The Payment Systems Regulator Limited

Annual report and accounts 2021/22

HC 425

The Payment Systems Regulator Limited

Annual report and accounts 2021-22

(for the year ended 31 March 2022)

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Foreword

Payment systems are important and continue to evolve at a rapid pace. These are two fundamental truths that you can't get away from at the PSR. The whole UK economy relies on the systems we oversee, and the technology behind them is constantly developing – responding to and influencing the way people and businesses want to pay and be paid. It's a privilege to take my place as Interim Chair in a regulator that's in a unique position to positively influence the future of payments.

The work we've done over the last year covers a wide range of responsibilities, demonstrating the complexity and importance of the industry we regulate. Whether through successful enforcement action, further progress on fighting scams, reforming interbank infrastructure or investigating the market for card-acquiring services, the PSR has made a difference in many ways. We've helped to make sure payment systems serve users well while also meeting our other statutory objectives of innovation and competition. In setting up a Strategy, Analysis and Monitoring division and launching the PSR Strategy for the next five years, we're making sure we're ready to face the opportunities and challenges the evolving payments ecosystem will bring. And we will look to add pace in the way we approach our work, while continuing to make sure we have enough evidence to support our decisions.

Ongoing engagement and communication is key to our success. It's been critical to our work on payment scams and access to cash, and our resetting of the New Payments Architecture programme. We know we can do more though, and over the next 12 months we'll step up our engagement with all stakeholders across the payments ecosystem. This will help us deliver our current plans as well as those we'll start to focus on as part of our Strategy.

I would like to thank our outgoing Chair, Charles Randell, who has led the organisation with great strategic insight over the past four years. I would also like to thank Chris Hemsley and the wider PSR team for their focus and commitment during the last year. I am very much looking forward to working with them and all our stakeholders as we continue our important work.

Aidene Walsh
Interim Chair

As Aidene has highlighted, payments and payment systems are central to our economy and underpin our society. People and businesses across the country rely on them every day, so it’s vital that they – and the markets they support – work well.

In our five-year Strategy, which we launched in January, our key focus is on ensuring that payment systems meet people’s needs. This means making sure people are protected, payment systems are efficient and there is effective competition in payments.

In the last year, we’ve made significant progress towards improving outcomes for people using payment systems – by taking action to improve outcomes today, and by taking important steps to make sure that there are further improvements in future.

A particularly striking example of the direct impact we can have on outcomes now is our investigation into two cartels in the prepaid cards market in Great Britain. The illegal conduct related to prepaid cards that are used by local authorities to distribute welfare payments to vulnerable members of society. Our work put a stop to these anti-competitive practices. At the start of 2022 we concluded the case, which resulted in fines of over £33 million for the five parties involved. We took decisive action to address the illegal behaviour, and have sent a clear message about the importance of payment firms complying with the law.

While payment fraud remains a major challenge, our work continues to protect people and make it harder for criminals to carry out scams. We’d already had success convening the major banks to agree a reimbursement mechanism, which has delivered hundreds of millions of pounds to victims. Last year, we used our powers to push forward the roll-out of the name-checking service Confirmation of Payee, which makes this fraud harder to commit and is likely to have prevented tens of millions of pounds of fraud. We also published our proposals for further steps to prevent authorised push payment (APP) scams, which include publishing more information about payments firms' performance in protecting their customers. And our proposals for mandatory fraud protection in account-to-account payments will be made possible by the government's announcement that it will remove legislative barriers. We continue our work so that we are ready to use these powers when the legislative change is made.

Another example of the direct impact of our work is in our role protecting people's ability to access their cash for free. Despite the rise in digital payments, using cash is critical to many people. We worked with LINK and the banks to ensure that there was good access to cash through the COVID-19 pandemic, backed by our regulation of the LINK ATM network. The challenge now is to adapt to permanent changes in the way we use cash. In the last year we updated our regulation of LINK, while protecting the geographic spread of free-to-use ATMs across the UK. We also worked with the government and the Financial Conduct Authority (FCA) on proposals for new legislation, and provided feedback to the Cash Action Group (CAG) on its proposals on cash access.

The other aspect of our work programme is focused on action that will improve how payment markets operate in future. This work is now guided by our five-year Strategy, which we finalised in the last year.

The Strategy underlines our focus on improving competition in retail payments, and includes stepping up our work to make account-to-account payments a realistic alternative to credit and debit cards. While this begins to happen, we're looking at card scheme fees to make sure we can address any harms to merchants and consumers until greater competition between payment types takes hold.

Linked to this, we have taken on an emerging role in open banking; an increasingly important part of the payments ecosystem. Over the last year we've worked closely with the government, the Competition and Markets Authority (CMA) and the FCA to agree an approach to the oversight of open banking. This is an important step towards open banking becoming a 'business as usual' part of payments.

Another key component of the future of UK payments is the New Payments Architecture (NPA). We intervened in the NPA's development programme, run by Pay.UK, to keep it on track – to narrow the scope of the programme, and improve the prospects for future competition and innovation in account-to-account payments. We also reviewed and oversaw improvements to Pay.UK's capability, to support the ambition of successful delivery of the new infrastructure from 2024.

The future of payments will be increasingly digital. But we remain mindful that digital payments do not yet work sufficiently well for everyone. Reflecting this, we tasked the PSR Panel, our cross-industry advisory body, to examine the barriers to the take-up of digital payments. This will help us identify steps we can take to make digital payments a practical alternative for more people and businesses – again, helping to increase their payment options. We also recognise that there are other actions that need to be taken to enable digital payments for all, and we’ve run a number of workshops engaging with other organisations to achieve this objective.

We’re also increasingly looking beyond our existing payment systems. Our Strategy confirmed our work to support new ways of making payments, as cryptocurrencies become a more important part of the payments ecosystem. Our role, working with other authorities and regulators, includes making sure there’s a clear approach to how new crypto-based payment systems might be regulated.

The last year has also involved a significant change in how the PSR operates. We’ve set up a new Strategy, Analysis and Monitoring division – under Natalie Timan’s leadership – to ensure we focus our work on our strategic priorities, and make better use of data to support our work.

We’ve continued to improve how we work, including how we work with our stakeholders and other regulators. Our Strategy development was an example of us finding new ways to engage and discuss priorities and options with the wide range of people, businesses and industry participants that have an interest in our work.

I’m very proud of what we’ve achieved in the last year, but there’s always more to do. We’ll continue to strive to protect people and businesses, and to create the conditions that lead to payments working well for everyone. There remains a lot to celebrate in payments, but there are also some difficult challenges that we must address. I look forward to working with all our stakeholders to take those challenges on together.

Chris Hemsley
Managing Director

How we made a difference in 2021/22

We continued to lead UK payments in the right direction, so they can continue working well for everyone.

Effective enforcement

With our competition enforcement investigation, we put a stop to a cartel related to prepaid cards that are used by local authorities to distribute welfare payments to vulnerable members of society. We will act when we see non-compliance with the regulations we oversee.

Competition enforcement, page 93

Improving security

More people will have extra security when they make account-to-account payments, thanks to our specific direction expanding the coverage of the name-checking service Confirmation of Payee.

Confirmation of Payee, page 49

Fighting scams

We proposed new measures in the fight against authorised push payment scams, which would let people see how their bank is performing, and help victims get reimbursed.

Authorised push payment (APP) scams, page 39

Maintaining cash access

It’s vital that people can continue to access cash in an increasingly digital world. We made sure this happens across the UK, working with other regulators, authorities and industry. Our work included issuing a new specific direction to LINK to make sure free cash machines are available across the country.

Access to cash, page 54

Foundations for the future

We made sure the UK’s New Payments Architecture (NPA) will support effective competition and innovative new services. We reset Pay.UK’s delivery programme so it can progress efficiently, and set out our future regulatory framework for the NPA.

The New Payments Architecture, page 34

An alternative to cards

We took the first steps in making account-to-account payments a realistic alternative to credit and debit cards – which should give people and businesses more choice and flexibility in the way they pay.

Account-to-account retail payments and card fees, page 28

A strategic approach

Our five-year PSR Strategy set out the priority areas we'll focus on to achieve the best outcomes for everybody using payment systems. And our new Strategy, Analysis and Monitoring division will enhance our evidence-based approach so we can use our resources with maximum impact.

Our Strategy, page 21

Helping merchants

We published plans to help merchants find the best service for accepting card payments, following the final report of our card-acquiring market review.

Card-acquiring market review, page 60

Our vision and objectives

Our vision

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

Our statutory objectives

The PSR was created in 2014 under the Financial Services (Banking Reform) Act 2013 (FSBRA). FSBRA requires us to advance one or more of these payment systems objectives when we use our general functions under FSBRA:

- 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, the systems.
- 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.
- Promote the development of, and innovation in, payment systems in the interests of those who use, or are likely to use, their services.

With certain exceptions, such as our power to require information, our regulatory powers under FSBRA apply in relation to participants in payment systems designated by the Treasury – the 'regulated payment systems'.

The regulated payment systems under FSBRA are Faster Payments Scheme, Bacs, CHAPS, LINK, Mastercard, Visa Europe, Cheque and Credit/Image Clearing System and Northern Ireland Cheque Clearing.

Our wider role

We are a concurrent competition regulator in relation to participation in any payment system, alongside the Competition and Markets Authority. For example, we can investigate where there may be breaches of the prohibitions against anti-competitive agreements and abuses of dominant positions. We can conduct market studies and make market investigation references under the Enterprise Act 2002.

We are the lead authority for monitoring and enforcing the Interchange Fee Regulation (IFR) in the UK. We monitor compliance with all provisions of the IFR, including the interchange fee caps and business rules. We are a competent authority for monitoring compliance with aspects of the Payment Services Regulations 2017, in particular concerning access to payment systems for payment service providers. We are also the competent authority for alternative switching schemes under the Payment Accounts Regulations 2015.

We work with other authorities on payments issues that are relevant to our respective remits. There's more detail on this on page 122.

Strategic report

In 2021/22 we took some significant steps to prepare for the future, putting things in place so that we can continue to ensure good outcomes for everyone using payment systems.

Some of our key projects have been focused on the future of payments. We reset the New Payments Architecture programme, run by Pay.UK, to make sure it can support the right outcomes when it becomes operational. We began looking in detail at how account-to-account payments could support competition and innovation in retail payments, so that people have a wider choice of ways to pay. And we've been developing the ground rules for regulating cryptoassets if they become more widely used for payments, which will help make them safe and accessible.

Of course, we've also been leading the way on more immediate issues, where we can make a difference now. Following our market review of card-acquiring services, we proposed remedies to make it easier for merchants to get a better deal. Protecting people using payment systems has always been a priority for us, and we've seen encouraging progress in our work with the industry to combat payment scams. Meanwhile, we continued to work closely with the Joint Authorities Cash Strategy Group to help maintain access to cash. The Financial Conduct Authority will become the lead regulator for access to cash under the government's legislative proposals.

It was also a significant year for our competition enforcement team, with the successful conclusion of our first investigation under the Competition Act 1998: we put a stop to a cartel in the prepaid cards market and issued fines of over £33 million. We’ll continue to take decisive and effective action wherever necessary to make sure payment systems continue to serve people well.

And in January we launched our five-year Strategy. This was the result of extensive engagement with stakeholders in all areas, and gives us the right framework to use our resources to achieve the best outcomes. It’s complemented by the launch of our Strategy, Analysis and Monitoring division, which will enhance our data and insight capabilities and help us maximise our resources.

Our Strategy

We published our five-year Strategy, which sets out the priority areas where we'll focus our resources. This will help us achieve the outcomes we want to see in payments, so that we can make sure that payment systems – and the markets they support – work well for all the people and businesses that rely on them. Our Strategy also sets out how we propose to measure whether we are achieving the outcomes we want to see in payments.

The background

We created the PSR Strategy to make our priorities clear in a dynamic and rapidly changing payments industry. To fulfil our statutory objectives, we need to use our finite resources effectively – taking action in the right areas so that we can have the optimum impact. We can then respond to changing needs and concerns in the right way at the right time.

