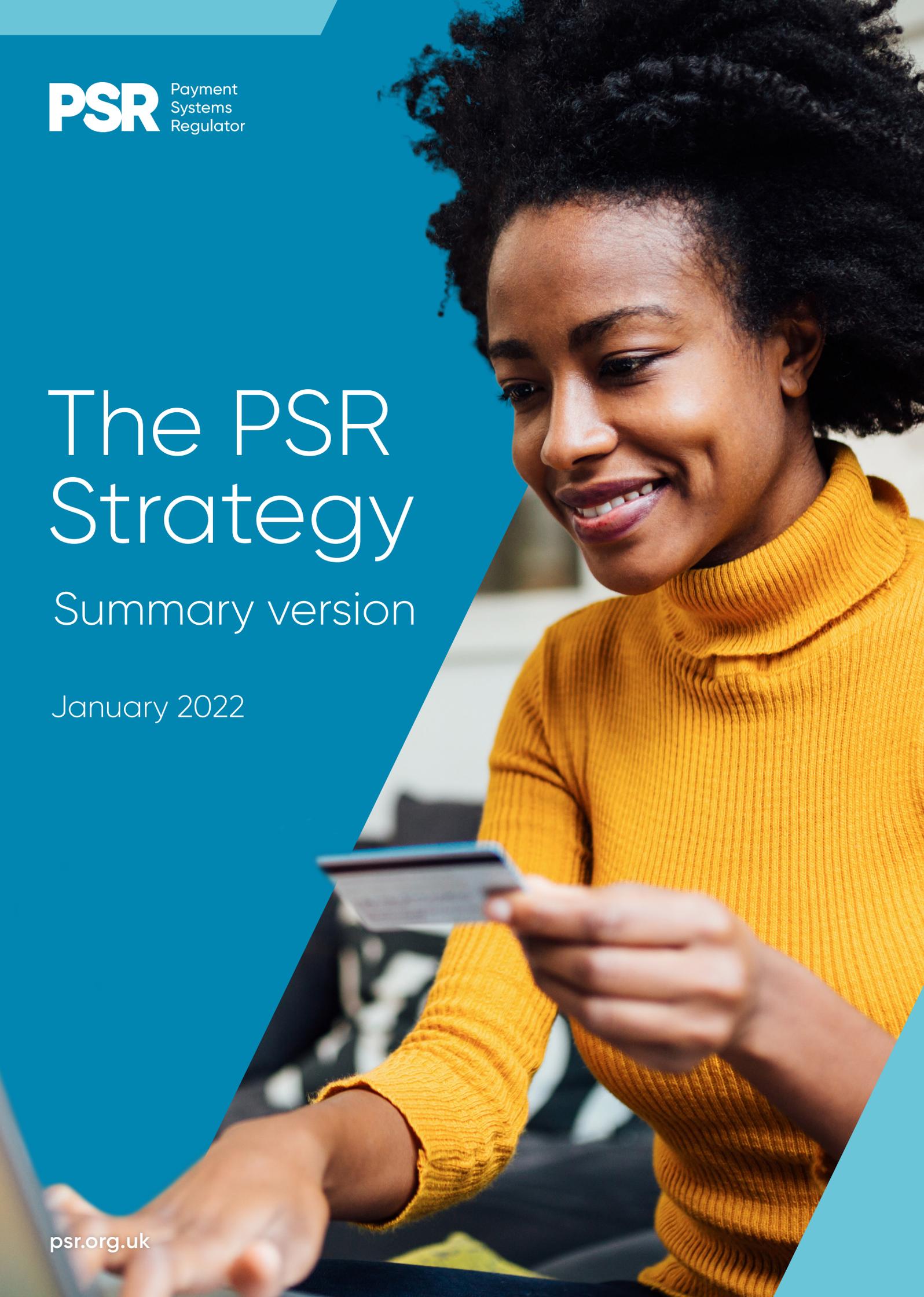


The PSR Strategy

Summary version

January 2022



Our strategy at a glance

Payments are an essential part of life for all of us. The PSR is here to make sure that payment systems – and the markets they support – work well for all the people and businesses that rely on them.

We've designed our strategy to guide our activity over the next five years. We've established what we want to achieve, and the priority areas where we'll focus our resources – so that we can use those resources most effectively to achieve the outcomes we want.

What we want to see The outcomes we're aiming for

See page 4



Payment systems meet people's needs



Users are protected



Effective competition in payments



Efficient payment systems

What we'll do Our priority action areas

See page 10



Access and choice



Protection



Competition



Unlocking account-to-account payments

The outcomes we're aiming for

Our strategy is designed around the outcomes we want to see in payments. Across all our work, we'll make sure our decisions help bring about these outcomes. There are four key outcomes, which are all part of making sure people can make and receive payments in ways that suit their needs.