We began work on our Strategy in 2020. By this time we'd been operational for five years, with significant successes in our first phase of activity. Our directions had opened up access to payment systems for more payment service providers, stimulating the competition that's vital in new and improved services to reach people and businesses. We'd led the industry to make significant advances in the fight against payment scams. And our collaborative approach led to the initiation of the New Payments Architecture, which will be vital to the future of account-to-account payments. But in such a dynamic industry we needed to clarify where the key areas were going to be in payments in the future, so we could continue improving the way they work for everyone.

We had to delay some of our initial work on the Strategy as we responded to the COVID-19 pandemic and reprioritised our resources. However, we were still able to begin a programme of engagement with a variety of stakeholders to hear different perspectives on our work and approach, and on the issues they thought were most important. In a time when we couldn't meet people face-to-face, we used new digital approaches across a variety of channels to discuss our priorities and make this phase of our work more engaging.

The discussions we held were invaluable in helping us learn what our stakeholders think, want and expect from us in the future, and helped us draft our proposed PSR Strategy during the first half of 2021.

What we did in 21/22

What we said we'd do

- Launch our draft Strategy document for review and comment by July 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.

What we did

We published our proposed five-year Strategy in June 2021.

We implemented a campaign of engagement with a wide range of stakeholders. This included blogs, think-pieces, video discussions, webinars, meetings, roundtables and more.

How it helped

The contributions we gathered through our engagement helped shape our Strategy. We ensured we heard different perspectives on our work and approach from a wide range of stakeholders. This helped us build and improve our Strategy, and ultimately prioritise effectively, so that our programme of work serves the interests of all the people and businesses that depend on payment systems efficiently.

What we said we'd do

- As relevant, reconsider our thinking based on any feedback, and amend the final document based on feedback obtained from roundtables, consultations and digital engagement.

What we did

We took into account consultation responses and comments made through our wider engagement. We made some changes to our proposed Strategy based on our analysis of these responses. We set out these changes in a consultation response document in January 2022.

How it helped

The responses to our proposed Strategy, and our wider engagement with stakeholders, confirmed that we're largely focusing on the right outcomes for people and businesses that use payments. The areas we tightened up as a result of this engagement included emphasising the importance of near-term outcomes as well as longer-term ones, clarifying our approach to open banking, and further developing the measurement chapter in our final Strategy.

What we said we'd do

- Publish our final strategy by October 2021.

What we did

We consulted on our proposed five-year Strategy between June and September 2021, and supplemented these views with wider engagements. These allowed us to make changes to our proposed Strategy where needed. To coincide with a new calendar year, we decided to publish our final Strategy in January 2022.

Our Strategy sets out the outcomes we want to see in payments over the next five years and beyond, and the priority areas where we'll focus our resources to achieve those outcomes.

The outcomes we're aiming for

- Everyone can make and receive payments in ways that suit them.
- People and businesses are protected when they make payments.
- Effective competition in payments leads to better services for everyone.
- Payment systems are efficient and commercially sustainable.

Our priority action areas

- Ensure users can use the payment services they rely on and have effective payment options.
- Ensure people and businesses are sufficiently protected when using the UK's payment systems.
- Promote competition between payment systems and in payment services.
- Act to ensure the interbank systems provide infrastructure, rules and incentives that foster innovation and competition.

How it helped

Pursuing these outcomes will help us make sure that as many people and businesses as possible have access to payment systems that meet their needs, and that their interests are sufficiently protected when using them. It will also support a payments landscape that facilitates effective competition and innovation, while enhancing efficiency and reliability.

What we said we'd do

- Embed the strategy into how we prioritise work.

What we did

We set up a Strategy, Analysis and Monitoring division, which will monitor the markets we oversee, gather intelligence, provide analytical thinking, develop how we use data, and lead on the delivery of our Strategy.

As we implement and deliver the Strategy, we will want to understand how payment systems and payment services in the UK are progressing towards the outcomes we want to see. We included a measurement chapter in the final Strategy, explaining some indicators we'll use to assess progress.

How it helped

Our Strategy, Analysis and Monitoring division will ensure that we continue to embed our Strategy in the organisation and use it to prioritise our work. It will measure progress against our Strategy, including by using the indicators we've set out. This will help us assess whether our strategic priorities remain the right ones, or whether we need to revise or refine them.

Why this matters

As payment systems and services continue to develop, we need to ensure that they do so in ways that benefit those who use these services and, in doing so, help to make sure that the sector is innovative and competitive. The aim of our Strategy is to clearly establish the outcomes we want to see for people and organisations making payments in the future, and the key priorities 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.

Our Strategy also enhances our transparency, and provides direction for the payments sector, as we work towards and measure progress against set outcomes and priorities.

How this work supports our objectives

Our Strategy openly and clearly articulates our vision and concerns. We’ve designed it to support each of our statutory objectives, and our entire work programme is based on it.

Account-to-account retail payments and card fees

With cash use declining and card payments increasing, it's not clear that there's sufficient competition in retail payment methods. This could affect the prices people and businesses pay for goods and services. We're examining the potential for account-to-account payments to be a realistic alternative to credit and debit cards in shops and for online purchases. We're looking at the opportunities and risks, identifying barriers to this happening, and assessing the likely impact on people making account-to-account payments.

We're complementing this work by looking into card scheme fees and cross-border interchange fees, to make sure that card payments are working well for both merchants and consumers.

The background

As people use cash less, digital payments have grown significantly. And new ways of making digital payments are becoming available to more people – such as Apple Pay and Google Pay. We have also seen account-to-account payments, including through open banking, being used for more varied purposes.

However, the bulk of these payments still go through the existing card systems (usually Visa or Mastercard) rather than customers being able to pay retailers directly from their bank account. Meanwhile, some of the fees that merchants pay for card transactions have risen significantly. This raises important questions about whether there's enough competitive pressure on card schemes.

As an alternative to card payments, some providers have started using interbank payment systems to offer account-to-account payments for some online stores. This has been helped by the introduction of open banking, which allows people and businesses to link their accounts with third parties offering payment services – providing a secure and cost-effective alternative to using card networks. We think unlocking the potential of account-to-account payments, including through open banking, could introduce more competition in the long term – which should help ensure prices and services are fair and efficient.

What we did in 21/22

What we said we'd do

- Carry out research, analysis and engagement on innovation 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.

What we did

We assessed recent innovations in interbank payments, including account-to-account payments enabled by open banking. We felt these payments could have retail functionality. We also identified the barriers that could stop people using them for retail payments. We used these insights to develop a set of policy principles – the conditions that we think are needed to establish a well-functioning account-to-account retail payments market. They include:

- operational and technical standards that meet the functional requirements for retail transactions
- a dispute process that aligns responsibility for errors to existing legislation and the party best placed to take action or bear the risk
- sufficient access to, and reliability of an application programme interfaces (APIs) to ensure merchants have confidence in account-to-account retail transactions
- a competitive pricing model that allows parties to charge for some of their services in a way that promotes competition within and between payment systems

How it helped

Establishing our policy principles is the first big step in a process that should eventually lead to account-to-account payments providing a genuine alternative to card payments for retail purchases. This should lead to effective competitive pressure that increases choice for consumers, decreases the cost of payment acceptance and promotes innovation, so more people and businesses have access to payment services that meet their needs.

Further work: Open banking

Together with the Competition and Markets Authority (CMA), the Financial Conduct Authority (FCA) and the Treasury, we agreed a shared vision for the future oversight of open banking. We published this in a joint statement in March 2022. This also set out cross-authority work through a Joint Regulatory Oversight Committee to, among other things, unlock the potential of open banking payments.

How it helped

This shared vision builds on the success of open banking so far, and will secure further benefits, such as additional services, increased quality and lower prices for consumers and businesses.

Further work: Card scheme fees

It will take time to realise the full potential of account-to-account payments in retail. We decided to complement this longer-term work by looking at whether any immediate harms might result from recent rises in card fees (covering both scheme fees and cross-border interchange fees). These fees are paid for by merchants, through the fees they pay to their acquirer for accepting card payments. Ultimately, increased costs of card payments could lead to higher prices for consumers.

We started our work to examine these card fees by sending out information requests at the start of 2022.

These included questions about the factors affecting the level and structure of card fees and reasons behind any changes. We’ve reviewed this information, which has helped us identify where we should direct our attention and what our programme of work will look like. We published our draft Terms of Reference for consultation in June 2022.

How it helped

Gathering and analysing information will give us the evidence we need to take the appropriate next steps. If we see evidence of harm to merchants or consumers, we’ll consider what action we could take to protect users until there’s enough competitive pressure on cards from account-to-account payments.

Working together

We continue to work closely with the Treasury, the FCA and the CMA on the future of open banking and unlocking the potential of account-to-account payments. Cross-authority work will be taken forward by a new regulatory oversight committee led jointly by the FCA and the PSR, with the Treasury and the CMA as the other members. Through this committee, we’ll engage with stakeholders, including industry participants and end-user representatives, to help in setting the strategic direction for open banking.

Why this matters

With cash use declining and card payments increasing, a lack of competition in retail payments could affect the prices people and businesses pay for goods and services, and the payment services we all use.

In the long run, this work will help us unlock the potential of account-to-account payments for retail purchases. This should encourage more competition between payment systems, which in turn could lead to lower prices, more innovation, and better and more secure services for merchants and consumers.

While we develop and implement any longer-term measures to promote competition between payment systems, our work on card fees is focused on addressing shorter-term harm to merchants and, ultimately, to consumers. Nevertheless, our work in this area will need to be both thorough and robust, which takes time.

How this work supports our objectives

A key part of our Strategy is unlocking the potential of account-to-account payments to become a realistic alternative to card payments. This supports our competition and innovation objectives: increased use of account-to-account payments should lead to more competition between the card schemes and other payment systems, which in turn could lead to lower prices, more innovation and better services for merchants and consumers.

The New Payments Architecture

Pay.UK is developing the New Payments Architecture (NPA) – the UK's new payments infrastructure for account-to-account payments. The NPA presents a significant opportunity to deliver improved services and resilience, help meet the growing demands for digital payments, and strengthen competition within the sector.

We're monitoring the programme closely. In 2021, we varied two of our specific directions to address risks we'd found in the NPA programme. We also set out our future regulatory framework for the NPA. These actions will help to ensure it delivers secure payments and realises the outcomes we want by facilitating competition and innovation, benefitting people and businesses across the UK.

The background

The NPA will provide a technical infrastructure that should future-proof account-to-account payment services in the UK, and allow payment service providers to offer new services to businesses and people It's being developed by Pay.UK, which operates Faster Payments, Bacs, and Cheque and Credit. We actively monitor and engage with Pay.UK's work to deliver the NPA, taking action where needed to ensure the NPA delivers good outcomes.

In 2021, we reached the view that there were unacceptably high risks in the NPA programme as it stood: it was unlikely to provide value for money, and could end up stifling the competition and innovation it was designed to support. 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

As part of the procurement of NPA central infrastructure services, Pay.UK issued a request for proposal to the remaining bidders. Pay.UK plans to agree the contract with the winning bidder in the first half of 2023.

What we did in 21/22

What we said we'd do

- 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 innovation and better prices for service users.

What we did

Following our February 2021 consultation on lowering risks, we proposed to narrow the scope of the NPA's central infrastructure services (CIS). Pay.UK is procuring a provider for the CIS. We consulted on our proposals in July 2021.

In December 2021, we issued our final decision. We required Pay.UK to narrow the scope of the CIS contract, so that it focuses on migrating Faster Payments transactions to the new system, without including Bacs transactions in the initial CIS contact.

Pay.UK can only add additional functionality to the contract if we've confirmed that we don't object.

We also decided that the obligation on Pay.UK to carry out a competitive procurement for the CIS would remain.

To implement these decisions, we made changes to our Specific Directions 2 and 3.

How it helped

The NPA should deliver a resilient way of making digital payments, that encourages competition and innovation that is in the interests of people and businesses.

Narrowing the scope of the CIS contract will make it easier for Pay.UK to secure a contract that provides value for money and helps realise some of the benefits of the NPA sooner.

What we said we'd do

- Work closely with the Bank of England to ensure that the systems remain resilient and reliable through any transition from legacy to new infrastructure.