Payment systems meet people's needs

Everyone can make and receive payments in ways that suit them.

Users are protected

People and businesses are protected when they make payments.

Effective competition in payments

Effective competition in payments leads to better services for everyone.

Efficient payment systems

Payment systems are efficient and commercially sustainable.





The outcomes we're aiming for

Payment systems meet people's needs

Everyone can make and receive payments in ways that suit them.

- ▶ Payment services should be suitable for the needs of those who use them.
- ▶ Every function that people need should be provided by at least one payment system.

Payments are something that many of us take for granted when we buy goods and services online, or receive our wages or a pension. But they're essential for our society and economy to function effectively.

In the UK currently, different types of payment are designed to meet a variety of needs. We think the payments industry should provide for the needs of everyone who makes and receives payments.

Right now, we believe most people have access to payment methods that meet their needs most of the time. But we know there are some groups who might be underserved. We understand that changes in technology and the payments landscape might lead to some people and businesses having fewer options.

Case study

A flexible worker who needs flexible payments

Rob works as a taxi driver. It gives him the flexibility he needs to manage his family commitments and work longer hours when it suits him. His bills aren't so flexible though. He pays his mortgage and his phone and utility bills on the same day every month.

Some months, if he's worked fewer shifts, Rob has to go into his overdraft and pay a fee to his bank. New types of payment messaging and new payment business models are being developed that might give Rob more control over when money leaves his account. We're keen to encourage innovation like this, so that more people like Rob have the flexibility they need.



The outcomes we're aiming for

Users are protected

People and businesses are protected when they make payments.

- ▶ Everyone who makes payments should be able to do so with confidence.
- ▶ Payment systems should work to prevent harm (such as fraud).
- ▶ The payments industry should provide effective and appropriate redress when harm does occur.
- ▶ Everyone should be able to make an informed choice about which payment type to use.

We expect payment system operators and payment service providers to consider their customers' interests, and ensure they're adequately protected when they use payment services. They should also:

- consider the risks that people and businesses face when using payment services
- base their risk assessments on realistic assumptions about consumer behaviour
- consider how people use the system and how that usage changes over time

We also want people to understand the payment options available to them, and be confident about using different payment methods. Part of this confidence will come from people knowing their payments are safe and secure, but we also want operators and payment service providers to provide clear information about their services so people can make informed choices.

Case study

Confirmation of Payee

Saira is buying a second-hand car from a friend, Julian. Julian sends Saira an email with his sort code and account number so that she can make the payment using online banking. Saira is nervous when setting up the payment as she can't afford to lose the money. She's worried that she might mistype the number, and has also read about fraudsters intercepting emails and giving fake account details.

When she puts Julian's bank details into her bank's app, it sends a message to Julian's bank to check whether the name that Saira has given matches the name linked to the bank details. She sees from the app that they do match. Now Saira can go ahead and make the payment with confidence.





The outcomes we're aiming for

Effective competition in payments

Effective competition in payments leads to better services for everyone.

- ▶ Competition and innovation support good quality payment services at appropriate prices.
- ▶ Competition between different payment systems encourages choice.
- ▶ We'll consider governance, terms and fees to promote greater competition.

Competition in payments is essential. It encourages innovation and provides conditions that support the provision of good quality payment services at appropriate prices. It should also encourage a greater variety of services.

We've previously focused on promoting competition between providers offering payment services through the same payment system, particularly Faster Payments. Now we think there are increasing prospects for competition between services using different systems, supported by technology allowing each system to process a wider range of payment types. We will consider whether the governance structures, terms and fees applied by payment systems promote greater competition between them.

Case study

Two businesses with different needs



Beverley runs a small independent coffee shop on her local high street. She's noticed that fewer people now use cash, so she needs to buy services that allow her to accept card payments. She's happy with the convenience of card payments, but has noticed that her business accounts looked healthier when most customers paid cash.

Next door is BigStore, a national kitchen appliance retailer. Its customers often use credit cards to pay for goods as they know they're protected by the legislation and rules relating to the payment method if the purchase goes wrong. However, Beverley's customers rarely rely on the protection offered – if they don't like their coffee, she'll refund them instantly.

Although both businesses rely on the same types of payment, using the same set of rules, it's likely that Beverley is paying more per pound spent to accept card payments. We think it's important that payments work for all types of businesses, as well as for people.