What we did

We continued to work closely with the Bank of England, coordinating feedback and our responses on key topics, and engaging regularly at working and senior level on crucial matters across the NPA programme.

How it helped

This has helped us coordinate our work overseeing Pay.UK's delivery on the NPA, to assure an outcome that supports our statutory objectives – to promote competition, innovation and the interests of service users.

Further work

We published our regulatory framework for the NPA CIS, setting out requirements for both Pay.UK and any CIS provider. We did this following our consultation on reducing risks to competition and innovation relating to when the NPA is operational.

Under the framework, a CIS provider must be operationally separate from any part of its business that might compete with the NPA or offer services that use the NPA.

How it helped

This addresses the risks that a CIS provider's behaviour could pose to competition and innovation in the NPA ecosystem.

The framework reduces the risks we identified: that competition in payment services or between payment systems could be distorted or dampened, leading to higher prices, lower quality of service and less innovation.

Working together

We continue to work closely with the Bank of England, which monitors Pay.UK's NPA programme in line with its responsibilities for supervising systemically important payment systems and risks related to financial stability.

Why this matters

Every day, millions of us rely on account-to-account payments made over interbank systems – whether we're receiving wages or benefits via Bacs, paying bills using Direct Debit, or transferring money to a friend using internet or mobile banking via Faster Payments. Payment systems like these are part of everyday life for consumers and businesses alike, and are essential to the smooth functioning of the UK's economy.

Delivered well, the NPA will help realise the outcomes we want to bring about in payments. By strengthening competition and innovation in payment services and between payment systems, the NPA can help provide better value and effective choice of payment options for people and businesses. It can improve resilience in payments. And it can help reduce fraud, by allowing more data to be included in payment messages.

How this work supports our objectives

The NPA is an opportunity to promote the interests of the people and businesses who use payment systems across the UK by meeting the growing demands for digital payments and supporting increased innovation and competition in payments.

Authorised push payment (APP) scams

We've been looking at more ways to protect people from authorised push payment (APP) scams, so people and businesses can use payment systems with confidence.

In 2021, we consulted on three measures to improve scam prevention and victim protection:

- requiring payment service providers (PSP) to publish their APP scam performance
- driving the industry to develop intelligence sharing on APP scams
- imposing mandatory reimbursement for APP scam victims

The background

APP scams are a major and growing problem in the UK, affecting thousands of people and businesses every year.

An APP scam takes place when someone is tricked into making a payment to a fraudster. These scams can have a devastating impact on victims, with many losing life-changing amounts of money. In 2021, losses due to APP scams totalled £583 million.[1]

We've worked to combat APP scams since 2016, encouraging and facilitating industry-led approaches as the most effective way to protect people. Our work resulted in the introduction of the Contingent Reimbursement Model (CRM) Code in 2019, which

1 UK Finance Annual Fraud Report 2021.

sets rules for signatory banks about reimbursing fraud victims who've taken suitable care over their transaction.

The CRM Code has significantly increased the number of victims who've been reimbursed for their losses. Following the Code's introduction in May 2019, average reimbursement levels more than doubled: they rose to just under 50% by value in 2020 for PSPs signed up to the Code, remaining at that level in the first half of 2021. However, the Code wasn't producing the reduction in APP scams, or securing the level of protection for victims, that we expected.

This was reinforced by a review in January 2021 conducted by the Lending Standards Board (LSB), which oversees the implementation of the Code. The LSB found that relevant stakeholders strongly supported the principles within the Code. However, PSPs weren't applying the Code consistently, so scam victims were getting inconsistent outcomes. Adoption by a wider range of PSPs had also been slower than expected, with consumer awareness of the Code remaining low. These findings will feed into the further development of the Code. This will include new metrics across the Code's objectives, to help measure its success.

In February 2021, we issued a call for input on the extent of the APP scams problem, and proposed three measures to help tackle the issue:

- requiring banks to publish their APP scam reimbursement and repatriation levels, which will mean people can make an informed choice about who to bank with

- enhancing banks' risk detection by sharing information about suspect transactions, which will help to prevent fraud
- changing the rules of the main payment systems that deal with consumer payments (Faster Payments and Bacs direct credit) so that all PSPs using these systems have to reimburse APP scam victims who have acted appropriately

What we did in 21/22

What we said we'd do

- 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.

What we did

Having developed our earlier thinking, based on stakeholder feedback to our call for views, in November 2021 we consulted on our proposed next steps:

- **Publishing scam data:** We published a draft direction requiring the 12 largest PSP groups in the UK, and the two largest banks in Northern Ireland outside those groups, to publish data on their performance in relation to APP scams. They would have to do this every six months. The PSPs we're choosing to direct account for over 95% of Faster

Payments transactions, and the vast majority of APP scam payments sent over Faster Payments (as reported by UK Finance members). The data will include numbers of APP scam payments made through their accounts, their rates of reimbursing victims, which of their PSPs are members of the CRM Code, and comparative data on the wider set of PSPs they've sent APP scam payments to. This will provide greater transparency and incentives to improve APP scam performance and help inform consumers' choice of who to bank with. We will also publish this information in the form of a comparison of performance across PSPs, in summer 2023.

- **Intelligence sharing:** We tasked industry, including Pay.UK and UK Finance, with improving intelligence sharing between PSPs about the riskiness of payments, to improve scam prevention. We expect to see progress on this against key milestones UK Finance has provided to us, and are ready to act if necessary.
- **Wider reimbursement:** We want all customers to benefit from reimbursement protections. We welcomed the Treasury's announcement that the government will legislate to address any barriers to regulatory action at the earliest opportunity. Given the need for legislative change, we asked for views on the approach we could take to ensure we're ready to act when we have the necessary powers.

On 10 May 2022, the government announced its intention to enable regulatory action by clarifying that we may use our existing regulatory powers, as set out in the Financial Services (Banking Reform) Act 2013, to require reimbursement in cases of APP scams in designated payment systems, including Faster Payments. The government intends to introduce this legislative amendment when parliamentary time allows as part of the Financial Services and Markets Bill.

The government will place a duty on the PSR to take regulatory action on APP scams reimbursement within a prescribed timescale. The duty will:

a. require us to consult on a draft regulatory requirement within two months of the provisions coming into force
b. impose a regulatory requirement within six months of the provisions coming into force

We expect to issue a final direction on publishing scam data in the autumn, as well as a consultation on our approach to reimbursement.

How it helped

Our proposed package of measures will help prevent APP scams and protect victims, so they can use payments systems confidently and safely. This means a reduction in APP scams, increased consumer confidence when transacting through the Faster Payments System and improved protections for victims.

What we said we'd do

- Engage with the LSB as it works to ensure the governance of the Contingent Reimbursement Model (CRM) Code is effective, and support it to ensure the Code is fit for purpose.

What we did

We continued to work with the LSB on changes to the Code to make its provisions for PSPs as clear as possible. The LSB is also helping us develop our three proposed measures to reduce APP fraud and increase the number of customers being reimbursed.

How it helped

The LSB's work aims to ensure that the recommendations emerging from thematic reviews encourage PSPs to apply the Code consistently, and provide greater protection for consumers. We support the LSB's efforts to increase the number of Code signatories and enhance consumer awareness of its provisions.

What we said we'd do

- Work with stakeholders – including both the LSB and the Financial Ombudsman Service (FOS) to understand consumer experiences of the CRM Code.
- Engage with Code signatories to assess their progress and experience; use this engagement and information to inform our policy approach to improve consumer outcomes.
- Work closely with all relevant authorities in order to coordinate our collective efforts and improve outcomes for customers.

What we did

We recognise that the causes of scams can be multiple and complex. We worked closely with the Treasury, the

Home Office, the Financial Conduct Authority (FCA), the Bank of England, UK Finance, the FOS, the LSB, individual PSPs and a number of consumer and other stakeholder organisations to ensure our work is targeted and has an impact in preventing APP scams and improving outcomes for victims. We'll continue to work with this varied range of groups as our work progresses. We continue to engage with a number of other regulators and authorities to drive more concerted and coordinated action across all the sectors that can play a role in tackling scams – including social media firms, online platforms and telecommunications providers.

How it helped

On 10 May, the government announced its intention to legislate to enable us to act to require PSPs to reimburse victims of APP scams that occur over designated payment systems, including Faster Payments. We stand ready to act to require reimbursement of APP scam victims and will consult on our approach to this in the autumn.

In recognition of the growing threat from online scams, the government strengthened provisions in the Online Safety Bill designed to combat fraud. Social media platforms and search engines will face a new legal duty to prevent their users from encountering paid-for fraudulent adverts and user-generated fraudulent content.

What we said we'd do

Support the FCA's work on mule accounts, to help reduce the use of these accounts for financial crime.

What we did

Scammers use mule accounts to deposit the money they've taken. They can open them with fake or stolen details, or use someone else's legitimate account. The account owner often doesn't know they're party to a scam.

We're working with a wide range of stakeholders to better determine where PSPs that receive APP scam payments could be liable, particularly in cases where the fraudsters use mule accounts. We're also working with the FOS, PSPs and law enforcement (such as the National Crime Agency and National Economic Crime Centre) to understand how the fraud threat and criminal tactics are evolving as scams migrate to different types of PSPs.

How it helped

Ensuring that there are greater checks in place on account opening, and monitoring transactions into them appropriately, is a key challenge for PSPs. Our proposed measure on intelligence sharing and engagement with industry has led to a working group which, among other things, will focus efforts to combat the role of mule accounts in APP fraud. The group is led by Pay.UK and UK Finance.

Together with the FCA, we've also organised and are running a joint TechSprint; these events bring together different participants to develop technology-based ideas to address specific industry challenges. The TechSprint aims to explore ways of spotting and preventing APP fraud – for example, by identifying suspicious social media advertising and scam promotions. These events help us shine a light on issues and expand the discussion and awareness of potential solutions.

Why this matters

We want to maintain confidence in UK payment systems and to ensure that people are sufficiently protected when using them. It's vital that people are protected from losing their money when they make payments.

We stand ready to act to require reimbursement of APP scam victims once the legislative amendments come into force. We'll continue to look at what else we could achieve in the meantime. We'll consider the balance of liability between sending and receiving PSPs, and enhancements to the CRM Code, as well as coordinating actions with other bodies to address APP fraud. We'll publish our final policy statement and direction on data collection and publication in the autumn.

How this work supports our objectives

This work promotes users' interests by ensuring that people and businesses are sufficiently protected when using the UK's payment systems.

We also want to promote competition between and within payment systems, and in payment services.

Improving protection for account-to-account payments will give people confidence in those systems, helping them compete effectively with card payment systems.

Confirmation of Payee

We've been working to expand the coverage of Confirmation of Payee (CoP), the name-checking service that adds extra security to account-to-account payments. This means more people and businesses will have the protection it offers, helping to reduce fraud and misdirected payments.

The background

CoP is a service aimed at making account-to-account payments more secure. It lets payers check the name on the receiving account so they can be confident they're sending the money to the right recipient. This helps reduce authorised push payment (APP) scams and accidentally misdirected payments.

In August 2019, we directed the six major banking groups to implement CoP. The directed banks covered around 90% of transactions made through Faster Payments and CHAPS, which accounts for the vast majority of the UK's domestic payments. Since then, other, non-directed, payment service providers (PSPs) voluntarily implemented CoP. This was all done using the Phase 1 technical environment, which was only available to PSPs operating accounts with a unique sort code and account number.

The next step in CoP is Phase 2: a new technical environment that all PSPs can connect to, including those that rely on reference information other than unique sort codes and account numbers. PSPs can only conduct CoP checks with other PSPs that operate in the same way, so a single technical environment will be needed to make sure CoP services across all PSPs can work together.

What we did in 21/22

What we said we'd do

- Engage with Pay.UK and industry on the implementation of Phase 2 of CoP. Using their input, as well as the analysis of the impact of CoP so far, examine whether further action is needed to enable more PSPs to begin offering the service to their customers.
- Analyse the impact of CoP on reducing accidentally misdirected payments and certain types of authorised push payment (APP) scams, to inform the action we take.

What we did

We published a call for views in May 2021 which set out our analysis of the impact of Phase 1 of CoP. We also asked for views on potential policy options to enhance the service and increase implementation across a greater number of PSPs.