The outcomes we're aiming for

Efficient payment systems

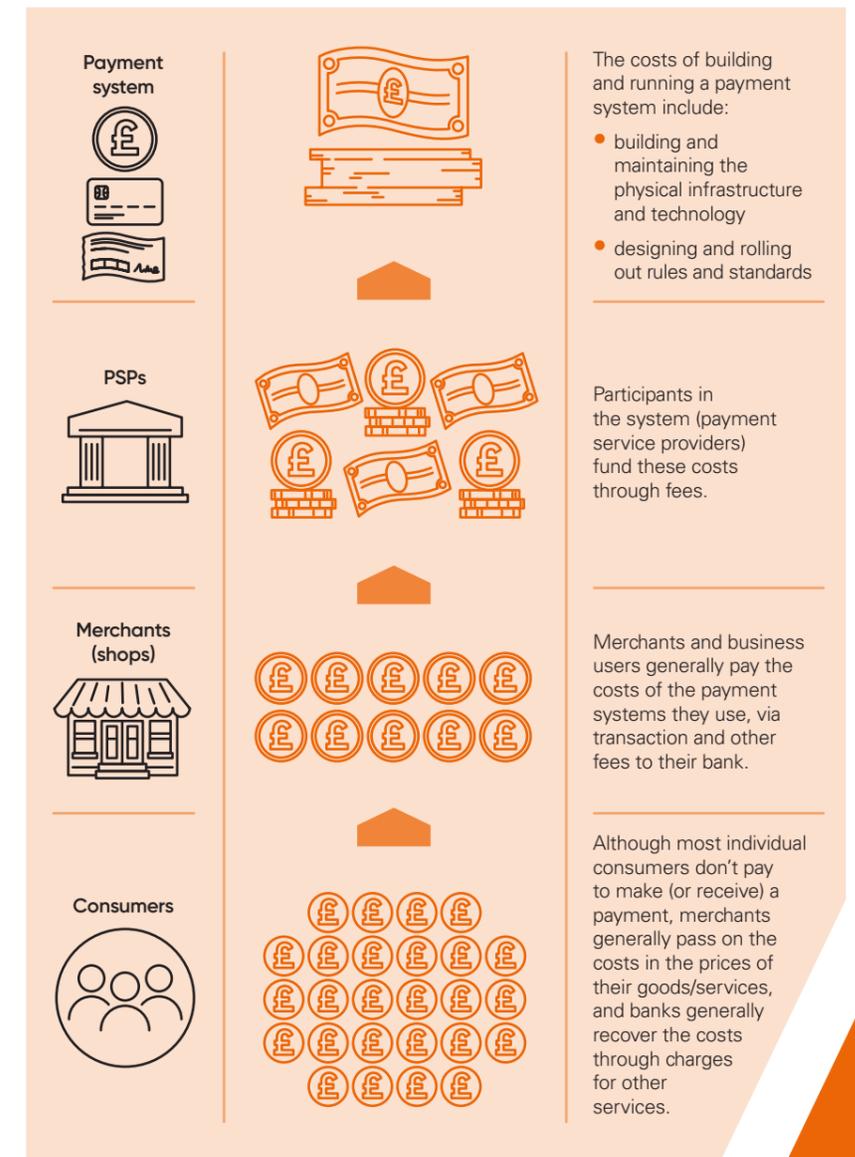
Payment systems are efficient and commercially sustainable.

- ▶ Payment systems should be efficient and offer value for money.
- ▶ The funding model should be viable over the longer term.
- ▶ Payment system operators should encourage sustainable payment processes.

It's important that payment systems are run efficiently – they need to represent value for money. Payment system operators and their technical service providers often face high costs when establishing a system, but lower operating costs. They need to charge participants fees to recover their investment costs, cover their operating costs, and support development and innovation.

A sustainable funding model for payment systems is required. It's important for us to understand how costs are passed through the payment systems. Some may be paid disproportionately by those who use them or by certain types of participants, or we may find that high costs discourage entry by new businesses.

As payment system operators develop services, they should help their participants make their own processing more efficient. We also expect to see payment system operators work to combat the possible misuse of payment systems.



Our priority action areas

To achieve the outcomes we want, we've set four strategic priorities. These are the areas where we consider we can use our people, powers and other resources to have the greatest impact on the UK's payments ecosystem. We'll remain focused on the outcomes we want to see, and may adapt our priorities if necessary in the face of new developments over the next five years.

Access and choice

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

Protection

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

Competition

Promote competition between payment systems and in payment services.

Unlocking account-to-account payments

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





Our priority action areas

Access and choice

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

- ▶ Payment services should be accessible on a fair, open and transparent basis.
- ▶ We'll continue to protect access to cash.
- ▶ We'll support development of new payment services.

Everyone should have easy access to a payment method that suits them, so a range of payment options is needed to fulfil the different needs of all the various users. It's essential that there is an effective choice of payment options for people and businesses to use, and we're particularly keen to consider the needs of vulnerable groups.

Choice tends to allow everyone to have a convenient way of making or receiving payments for different types of transactions. But we can't always choose how we make payments. Sometimes, for example, shops and businesses don't accept the types of payment we want to make.