We met with and consulted with Pay.UK and industry on the implementation of Phase 2 of CoP in July 2021.

We published our response to our call for views in October, and provided greater clarity on the next steps for the wider implementation of CoP through Phase 2.

In December, we consulted on proposals to ensure that all Phase 1 PSPs migrate to the Phase 2 environment in a timely and coordinated manner. This would mean that all PSPs offering CoP will be running in the same technical environment. This gives new joiners to the CoP service confidence to progress their plans, and ensures that a greater number of institutions are able to offer the service.

In February 2022, we supported the transition to Phase 2 by directing Pay.UK to close the Phase 1 technical environment by the end of May 2022. Because some Phase 1 PSPs experienced technical issues that delayed their readiness to migrate to the Phase 2 environment before Phase 1 was formally decommissioned, we varied our direction in May to extend the closure of the Phase 1 environment to the end of June 2022. This prevented a loss of CoP service to consumers.

We also decided to direct delayed Phase 1 CoP PSPs to ensure they migrate to the Phase 2 technical environment by no later than the end of June 2022.

How it helped

Our analysis of CoP and anecdotal evidence has shown:

- there is some evidence that it has helped to curtail the increase in some types of APP fraud
- there is some evidence of reduced levels of fraudulent funds received into accounts by PSPs that have implemented CoP
- there has been a reduction in accidently misdirected payments being made to the wrong person/account as CoP has been rolled out

Moving all CoP services to Phase 2 will open the service to more PSPs to offer CoP to their customers.

A single technical environment will encourage adoption and make sure CoP services across all PSPs can work together. This means more people will have the additional protection that CoP offers, which will increase security and user confidence in account-to-account payments.

Our ongoing analysis of CoP data helps us confirm that our actions have helped increase protections for people making payments, as well as seeing where more work is needed. In the coming year, we are proposing to direct more PSPs to implement a system to offer CoP to their customers. This first group would see an increase of CoP coverage from 92% of transactions made via Faster Payments to 99% by June 2023

Working together

We work closely with Pay.UK, the Bank of England, UK Finance, the Open Banking Implementation Entity, individual PSPs and a number of consumer and other stakeholder organisations to ensure our work is targeted and has an impact.

Why this matters

Every year, thousands of people and businesses fall victim to authorised push payment (APP) scams – where they're tricked into sending money to an account controlled by a fraudster. In 2021, £583 million was lost to APP scams, up 39% from 2020 in value terms and overtaking card fraud losses.[2] On top of this, there are a significant number of accidentally misdirected

2 UK Finance Annual Fraud Report 2021.

payments that aren’t recovered. We want to make sure users are protected when using payment systems, and CoP is one tool to help achieve this.

How this work supports our objectives

We’re carrying out this work to ensure that payment systems are operated and developed in a way that considers the interests of the people and businesses who use them. At the same time, we’re mindful of the principle that people and businesses using payment services should take responsibility for their decisions.

Access to cash

We've been working with other regulators, authorities and industry to make sure people and businesses continue to have access to cash across the UK.

With more people and businesses taking up digital payments, cash use has declined. However, cash is still the UK's second most-used payment method and is critical to many people and businesses. This means it's important that people across the UK have good access to cash.

The background

ATMs are the most common method used to access cash. As the regulator of the UK's largest ATM network, LINK, we play an important role in supporting people's cash access needs.

In October 2018, we issued our Specific Direction 8 (SD8) to make sure that LINK met its public commitment to maintain a broad geographic spread of free-to-use (FTU) ATMs and meet service users' needs. We reviewed SD8 after 12 months and found that it was successful in achieving this aim and should stay in place.

We've also worked closely with the Financial Conduct Authority (FCA), the Bank of England and the Treasury as part of the Joint Authorities Cash Strategy (JACS) Group to address short and long-term issues around access to cash. By working together we ensure there's comprehensive oversight of the overall cash infrastructure across the UK.

In 2021, the Treasury consulted on new legislation that will give the FCA a leading role in overseeing the regulatory framework that ensures people can get access to cash services (withdraw and deposit) across the country. We will retain an important role as the regulator of the UK's largest ATM network, LINK.

What we did in 21/22

What we said we'd do

- Complete our second review of SD8 and decide whether further action is needed before it expires in January 2022.

What we did

We published our second annual review of SD8. We extended SD8's expiry date to March 2022, to ensure that we had enough time to give due consideration to all of the responses to our consultation on a draft new Direction.

We issued Specific Direction 12 (SD12) in March 2022, which holds LINK to its public commitment while allowing flexibility of its policies. LINK has continued to effectively support the broad geographic spread of FTU ATMs in the UK, supported by SD8. Therefore, SD12 maintains a similar focus. However, reflecting the overall success of LINK's commitments, we have made some changes to provide LINK greater flexibility in the application, and revision of their policies.

This flexibility includes:

- replacing the ‘1km rule’ requirement of SD8 with a ‘defined radius’ to determine how far apart FTU ATMS should be, which LINK will set
- a non-objection clause, so that we can veto changes LINK proposes if we reasonably think they’re likely to have an adverse impact on the objective of SD12

How it helped

SD12 will continue to hold LINK to its public commitment to protect the geographic spread of FTU ATMs. This will help to ensure that people have suitable cash withdrawal facilities within a reasonable distance of where they live, so they can continue to have a choice of which payment method they wish to use.

What we said we’d do

- Continue to work 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.

What we did

We’ve worked collaboratively with the FCA to produce quarterly mapping analysis of cash access points. Currently, we estimate that almost 90% of the UK population lives within 1km of a free cash access point, over 95% within 2km, and 99.7% within 5km.

How it helped

Our quarterly mapping work provides insights into the proportion of the population living within a certain distance of various types of cash access points. This allows us and industry to identify gaps in coverage and inform our policies.

What we said we'd do

- 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. Support the Treasury in developing legislation to protect access to cash.

What we did

We provided feedback on the Treasury's proposed legislation and continued to work with other authorities through groups such as JACS, ensuring a joined-up approach to cash access across authorities.

How it helped

We've helped to ensure that there's comprehensive oversight of the UK's cash infrastructure. This ensures more informed and joined-up policies for the members of JACS, so that cash infrastructure is resilient, cost-effective, sustainable and meets the needs of service users.

What we said we'd do

- Continue to engage with industry to support and monitor innovations in cash access, such as those included in the Community Access to Cash Pilot scheme.

What we did

We've encouraged industry to protect access to cash. Following on from the industry roundtables that we facilitated with the FCA in late 2020, the Cash Action Group (CAG) was formed. It held its first meeting in June 2021. The CAG's work led to industry action to ensure cash coverage across the UK. This included the set-up of a coordination body and a delivery body, which will be responsible for ensuring cash access gaps are filled in a way that works for local communities.

We launched the Digital Payments Initiative, where we asked the PSR Panel to advise us on potential barriers to the take-up of digital payments – and potential solutions.

How it helped

The industry-led approach will help ensure that communities can continue to have cash access facilities that work for them, so they can continue to use cash as a payment method.

Feedback from our engagement with industry and other stakeholders helps identify barriers and challenges to access to cash. This can be useful in informing future innovations as well as our regulatory approach.

Our Digital Payments Initiative will help us use our powers to create more choice for consumers in the ways they make payments, so they have options that meet their needs. We will gather views from stakeholders on the Panel's report, before setting out our planned actions in response in the summer.

Why this matters

It's important that people and businesses who use cash can access it. The COVID-19 pandemic led to a decrease in the number of cash withdrawals and forced some ATMs to close or temporarily come offline, though most have since re-opened. The number of FTU ATMs has fallen, so it's important that we work with other authorities (in particular, the FCA) to monitor access and that there are measures in place to guarantee free access to cash. SD12 is an important part of this. It's an effective tool to ensure that LINK has the right policies to maintain the broad geographic spread of FTU ATMs across the UK.

How this work supports our objectives

This work promotes the interests of people and businesses using payment systems by helping to ensure that people can use cash. We recognise that, while cash is important for a wide range of people, those who are most likely to rely on it tend to be those in vulnerable circumstances – including those who lack the facilities or ability to access digital payments.

Card-acquiring market review

Card-acquiring services are essential for businesses taking card payments from customers. Every time somebody buys something using a credit or debit card, the merchant uses card-acquiring services to accept the payment. We conducted a review of the card-acquiring market because of concerns that merchants might not be getting value for money. In 2021/22 we concluded our review and began working on remedies to help merchants (and ultimately consumers) get a better deal.

The background

Card payments are critical to the vast majority of UK retailers. There were 157 million cards issued and 18.6 billion payments using debit and credit cards in 2020.[3]

We launched our market review to examine concerns that card-acquiring services may not work well, which were raised by various stakeholders, including the PSR Panel (our independent advisory body). We engaged with a wide range of stakeholders and analysed a huge amount of data to see if merchants were paying more than they need to. We wanted to identify the key features of the card-acquiring market that weren't working well for merchants.

We published our interim report in September 2020. Our provisional findings showed that the supply of card-acquiring services doesn't work well for small and

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3 UK Finance, *UK Payment Markets 2021* (2021).

medium-sized merchants and large merchants with annual card turnover up to £50 million.

What we did in 21/22

What we said we'd do

- Publish a final report setting out our findings from our market review, confirming any action we intend to take.

What we did

We published our final report in November 2021, completing the market review into card-acquiring services.

We found that three features restrict merchants' willingness and ability to search and switch card-acquiring services, which can prevent them getting the best deal:

- Pricing of card-acquiring services isn't always transparent.
- Card-acquiring contracts typically have no end date.
- Point of sale (POS) terminals and POS terminal contracts can prevent or discourage merchants from switching between card-acquiring service providers.

How it helped

Our market review gave us a thorough understanding of this vital aspect of card payments. This ensured we could clearly identify and analyse problems, so that we can take the right action to make sure that merchants (and ultimately consumers) get good services at fair prices.

We built on this analysis, together with further market research and engagement with stakeholders, to develop remedies that would address the issues. These aim to help merchants get more positive outcomes when selecting card merchant acceptance services, empowering them to make more informed choices and avoid being locked into long lease or rental contracts for their card machines.

What we said we'd do

- 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. If we decide to take action, publish a final remedies notice.

What we did

To address the harms that we identified in our final report, we launched a consultation at the end of January 2022 to consider a package of remedies:

- Providing merchants with a summary box of key facts from their current provider. This will help them compare card-acquiring services using simple, meaningful information that can be easily understood.
- Stimulating commercially-based digital comparison tools, like the ones people often use when they buy insurance or broadband – which may be more challenging to achieve in retail business markets than it is in consumer markets.

- Prompts towards the end of a card-acquiring contract, reminding merchants that they can shop around for a better deal.
- Removing barriers in POS terminal contracts that discourage merchants from switching provider, by focusing on portability. We want to reduce the hassle and prevent the interruption to service merchants experience when they switch card acquirers by allowing them to use existing kit. This is similar to the approach where mobile phone customers keep their phones when they switch between rival mobile network operators.

In addition to the formal consultation, we held meetings and a webinar with stakeholders to consider whether these remedies would best serve merchants in addressing the issues we identified.

How it helped

We believe these remedies will help address the issues identified in the final report, by helping merchants to get better deals and make it easier to switch between different card-acquiring providers. We intend to publish our decision on remedies and next steps by the end of 2022.

What we said we'd do

- Further explore our analysis relating to scheme fees in our interim report on the supply of card-acquiring services, and take appropriate action as necessary.

What we did

In November 2021, we announced a new project examining the basis for card fees, as part of our broader work on competition in retail payments (see page 28).

Working together

We've engaged extensively with the industry during our work on the market review and remedies. We've:

- worked with merchant representative organisations
- surveyed individual merchants
- engaged with industry trade associations and held bilateral meetings with other UK sectoral regulators who have tackled similar harms and remedies
- held extensive meetings with card acquirers, independent sales organisations representing acquirers, and payment facilitators

All this work helps us build our complete understanding of the problems in the market, and how we could act to solve them.

Why this matters

Card payments are vital to the UK economy, and many small and medium-sized businesses rely on accepting card payments from their customers. We want to make it easier for merchants of all sizes to search and switch, so they can get better deals for card-acquiring services.

Our proposed actions are designed to help merchants compare the prices of different card services, by providing transparency for the services and prices on offer. They may also help them compare prices for new non-card payment methods – such as those based on account-to-account payments – and prevent merchants being locked into existing providers when they could benefit from a better deal.

Above all, we want to help make it easier for small and medium-sized merchants to make choices when it comes to card payment services. This greater transparency should enable better-informed merchants and promote competition which will, in turn, encourage more efficient, innovative and cost-effective services.

How this work supports our objectives

Our proposed remedies are designed to address the features we identified in our final report: restrictions to small and medium-sized merchants' ability and willingness to search and switch between card acquirers. Going forward, when the remedies are implemented, merchants using the UK's card payment systems will be able to make better-informed choices and make it easier to get better deals. Improving merchants' ability to search and switch between card-acquiring service providers should also strengthen competition between providers.

Sector intelligence and analysis

We support our work with a programme of industry engagement, gathering and analysing data to identify emerging trends. This informs all our projects and decisions, helping us promote the interests of those making and receiving payments in a rapidly-evolving payments sector.

The background

The payments sector continues to be fast-moving and innovative and has an impact on consumers and businesses every day. The COVID-19 pandemic significantly altered spending habits, led to new innovations, and made many people and businesses rethink how they make and receive payments. It's important for us to be aware and prepared for changes, so that we can respond to a changing world in the right way. For this, we need good quality data, intelligence and analysis about payment systems and the markets they support.

Our sector intelligence and analysis work nurtures our understanding of the payments sector. This gives us the tools we need to assess the impact of our regulatory interventions – and the need for new ones. We scaled back this work in 2020 as we responded to the priorities posed by COVID-19, but got back to capacity in 2021 so we could continue to build our data-led, proactive approach.

What we did in 21/22

What we said we'd do

- Improve our identification and analysis of trends in the payments sector and how these affect the way we should regulate.
- Engage with our stakeholders to collect intelligence and undertake analysis.

What we did

We developed tools for data analysis and enhanced our internal data-gathering and processing ability.

We designed an intelligence framework to collect and disseminate information, which will help us to understand the payments sector, inform our approach and monitor our progress.

We engaged with key industry participants and other regulators to improve data and intelligence gathering.

How it helped

Effective data gathering improves our analysis, which, in turn, helps us be more efficient, assess issues quicker, understand the quantum of issues and prioritise our resources more effectively.

The tools we've developed enhance our continued awareness of changes to the industry that impact our work. This helps us maintain and enhance our understanding of how payers and payees are impacted by changes in payments. This, in turn, means we can shape our work so we intervene in the right way at the right time and make sure payments work well for everyone.

Further work

During 2021, we created a new Strategy, Analysis and Monitoring division. Our sector intelligence and analysis work is now led by this new division.

How it helped

Having a dedicated division helps us manage our intelligence and analysis across the organisation, enhancing engagement and discussion and ensuring a consistent approach to the data we gather.

This, in turn, boosts our capability as a data and evidence-led organisation, complementing our Strategy and our project work. It means we better understand potential issues, use our resources effectively, and can intervene where appropriate in order to deliver outcomes which benefit those making and receiving payments now and in the future.

Working together

We worked with regulators, such as the Bank of England and the Financial Conduct Authority, and with the wider payments industry. We collaborated with multiple stakeholders to design our data framework and develop our information-gathering processes. We also spoke to a variety of stakeholders about existing and developing industry trends, sharing insights and listening to different perspectives to get a more informed view of the industry.

Why this matters

Having a proactive and data-led approach to regulation helps us to understand the diversity of issues affecting consumers and businesses, and assists in prioritising our areas of work. It will also help us build a robust evidence base for determining when and how best to intervene and improve outcomes for those using payment systems.

This work will help us process data more efficiently, monitor key developments in payments, and identify issues that may affect our five-year Strategy (see page 21). It will also help ensure that our priorities and the outcomes we want to achieve remain relevant in a changing payments landscape.

How this work supports our objectives

Understanding the emerging issues and challenges in the payments sector helps us decide what we need to focus on in order to further our objectives and make the best use of our resources.

Cryptoassets and stablecoins

Cryptoassets are digital representations of value or contractual rights that can be transferred, stored or traded electronically. These digital assets typically use cryptography and are often underpinned by distributed ledger technology (where the record that holds each person's balance and validates transactions is stored at multiple online sites, rather than centrally). Stablecoins are a type of cryptoasset which seek to maintain a stable value relative to another asset.

In recent years, advances in technology have led to more people and businesses holding and trading cryptoassets – and, although this is mainly for investments rather than payments, interest is growing. We're working with other authorities to make sure the UK has the right regulatory approach, and to ensure that people are not exposed to undue risk when using new forms of money.

The background

Established in March 2018, the Treasury's Cryptoassets Taskforce (CATF) aims to assess the potential impact of cryptoassets and distributed ledger technology in the UK. The CATF comprises the Treasury, the PSR, the Financial Conduct Authority (FCA) and the Bank of England; we work together to consider appropriate policy responses.

What we did in 21/22

What we said we'd do

- 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.

What we did

We fed into the CATF's consultation paper *UK regulatory approach to cryptoassets and stablecoins* (January 2021). This also involved working alongside the FCA and the Bank of England to monitor developments in the market.

In April 2022, the Treasury published its response to the consultation, and confirmed that the government intends to legislate to bring stablecoins, where used as a means of payment, into the regulatory perimeter when parliamentary time allows. Regulation of designated stablecoin payment systems would fall to the PSR.

How it helped

The proposed legislation would ensure that we can regulate any new payment systems based on cryptoassets and stablecoins, making sure people and businesses have appropriate protections when they use those systems. This would also mean that the systems can realise the potential competitive benefits for prices, service quality and choice.

What we said we'd do

- We'll continue to monitor the risks posed by cryptoassets more broadly through the CATF.

What we did

We contributed to the development of a UK regulatory framework for cryptoassets – specifically those, such as stablecoins, which are used for payments – to prepare for the Treasury potentially designating them as a payment system under the Financial Services (Banking Reform) Act 2013 (FSBRA).

We met with a number of cryptoasset providers to understand their business models and review the risks and opportunities within the sector.

How it helped

The engagement we've done has informed the proposed regulation and should help to make any payment systems based on cryptoassets and stablecoins more effective. In turn, this means we'll be better equipped to protect users of these systems.

Further work

We provided advice and guidance on payment issues to the Treasury and Bank of England-led Central Bank Digital Currency (CBDC) Taskforce. The CBDC Taskforce's aim is to explore the case for a UK CBDC. It will consult on the main issues at hand, high-level design features, possible benefits and implications for users and businesses, and considerations for further work.

Why this matters

Increasing numbers of people and businesses across the world are adopting cryptoassets and stablecoins, and jurisdictions including the United States and the European Union are assessing the opportunities and risks. Furthermore, we've observed increasing spill-overs between digital markets and financial services (for example, cryptoasset-backed loans, cryptoasset trading desks at major investment banks, and the ability to use cryptoassets to make payments using debit cards).

Technology providers and existing financial service providers are becoming increasingly active in buying, offering and trading cryptoassets. We've seen the emergence of payment products using cryptoassets, such as the ability to use crypto wallets with a Visa or Mastercard product.

Despite this increasing activity, the vast majority of cryptoassets sit outside the UK regulatory perimeter. Therefore, they may not be subject to the same consumer protections or safeguards found in other areas of financial services and payments. We want to make sure that we can regulate any cryptoasset designated as a payment system effectively, so that it works well for the people using it. This includes ensuring any crypto-based payment systems which launch have appropriate consumer protections and access provisions, and operate a competitive ecosystem.

How this work supports our objectives

The emergence of crypto-based payment systems could present alternatives to the existing payment systems, promoting competition and innovation within the market. We need to ensure that we can regulate any newly designated payment systems appropriately, so that people and businesses can get these benefits. The right regulatory regime will also allow us to ensure people using crypto-based systems are properly protected, so the systems work in their users' interests.

Treasury-led reviews

We've continued working closely with the Treasury, providing feedback and expertise for its Payments Landscape Review and Future Regulatory Framework Review. These reviews aim to ensure that the regulatory framework for payments is fit for purpose, and keeps up with changes in technology, business practice and wider society. We've also cooperated and collaborated closely with other authorities, such as the Financial Conduct Authority (FCA) and the Bank of England, to produce the Regulatory Initiatives Grid (RIG), which the Future Regulatory Framework Review launched.

The background

In June 2019, the then Chancellor of the Exchequer announced reviews of the payments landscape and the future regulatory framework for financial services. The Treasury is leading both reviews. We've fed into this work and contributed towards progressing and shaping the government's vision for certain aspects of payments.

What we did in 21/22

What we said we'd do

- Continue to engage with the Treasury on the reviews, collaborating closely 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.

What we did

Alongside the FCA and Bank of England, we worked closely with the Treasury and contributed towards the publication of the government’s response to the Payments Landscape Review in October 2021, helping to develop policy that ensures the regulatory framework remains fit for purpose and that our powers allow us to regulate effectively.

We also contributed to the Treasury’s Future Regulatory Framework Review for Financial Services, providing input to help it develop policy for the UK’s overall approach to financial services regulation following the UK’s departure from the European Union.

We contributed to the RIG to help industry plan and prepare appropriately for the various regulatory actions that will affect it.

How it helped

Working with the Treasury allows us to influence policy development for the payments sector. Sharing our expertise and experience helps the government develop legislation and create effective policies to address emerging issues.

Further work

In addition to contributing to the two Treasury-led reviews, we also worked with the Treasury and others on a wide range of other payments-related issues – for example, work on developing the regulatory framework for cryptoassets and stablecoins (see page 70).

Why this matters

Payments is a fast-moving and innovative sector and responds to changes in the wider world. We've played an active role in making sure regulation keeps pace with new developments and remains fit for purpose. By working with the Treasury on key policy initiatives, we ensure that our experience and expertise in regulating payments influences and shapes legislative change. This helps make sure payments regulation is effective and supports people's needs.

How this work supports our objectives

Making sure we have the right framework and the right powers is an essential part of fostering competition and innovation in payments, and achieving the best outcomes for payment system users.

Consumer protection

We reviewed the level of consumer protection for account-to-account retail payments. We wanted to make sure people have enough protection when they make a payment directly from one bank account to another – particularly when using Faster Payments. We concluded that consumers do have the right level of protection in the short term, but there may need to be more robust protection for higher-risk transactions in the long term.

The background

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 allows payments of up to £1 million to be sent to or from almost all consumer current accounts in the UK, with very fast clearing times.

New developments and innovations continue to improve opportunities for people to use account-to-account payments for retail purchases. These include services developed through open banking, such as payment initiation service providers (PISPs) using Faster Payments to initiate transactions from a user's bank account. PISPs perform transactions on behalf of consumers, and potentially reduce the costs associated with accepting payments. Incentives like these could make retail payments over Faster Payments an increasingly appealing prospect for both people and businesses.

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, including buying goods and services with account-to-account payments, adequate safeguards will be needed to manage any errors.

We want account-to-account payments to protect people and businesses so they can use them confidently. In July 2020, we started a new project to assess:

- what protection is available to people making account-to-account payments
- whether the protection is adequate
- what measures might be required

In February 2021, we issued a call for views on these issues, to help us understand perspectives from across the payments industry and from consumers.

What we did in 21/22

What we said we'd do

- 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.

- Use the feedback to assess the best action we can take to support the development of effective protection measures, including regulatory steps.
- Set out our proposed next steps in a statement by October 2021.

What we did

We engaged with a wide range of stakeholders to explore ways to improve protection for consumers. This included:

- co-chairing a working group and providing recommendations on consumer protection in open banking together with the Open Banking Implementation Entity (OBIE)
- participating in a working group focused on consumer protection in other interbank payments, co-chaired by Pay.UK and UK Finance

We analysed the responses to our February 2021 call for views and published a policy statement in October 2021. This explained that we don't propose to intervene in the market at this stage, but will keep this decision under review and continue to regularly observe developments in consumer protection for Faster Payments. In the meantime, we do expect all Faster Payments participants to:

- identify and share payment risk levels with other participants
- act responsibly to minimise harm to their customers

How it helped

Our statement sets out that we expect the level of protection for account-to-account transactions to rise over time so that it matches the level of risk arising from a payment. This will ensure people and businesses remain protected and can use the UK's payment systems with confidence.