Nevertheless, we think it's important that alternatives are available if someone can't use their first choice of payment method.

We will:

- Remove barriers to the development of new services that meet user needs.
- Apply appropriate and robust regulation to any newly designated payment systems, taking into account the 'same risk, same regulation' principle.
- Understand the perspectives of vulnerable consumer groups towards new ways of paying and the choices available to them, and account for them in our decisions.
- Engage with other financial services regulators and government to ensure our decisions remain aligned with theirs and the division of responsibilities is clear.
- Continue to protect access to cash for those that rely on it.
- Remove barriers to effective competition.
- Continue to promote a range of options for payment service providers to access payment systems.



Our priority action areas

Protection

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

- ▶ Protection is essential to encourage confidence in those who use payment systems.
- ▶ Each payment type may require specific protection.
- ▶ As the market changes, protection needs to adapt to avoid gaps in service and quality.

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

Different protection is needed for each payment type. For example, a range of protections apply to credit and, to a lesser extent, debit card transactions. In addition, Faster Payments is now used for a range of uses for which it was not originally designed.

Governance is key to providing the framework of rules needed, and we want Pay.UK to take a lead in the way that protection is provided to people and businesses who use payment systems. This coordination will be essential to help prevent the kind of fraudulent behaviour that drives authorised push payment (APP) scams.

We will:

- Develop governance of the interbank rules, with a view to giving Pay.UK a stronger role to lead the development of protections (and other conduct rules), coordinating its participants where necessary.
- Pursue ways to ensure reimbursement for victims of APP scams who have done nothing wrong.



Our priority action areas

Competition

Promote competition between payment systems and in payment services.

- ▶ Competition is essential as it tends to lead to better and more affordable services.
- ▶ We're encouraging competition between payment systems and between payment service providers.
- ▶ If competition isn't sufficient, we may need to regulate to achieve it.

We think competition is a priority, and it's not clear that there is sufficient competition in retail payment methods to provide good long-term outcomes. Payment systems have a number of inherent features that discourage entry – including the costs of building them.

So far, we've focused on encouraging competition within payment systems between different payment service providers. Going forward, we want to focus our resources to promote competition between payment systems. We think that will lead to better and more affordable services for participants and users. We'll continue our work to open up access to payment systems – making it easier, quicker and cheaper for new service providers to enter the market and provide competition and innovation in payment services.

At this stage we favour placing the emphasis on the role of interbank payments, including Open Banking. That appears to have the greatest chance of providing a credible alternative for retail debit payments. If we don't see real prospects for improvements in competition in the long term, we don't rule out the potential need for us to regulate in order to protect consumers and businesses.

We will:

- Develop the interbank systems to provide greater competition for the provision of payment services.
- Take forward a piece of work to examine the basis for scheme fees and cross-border interchange fees. We'll consider whether shorter-term measures might be appropriate in the intervening period until we develop and implement any longer-term measures to introduce more competition.
- Keep under review the need for us to regulate in other areas to protect consumers and businesses.



Our priority action areas

Unlocking account-to-account payments

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

- ▶ The New Payments Architecture (NPA) should encourage competition and innovation.
- ▶ This will support choice for those who make payments, and appropriate payments pricing.
- ▶ Pay.UK should be funded so it can promote good outcomes for everyone.

The UK's interbank systems are going through a considerable set of changes. These systems, which are owned and operated by Pay.UK, support payments between deposit accounts, and are used for paying friends and family, paying bills or receiving salaries. Open Banking Payments now also allow firms to initiate payments on a consumer's behalf. We think that there is great potential for the use of Open Banking Payments to make payments easier and quicker for everyone. At the same time, Pay.UK are planning for the next generation of infrastructure with the New Payments Architecture programme – the UK payments industry's proposed new way of organising the clearing and settlement of payments between banks.

We want to make sure that interbank payments work as well as they can for everyone, now and in the future. To do that, we will need to make sure that financial services firms and Pay.UK can effectively agree rules and standards for new functionality. New agreements will need to be able to sustain themselves by making sure that it makes commercial sense for people to join and belong to interbank systems. We will support Pay.UK's ambition to upgrade and replace its technology. If new agreements to support new ways of paying are created, we will also need to ensure that they can still be reached by regulation, and we will work with the Treasury to make sure they are.

We will:

- Ensure funding is adequate to enable Pay.UK to fulfil its objectives, and that funds are allocated in a way that supports and promotes innovation and competition in overlay services.
- Develop governance of the interbank rules, so operators of interbank systems have the ability to enforce compliance with them.
- Promote and facilitate coordination of payment system participants where we think it is needed and not yet happening.
- Work with the Treasury to ensure new systems and arrangements come under our remit if necessary to achieve good outcomes.

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