We'll continue to regularly observe developments in consumer protection for Faster Payments, and to support industry work to coordinate activity and reduce risks.

Working together

When we started our consumer protection project, we gained the benefit of work the Treasury already had under way with its Payments Landscape Review. We also worked closely with the OBIE as we developed recommendations for consumer protection for payments made through payment initiation service providers.

Various businesses also initiated research into the effectiveness of consumer protection for account-to-account payments. This includes the working group on consumer protection co-chaired by Pay.UK and UK Finance. Our consumer protection project built on their work and – through regular engagement with stakeholders – gathered insights that helped form our view.

Why this matters

We want payment systems to develop and innovate in ways that benefit their users. As part of that development, we place high importance on ensuring that people and businesses continue to be protected when they use payment services. People should find it easy to make a claim when something goes wrong, and businesses should have certainty about what happens when a payment is disputed.

We think good levels of protection, including robust protection for higher-risk transactions, will increase confidence in account-to-account payment services. It may contribute to greater use of account-to-account systems (including retail payments), which could lead to greater competition between payment systems – ultimately leading to lower costs, higher quality and a greater choice of payment services.

How this work supports our objectives

This work directly supports our objective to promote the interests of service users, by ensuring they have adequate protection when they use payment systems.

Access monitoring

We continued our monitoring of access to payment systems, and compliance with the relevant legislation. Our access and governance report showed that there's continuing progression in the choice and quality of access.

The background

When the PSR began operating in 2015, one of our initial objectives was to open up access to payment systems for payment service providers (PSPs). This was aimed at increasing competition and innovation, which can bring benefits to everybody using the systems.

Since 2015, the number of direct participants has grown across all the interbank payment systems (CHAPS, Bacs, Faster Payments, and the Image Clearing System (ICS) for cheques). Some PSPs provide indirect access to payment systems (these PSPs are known as indirect access providers (IAPs)), allowing other PSPs to use their connection. New technologies, such as aggregator services and gateways, have made it commercially viable for some participants, such as non-bank PSPs with lower volumes, to join directly, which has lowered barriers to entry and improved consumer choice.

Aggregators are firms that provide an accredited product or managed service that gives PSPs the option to connect to the interbank payment system's central infrastructure through a shared gateway (and share the cost of access with other PSPs).

As well as regulating to promote the right conditions for access to the UK's payment systems, we have a monitoring and enforcement role under relevant legislation. We are the competent authority for monitoring and enforcing compliance with the access provisions set out in Part 8 of the Payment Services Regulations 2017 (PSRs 2017). As part of this role, we review complaints about potential non-compliance with these provisions, and act on them as appropriate.

We can:

- gather information and conduct investigations into potential non-compliance
- give directions
- impose sanctions, including fines

We also have powers to deal with access matters under sections 56 and 57 of the Financial Services (Banking Reform) Act 2013 (FSBRA). We can intervene in access disputes if we receive an application from a PSP to use our powers.

What we did in 21/22

What we said we'd do

- 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.
- Assess applications under sections 56 and 57 of FSBRA, which give us the power to grant access to payments or vary access agreements.

- Assess complaints about non-compliance with the access regulations in the PSRs 2017.

What we did

In our role as competent authority under the PSRs 2017, we received one complaint in 2021/22 from a PSP relating to access. We concluded that it did not reach the relevant evidential threshold for an enforcement case to be opened. We continued to progress the enforcement investigation into potential non-compliance with Regulation 105 of the PSRs 2017 that we opened in 2020. This progress was affected by a number of staffing changes, and we now expect to conclude this investigation in 2022/23.

In relation to our powers under sections 56 and 57 of FSBRA, we received one application to exercise our section 57 powers in 2020/21. We decided that section 108 of FSBRA applied, which meant that we had to deal with it under Regulation 103 of the PSRs 2017. The applicant legally challenged this and other related decisions. The matter was heard by the High Court in March 2022, and we expect to learn the judgment in due course.

How it helped

Six PSPs[4] joined one or more interbank systems directly from April to December 2021, providing additional choice of providers and services for payment system users. A further 12 are projected to join by the end of 2022.

4 Intelligent Finance, Square, Tandem Bank, Mettle, Prepaid Financial Services and Banco Santander.

What we said we'd do

Publish our annual report on access to payment systems and the governance of certain regulated payment system operators. This would 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.

What we did

We published an access and governance report in January 2022, which covered data from 2019 and 2020. We provided information on developments in 2021 where available. Our approach to monitoring impacts and developments in the sector is evolving; given the ongoing development of our five-year Strategy, we focused on the factual developments rather than providing additional analysis.

The report showed progress in the choice and quality of access to payment systems available to PSPs (including new models for direct participation and changes to settlement policy). Although the rate of new direct participants joining one or more interbank payment systems slowed in 2019 and 2020 (2020 saw the lowest number of joiners since 2016), all the go-live slots expected to be available for new direct PSPs in 2022 were allocated by the end of 2021.

The number of IAPs has doubled from four to eight since the PSR was created in 2015, although we know that some PSPs still have difficulty getting the access arrangements they would like, mainly due to being outside the IAPs' risk appetite.

How it helped

Publishing an access and governance report helps industry participants, and potential new participants, understand the access options available. It also helps to provide confidence in the UK payments sector. Ultimately this can lead to more PSPs joining payment systems, creating more choice and cheaper, better services for users.

In 2022/23 we plan to publish an access report covering 2021 data and developments.

Working together

We engage regularly with the Financial Conduct Authority (FCA), the Bank of England, Pay.UK, IAPs and PSPs on access matters. Information they provide informs our monitoring of access, including much of the information we publish in our Access and Governance reports.

We use this information and complaints data to help us assess whether we need to open any enforcement cases.

Both the PSR and the FCA are competent authorities in relation to Regulation 105 of the PSRs 2017, covering access to bank accounts, and we work closely together to monitor compliance, including through meetings to discuss notifications we received of withdrawal or refusal of bank account access.

Why this matters

Promoting access to payment systems and reducing unnecessary barriers to access has always been a major focus for us. Having a greater number and wider range of PSPs participating in the systems benefits consumers and businesses – for example, by giving them more choice when it comes to making and receiving payments.

Effective monitoring and enforcement incentivises PSPs and payment system operators to take their obligations seriously, which means PSPs that have a safe and useful offering should be able to access payment systems and provide their services to people and businesses.

How this work supports our objectives

Our work on access supports our competition and innovation objectives. Improved access to payment systems will allow more PSPs to offer people and businesses more payment options, which will help to promote competition and innovation.

The Interchange Fee Regulation (IFR)

We've monitored compliance with the IFR, which caps the interchange fees that are part of the charges that merchants pay for card transactions. It also imposes requirements on payment card schemes and issuing and acquiring payment service providers (PSPs). We've also consulted on and published our updated IFR guidance to take account of the UK's exit from the EU.

The background

The IFR sets business rules and caps the interchange fees that acquirers pay (on behalf of their merchant customers) for domestic consumer card transactions. We've been considering issues arising from the UK's withdrawal from the EU and the 'onshoring' of the IFR, which led to the transition to the IFR in its current form at the end of December 2020.

What we did in 21/22

What we said we'd do

Consult on amendments to our IFR Guidance that are consequential to the UK's withdrawal from the EU. Depending on our progress with other priorities, we also planned to conduct a wider review of the IFR Guidance.

Collaborate on IFR matters with other bodies such as the Treasury and EU national competent authorities.

What we did

We consulted on proposed changes to our IFR Guidance to ensure it reflected the changes made to the IFR as part of the onshoring process. We considered issues raised by stakeholders and made amendments to our proposed changes. We then issued our updated IFR Guidance in September 2021.

We decided to postpone our wider IFR Guidance review so we could reallocate our limited resources to a new priority piece of work investigating cross-border interchange fees (see page 28).

How it helped

We've helped card payment system operators and PSPs understand how the changes to the IFR must be applied to their business operations.

This helps us ensure that the interchange fees charged to UK acquirers and merchants are limited to the caps set in UK legislation.

Further work

Over the past year, we continued our work monitoring and enforcing compliance with the IFR:

- We monitored fee increases in relation to certain cross-border transactions, following the UK's withdrawal from the EU and changes to the way the IFR applies in the UK. We're now investigating this as part of our broader review of card fees.
- We carried out our annual caps monitoring exercise (IFR Articles 3, 4 and 5), which involves gathering

data from card schemes to assess compliance with the caps' provisions.

- We completed our evidence gathering related to monitoring Visa and Mastercard's compliance with Article 7(1)(a) (the separation provision), in cooperation with EU national competent authorities from seven Member States. We entered into a Memorandum of Understanding with these States for this purpose.
- We completed monitoring of two firms' delivery of agreed steps to comply with Articles 4 and 10(5) as expected, to the point where the firms demonstrated that they had completed remedial actions and fully addressed potential non-compliance.
- We considered one complaint we received which related to compliance with the IFR and took appropriate action.

How it helped

Our work has helped to ensure that acquirers, and consequently their merchant customers, aren't charged more for interchange than the caps imposed by the IFR.

Through our monitoring activity on cross-border interchange fees, we identified new issues to examine. We're doing this in a separate project looking at card fees more generally, which we announced in November 2021. This work will make sure people and businesses are paying fair and proportionate prices for card transactions.

Working together

We co-ordinated with other UK parties, such as the Treasury, the Competition and Markets Authority and the Financial Conduct Authority (FCA), as part of our regular monitoring work. To improve efficiency, we also utilised our relationships with competent authorities outside the UK to better inform our work.

Why this matters

For most card payments, a merchant's payment service provider (known as an acquirer) pays a fee – the interchange fee – to the firm which issues the card. These costs are part of the charges merchants pay for accepting card payments. The IFR aims to reduce these costs and to promote competition in the UK. We'll continue to provide guidance which reflects the lessons learned from our compliance activities – as well as from other relevant projects such as our market review of card-acquiring services, our work on the basis for card scheme fees and cross-border interchange fees, and our enforcement cases.

How this work supports our objectives

The IFR seeks to reduce costs for merchants and promote competition in the card payment ecosystem through business rules and by capping certain interchange fees.

Competition enforcement

We've concluded our first Competition Act 1998 (CA98) case into two cartels in the prepaid cards market. In January 2022, we issued the final infringement decision to five parties (Mastercard, allpay, Advanced Payment Solutions (APS), Prepaid Financial Services (PFS) and Sulion), setting out our findings that they engaged in anti-competitive behaviour by agreeing not to compete or poach each other's clients. As a result, the parties paid fines totalling over £33 million. During the course of the investigation, all parties agreed to settle with the PSR and admitted that they took part in the infringement(s).

The background

We started work on our first CA98 case in late 2017. In early 2018, we carried out unannounced searches at a number of premises and seized thousands of documents. The investigation involved conducting a series of interviews with all parties, and we undertook detailed analysis of a huge amount of material over nearly four years to reach our findings. In March 2021, we issued our Statement of Objections, which set out our provisional findings.

What we did in 21/22

In 2021, we completed our investigation, which also involved settlement proceedings with all parties. In January 2022, we issued the final infringement decision to the parties.

The infringement decision is addressed to five parties: **Mastercard**, the operator of a four-party card scheme; three programme managers – **allpay**, **APS** and **PFS** – that were licensed as card issuers by Mastercard; and **Sulion**, which provided services to Mastercard.

Sulion's mandate was to promote the use of prepaid cards in the public sector. This was achieved through the setting up of the National Prepaid Cards Network (the 'Network') which, except for a brief period, was wholly funded by Mastercard. The Network brought together the programme managers and public sector bodies (such as local authorities) who were potentially interested in prepaid card services.

In our decision, we found two cartels, both involving market sharing of customers:

- The first cartel involved all five parties and lasted from 2012 to 2018 (although some of the parties participated for shorter periods of time). In the context of the Network, the five parties arranged for the programme managers not to target or poach each other's public sector customers while a contract or pilot programme was running. In the early days of the Network, the parties also allocated contacts of potential new public sector customers, obtained from Network promotional events, between the programme managers.
- The second cartel involved two of the programme managers – APS and PFS – who between 2014 and 2016 agreed not to target each other's public sector customers when a contract was up for renewal, including through a public tender.

A public version of the decision document is available on our website.

What we said we'd do

Continue our first CA98 investigation.

What we did

We continued and concluded the investigation, and imposed fines totalling more than £33 million on the parties.

How it helped

Imposing sanctions for breaches of competition law shows that illegal behaviour does not go unpunished. This should deter firms from breaking competition law now and in the future.

Working together

In line with the competition concurrency regime, we continued to cooperate closely with the Competition and Markets Authority, in particular, in relation to the CA98 investigation. This involved the reciprocal sharing of know-how and experience in different areas of our work to make the best use of our resources and specialist knowledge.

Why this matters

The cartel conduct concerned prepaid cards that were procured by local authorities (and other public bodies, such as clinical commissioning groups) to provide benefit payments, and were used by some of the most vulnerable people in our society – for example, the homeless, asylum seekers, and domestic abuse victims. It resulted in less competition and choice for local authorities (and other affected public sector bodies) and, as a result, public bodies may have missed out on cheaper or better-quality products.

The PSR takes competition enforcement in the payments sector seriously; this year, we've imposed fines totalling more than £33 million on the parties involved for their illegal behaviour. Our decision may also be used by affected third parties in situations where they seek damages through litigation in the courts.

How this work supports our objectives

Our CA98 enforcement work supports our competition and service-user objectives by holding parties to account for non-compliance with their obligations, ensuring that the payments sector is working 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 general and specific directions given and requirements 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 2017)
- requirements imposed by or under the Payment Accounts Regulations 2015 (PARs)

We take account of our Administrative Priority Framework when we decide when and how to take action. This enables us to use our resources in the most efficient and effective way to further our statutory objectives, functions and duties.

What we did in 21/22

What we said we'd do

We expected to conclude our four IFR-related investigations in 2021/22.

What we did

We progressed all four cases. One led to our finding that four banks in the NatWest Group failed to comply with the IFR. We have since settled this case (in May 2022), and we fined the banks £1.82 million. Our progress on the other opened cases was affected by a number of staffing changes. During the year we appointed a new permanent Enforcement Manager with significant investigative experience, and we have since recruited new members to the team. We expect to complete the investigations of the current opened cases in 2022/23. Where we decide it's appropriate to take formal regulatory action, we'll either settle the case or commence regulatory proceedings in the forthcoming year.

How it helped

Compliance with the law and regulators' directions is important to the proper functioning of the markets in payment systems and services, and prevents harm caused by non-compliance. Our enforcement activities ensure that we stop any non-compliance, and help to deter non-compliance in the future.

We found that National Westminster Bank plc, Royal Bank of Scotland plc, Ulster Bank Ltd and Coutts & Company overcharged interchange fees on credit cards. We spotted the issue through our regular monitoring activity. The banks incorrectly treated a number of cards as being 'commercial' cards when they should have been treated as 'consumer' cards. As a result, they charged fees above the IFR cap. After we opened the investigation, the banks returned the overcharged fees to acquirers.

What we said we'd do

Consider how our penalties guidance needs to be updated.

What we did

We deprioritised our review of our penalties guidance because of resourcing constraints. We expect to consult on a revised penalties policy during 2022/23. This will include updating our guidance on how we calculate penalties for firms that we find have not complied with their obligations. The updated regime will take account of regulations we enforce that have been introduced since we became operational in 2015, as well as best practice and areas where we think we can improve our guidance based on our experience to date.

How it helped

Clear and up-to-date guidance will help firms and others understand our approach to penalties.

Why this matters

It’s crucial that we have a credible enforcement function to help us deliver our statutory objectives. Enforcement action may be particularly important where other regulatory measures aren’t sufficient to achieve this.

How this works supports our objectives

Being able to take timely, targeted and effective enforcement action in appropriate cases is an important part of discharging our functions as a regulator. Taking enforcement action promotes all our statutory objectives by bringing non-compliance to an end, holding regulated parties to account for non-compliance, and deterring non-compliance. Compliance with regulations governing the payments sector helps to ensure that the market works properly and in the interests of the people and businesses that depend on it.

Crisis communication

Our Specific Direction 9 (SD9) requires Visa Europe (Visa) to make sure it communicates appropriately with its customers and stakeholders if it has a major incident. We monitor Visa's compliance with the direction.

The background

Our work includes focusing on whether payment systems are operated in a way that promotes the interests of all the people and businesses 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.

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 showed that Visa's communications with internal and external stakeholders during the incident were not timely, regular or actionable.

In response, we issued SD9 in May 2019. SD9 requires Visa to carry out yearly rehearsals of its crisis communications processes, involving a representative sample of its members, for five consecutive years. This is to ensure processes continue to be appropriate in the changing environment, and that changes are embedded both at Visa and with its stakeholders.

Since then, Visa has tested its crisis communications processes annually as planned and provided us with reports on both yearly tests. It's incorporating our feedback into its procedures. The next planned rehearsal will take place later in 2022.

What we did in 21/22

What we said we'd do

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

What we did

We reviewed the outcomes of Visa's annual crisis communications process tests and provided feedback.

We continued to engage closely with the Bank of England and Visa.

How it helped

Our work on resilience – including SD9 – ensures that operators manage disruptions effectively and don't cause unnecessary inconvenience to consumers, businesses and other payment system operators.

Why this matters

Our role is to make sure payment systems work well for those who use them.

People should be able to trust that they can make payments securely, effectively and without any problems. If payment system operators do encounter issues, then we'll look to understand whether those issues fall within our objectives and make changes, where appropriate.

Visa is responsible for around 90% of the debit card market – so if it has an outage, it could affect millions of people and businesses who would be unable to make payments.

How this work supports our objectives

This work supports our service-user objective: payment systems can't work well for all those that use them if information doesn't flow appropriately in the event of a crisis.

The Payment Accounts Regulations

We are the UK competent authority for designating alternative account switching schemes (schemes that are independent of the banks involved) under the Payment Accounts Regulations 2015 (PARs). We must also ensure each scheme meets the criteria set out in the PARs:

- it's clearly in the consumer's interest
- it doesn't impose any additional burdens on the consumer
- the switching procedure is completed in 12 working days

As part of the annual monitoring and PARs assessment process, we analyse information and evidence submitted by Pay.UK in relation to the Current Account Switch Service (CASS). In September 2021, we published a statement confirming that CASS continues to meet the PARs criteria for designation as an alternative switching scheme. We'll review this again in summer 2022 and take action if necessary.

We're ready to evaluate any applications for schemes to be designated as alternative switching schemes; we have so far received no other applications.

Why this matters

The ability to switch accounts is a fundamental part of competition in payments, which leads to benefits for consumers in terms of good service and innovation. Our work ensures that alternative account switching schemes enable and encourage this competition in the right way.

Our organisation

Our people

For another year, the effects of the pandemic continued to shape how we delivered our work. We continued adapting how we work, finding new ways to work flexibly both in the office and, when required by government restrictions, working from home. Where possible, we aimed to get the benefits of coming together in an office environment, particularly for collaboration and development, while helping our staff to successfully balance their work and home lives.

Our people's health, safety and wellbeing remained a priority. We've supported our staff through our wellbeing strategy, training and development opportunities, and most especially by ensuring that people continued to feel connected and valued while working in a hybrid way. We also aligned our individual targets and objectives and our training and development plans with our organisational work priorities.

In September 2021, the FCA began consulting on a new grading, pay and benefits offer. It announced its new employment offer in March 2022. This took effect from 1 April 2022. This offer also applies to our people; as we're an independently accountable subsidiary of the FCA, our staff have FCA employment contracts. The new offer has been designed by the FCA to reward strong, consistent performance, aid career development and further close pay gaps.

The FCA removed discretionary performance bonuses for the majority of employees from 2021/22, with only the highest performers receiving bonuses in April 2022. We paid employees who met their performance objectives a one-off, back-dated cash payment equivalent to 4% of salary in April in recognition of the changed economic environment since the consultation was launched.

Our approach to resourcing

The buoyant UK job market has had a record number of vacancies, and so the market for talented people is highly competitive. Our resourcing strategy has focused on attracting, retaining and developing a talented, diverse workforce with the appropriate level of experience to deliver our work programme. We also made our recruitment process quicker and more efficient by making improvements to our time to hire, reviewing where we advertise our roles and using videos to engage with potential candidates.

The PSR provides a unique opportunity to work for a ground-breaking organisation, making a difference in a rapidly changing industry that affects everyone in our society. We help our people achieve their full potential by supporting a culture of continuous development. Our people gain exposure to a wide range of subject matters, developing specialist payments knowledge and building skills and experience in a range of vital areas, helping them further their career in their time with the PSR and beyond.

Throughout 2021/22, we continued to carefully balance our mix of permanent and flexible resources to maintain the right mix of payments and regulatory specialist knowledge, as well as economic and legal skills to achieve an efficient operating model. We maintain our focus on the quality and mix of our staff, and their experience while working with us, as we continue to recruit in 2022/23 in an ever-changing payments landscape.

Throughout the last year, we continued to recruit to achieve the right blend of people for an efficient operating model of around 110 people (comprising a blend of permanent staff, fixed-term contracts and consultants as required). During 2021/22, we appointed 24 new people: five joiners from the Financial Conduct Authority (FCA) and 19 external appointments. We've also developed our internal talent, promoting nine people (including five promoted into acting-up opportunities, which help people develop the skills they need for the next level). Even with these appointments we have not yet reached anticipated staffing levels due to the buoyant UK job market.

Joining an organisation while working remotely presents some challenges; we continued to refine our approach to provide a supportive and informative welcome – just as it would have been had we all been in the office.

Like many organisations, in 2020/21 we had historically low levels of attrition (7%) due to the pandemic. However, as the job market has opened up in the last year, our turnover has increased significantly: 27% of our staff left for roles elsewhere in in 2021/22. Averaging this out across 2020 through to 2022, our turnover is 19%. Our average length of service is 2.2 years, which increases to 3.9 years for our senior associates (our largest population). According to CareerBuilder in October 2021, UK job tenure for a similar age/demographic range is an average of 2.9 years.

We're committed to building and sustaining a diverse and inclusive workplace in order to represent the people and organisations that we serve. We recognise the diverse community in which we operate, and we encourage applicants irrespective of ethnicity, disability, gender, gender reassignment, pregnancy and maternity, religion or belief, marriage or civil partnership, sexual orientation, social background or age. We use a range of organisations that reach out specifically to candidates from diverse backgrounds to advertise our job opportunities. This helps us recruit from a broad pool of candidates.

We're proud signatories of the Women in Finance Charter; we hold the Level 2 Carer Confident accreditation from Carers UK; and we signed the Social Mobility Pledge in June 2020. We're committed to interviewing all disabled applicants who apply under the Disability Confidence Scheme and meet the minimum criteria for a vacancy, and we ensure that our hiring managers, interviewers and resourcing professionals are all appropriately trained.

We treat all documentation and information relating to candidates as confidential, and handle it in accordance with the Data Protection Act 2018.

Career development

Providing and supporting career development is a key part of our talent offering, helping people to achieve their full potential. In addition to training, development, mentoring and coaching, we work closely with other regulators and a variety of external parties to provide development opportunities and share knowledge and experience. During 2021/22, we supported three colleagues who were seconded to the FCA (1), the Treasury (1) and the UK Regulators Network (1). We've also welcomed six secondees into the PSR from the FCA (5) and the Home Office (1).

Diversity

To ensure that we represent the people and organisations that we serve, we're committed to building and sustaining a diverse and inclusive workplace, where our people can bring their whole selves to work. To achieve this goal, we continuously review our people practices – ensuring that decisions are fully inclusive across all protected characteristics, as well as in relation to diversity of experience, working styles and background. Our employee-led networks have continued to help raise awareness and build an open and inclusive workplace. Throughout the year we offer a range of discussion sessions on topics which range across all protected characteristics.

As a signatory to the Women in Finance Charter, we appreciate and understand different experiences, interests and values, and we're committed to priorities which have broad significance to the society we serve.

In 2021, we eradicated our gender pay gap. Our goal is to ensure that we continue to maintain gender balance.

We report these figures voluntarily, in the interests of transparency and to underline our commitment to diversity and equality in our organisation. However, our total staff population is less than half the number of employees (250) required to make gender and minority ethnic pay reporting mandatory. This means the calculations can vary significantly with small changes in the population, so each year of reporting can (and does) show considerable movements.

Our pay and bonus gap data 2022

Our latest figures compared to last year are shown in the table below. Our pay and bonus gaps are measured on a median and mean basis as at 31 March 2022.

		Median		Mean	
		2022	2021	2022	2021
Gender	Pay gap	6.30%	-1.40%	-0.90%	3.50%
	Bonus gap	0.00%	-39.40%	-10.30%	-26.30%
Ethnicity	Pay gap	10.40%	34.40%	20.30%	31.20%
	Bonus gap	0.00%	38.70%	-10.30%	29.80%

Key changes this year:

- There was a small increase in the median gender pay gap.
- The mean gender pay gap still favours women, but the gap has reduced.

- A one-off change to the way we awarded discretionary performance bonuses closed the bonus gap. This means that there is no longer a median bonus gap for gender or ethnicity.
- There was a significant improvement in the mean bonus gaps. As a result, the mean bonus pay gap for gender favours women and the mean ethnicity bonus gap now favours minority ethnic staff.
- There has been a significant improvement in both the median and mean minority ethnic pay gaps.

Our target is to maintain a balance of 50% women across our extended leadership team (our Executive plus our managers and senior managers) with a variance factor of plus or minus 10%, and to continue to develop a balanced pipeline of talent through to the end of 2025 and beyond. We need the variance factor as the size of our organisation means that just one or two joiners or leavers can have a significant impact on our gender and minority ethnic representation.

As at 31 March 2022, 53% of our staff are women, including 80% of our Executive. 56% of our managers are women, which means that, overall, our whole management team is 61% female. (This year we are reporting using full-time employees; this means there's a slight reduction in the numbers reported, as more women work part time.)

Movements in our pay and bonus gaps

Any pay and bonus gaps continue to be driven predominantly by imbalances in the distribution of colleagues in different roles and grade levels within the organisation. Changes to our performance-related pay structure mean that the bonus gap published next year, in 2023, covering the reporting period from 1 April 2022, will be the last bonus gap to report (we paid the last bonuses in April 2022).

We publish our ethnicity pay gaps in the interests of transparency, despite there being no legal requirement to report these, as we believe that data transparency drives positive action. We remain committed to recruiting, developing and retaining diverse talent across the organisation.

Gender pay gaps

In 2021, we had eradicated the median gender pay gap. However, a small shift in the distribution of our population across the quartiles (with more men moving into our higher quartiles) means that we have a 6.3% median gender pay gap for 2022.

The greater distribution of women in the higher pay bands means that the mean gender pay gap has improved this year by 4.4 percentage points to minus 0.9%, so we no longer have a mean gender pay gap.

In light of the impact of coronavirus and wider economic conditions, the FCA changed how it awarded discretionary performance bonuses in April 2021 (which is covered in this reporting period). The overall funding was reduced compared to previous years, and the awards were based on a fixed value calculated as a percentage of the average salary for each grade. Awards started at 11% for the most junior roles and stepped down to 8% for the most senior roles. The positive impact of this change is that the mean gender bonus gap has reduced by 38.1 percentage points to minus 10.3% – so we no longer have a mean bonus gap. Similarly, the change in approach means there is no longer a median bonus gap.

Ethnicity pay gaps

Our ethnicity pay gaps have also improved. The ethnicity median pay gap has improved by 24 percentage points to 10.4%. This is as a result of more minority ethnic women moving into the upper quartiles.

The greater distribution of minority ethnic employees in the higher pay bands has also resulted in an improvement to our ethnicity mean pay gap, which improved by 10.9 percentage points from 31.2% to 20.3%. We continue to focus on developing our pipeline of minority ethnic employees. As our population becomes more evenly distributed, this pay gap will continue to reduce.

The median ethnicity bonus gap has been eradicated, due to the change in approach to bonuses. This is an improvement of 38.7 percentage points. However, the most significant improvement is to the mean ethnicity bonus gap, which has improved by 40.1 percentage points to minus 10.3%. This is driven by a greater number of senior minority ethnic employees receiving bonuses in this reporting year.

In order to nurture our talent pipeline and future leaders, we continue to provide access to a wide range of leadership development opportunities, on-the-job training, learning resources and coaching to enable our employees to develop the skills that will empower them to deliver high performance and be at their best. Our aim is to continue to develop diverse teams who reflect the society we operate in.

Social mobility

We are committed signatories to the Social Mobility Pledge. During the pandemic our opportunity to offer outreach work, structured work experience and apprenticeship opportunities was limited due to remote working. However, we continue to ensure that we have open recruitment practices that provide a level playing field for those from disadvantaged backgrounds or circumstances.

Corporate responsibility

Good corporate citizenship and corporate responsibility are important parts of our identity, both as an employer and as a regulator. We will not tolerate slavery or human trafficking in our business or supply chains. We're committed to continually improving our policies and practices to play our part in fighting against slavery and human trafficking and protecting human rights. We continue to be a Living Wage Employer. We also have a strong commitment to diversity and inclusion and looking after the wellbeing of our people, ensuring that they're safe and well and appropriately cared for. Our various policies and procedures aim to ensure that we create a safe and inclusive working environment for our staff.

How we engage with our stakeholders

Everyone in society relies on payments, and our range of stakeholders is accordingly broad and diverse. From newsagents to international banks, consumer organisations to industry bodies – we place great importance on sharing and discussing updates about our work and hearing from the people it affects.

We do this in a number of ways. We issue traditional communications – such as publishing content on our website, providing email updates, giving speeches and issuing press announcements. We use two-way engagement – such as phone and video conferencing, and roundtable discussions. And we listen – for example, by attending events and research workshops. We adapt our approach where necessary, as we showed by switching our focus to digital channels in response to COVID-19.

In 2021/22, we continued with our digital-first approach to engagements in the light of COVID-19 restrictions – including hosting virtual events, and using video to explain our work. This meant we could continue being proactive in our activities, sharing information with our varied stakeholders and listening to what they had to say.

We hosted seven digital roundtable events on a range of subjects for diverse groups of stakeholders. We took part in 38 engagement opportunities, consisting of 11 formal speeches, 14 panel sessions and 13 other speaking slots at a range of conferences and events – more than in previous years.

The PSR Panel gives us valuable insights into the thinking of those we regulate and the people and businesses using payment systems. As well as discussing our work programme, we engage with the Panel about our broader approach. This includes communications and engagement, research, and our direction as a regulator – for example, our five-year Strategy and our approach to account-to-account payments.

A large proportion of our staff engage with our stakeholders – not just those working on our key projects, but volunteers from across our divisions who attend and support at PSR events.

We place a great deal of importance on engagement, and want to do more. During the next financial year, we will be looking for even more opportunities to engage with the wide variety of people who are interested in our work. Our project teams will speak to stakeholders directly, and our Executive will explore many more opportunities to join discussions and panels that will help shape the future of payments.

Industry-facing stakeholders	User-facing stakeholders
Payment system operators: designated for our regulation Payment system operators: non-designated Direct banks (not sponsors)	Consumer groups Charities Small and medium-sized enterprises (SMEs) Large businesses Government as users

<table>
<tr><td>Direct sponsor banks
Indirect banks
Payment or e-money institutions
Independent ATM operators
Acquirers and payment facilitators
Payment infrastructure and technology providers
Innovators/smaller technology providers
Consultants
Trade and industry bodies
Fintechs</td><td>Retailers</td></tr>
<tr><td colspan="2">Industry and user-facing stakeholders (both UK and worldwide)</td></tr>
<tr><td colspan="2">Regulators and other authorities
Academics and think tanks
Government and parliamentarians as representatives of the people
The media</td></tr>
</table>

Stakeholder perceptions

Stakeholders and their views are really important to us. Engaging in an open and transparent way helps us to make informed decisions, and to truly understand the implications of what we do. We conduct an annual stakeholder perceptions survey to get views on the current state of the payments industry, and on our own objectives and role as a regulator.

Last year, stakeholders told us they wanted us to:

- provide clarity on our remit, and how we'll deliver and hold ourself to account in relation to our five-year Strategy
- keep up momentum on longer-standing workstreams
- forecast and plan for future trends and changing user needs and behaviour

We met a broad range of stakeholders in 2021/22, including small and medium-sized enterprises (SMEs), communities and individual people who have a vested interest in certain areas of our work.

Changing attitudes to the use and acceptance of cash was a common theme. We also met and listened to smaller companies, such as fintech innovators, where we discussed the future of regulation in digital payments and how we can interact with fintechs.

We also engaged with stakeholders on our five-year Strategy, which will help us address another theme from the perceptions survey – making sure we plan and deliver our work effectively, and show why it matters.

Small and medium-sized enterprises (SMEs) and payments

We also commissioned research with SMEs (micro, small and medium businesses with 0 to 249 employees across the UK) to understand how they think about and use payment systems. We run this research with SMEs and consumers, alternating every year.

The independent survey gathers quantitative and qualitative data to increase our in-depth knowledge of SMEs and their interaction with payment systems. This included the challenges they face and their views on how payment systems will evolve in the future.

The research was designed to help us:

- understand how small businesses use payment systems, including the challenges they face
- obtain views on how payment systems will evolve in the future for small businesses
- understand how our work affects small businesses
- understand how we can best engage with small business users

We found that SMEs remain a very varied population, but the majority are very small. The trend towards digital payments for SMEs has continued and has accelerated due to COVID-19. These findings showed a significant increase in SMEs accepting card payments since 2019, and a growing sense that some now feel more empowered to assert their own preference for accepting digital payments.

Account-to-account payments (defined as bank transfers by SMEs themselves) are by far the most used and favoured method by SMEs. They're seen as reliable, quick and low or no-cost. However, there are some areas where SMEs feel there are drawbacks – in particular, the user interface which puts the onus on the customer having to initiate the transaction. This can lead to delays in getting paid and difficulties in settings where businesses sell directly to consumers. There's an appetite for more innovation around Request to Pay, so that businesses could be less reliant on customers instigating payments in a timely way.

Card payments are still the payment type least commonly accepted by SMEs (which includes both business-to-business and business-to-consumer enterprises). However, our research shows that of the payment types that SMEs accept – including bank transfer, cash, cheques and cards – card payments have seen the biggest increase in recent years (up from 25% in 2019 to 36% in 2021). For certain transactions, predominantly in the business-to-consumer group, there's felt to be little alternative to accepting cards, as consumers now expect it. SMEs tend to appreciate the user experience but resent the fees they're charged. Newer SMEs actively shop around, but our research indicated that others don't know where to start to get a better deal.

SMEs are now more engaged with potential future trends in payments, and talk about them more confidently. And they're much more confident talking about recent innovations in digital payments, such as digital wallets. They anticipate that digital wallets and payments via smartphones and wearables will become even more common, and some mentioned cryptocurrency.

14% of SMEs feel that the rise in electronic payments will be a big opportunity for their business. They also see challenges: the likelihood of fraud is the biggest, but they’re also concerned about potential increases in cost, branch closures, and consumer trust in new payment systems.

On the whole, SMEs are still relatively unaware of open banking, and are unsure of the benefits it could bring. This meant that opinions of open banking are very mixed. Some believe it sounds valuable as a means of streamlining their multiple financial systems – for example, aligning their banking and accounting systems. But others are concerned about security risks, and that open banking might leave them vulnerable to fraud. This is particularly true for those that can’t see clearly tangible benefits of open banking.

By listening to views from our stakeholders – including SMEs – we can continue to shape our work programme to make sure we are delivering outcomes that will work for everyone. For example, SMEs are supportive of our workstreams, particularly our focus on fair competition and tackling fraud. SMEs are likely to prioritise both of these over access to cash.

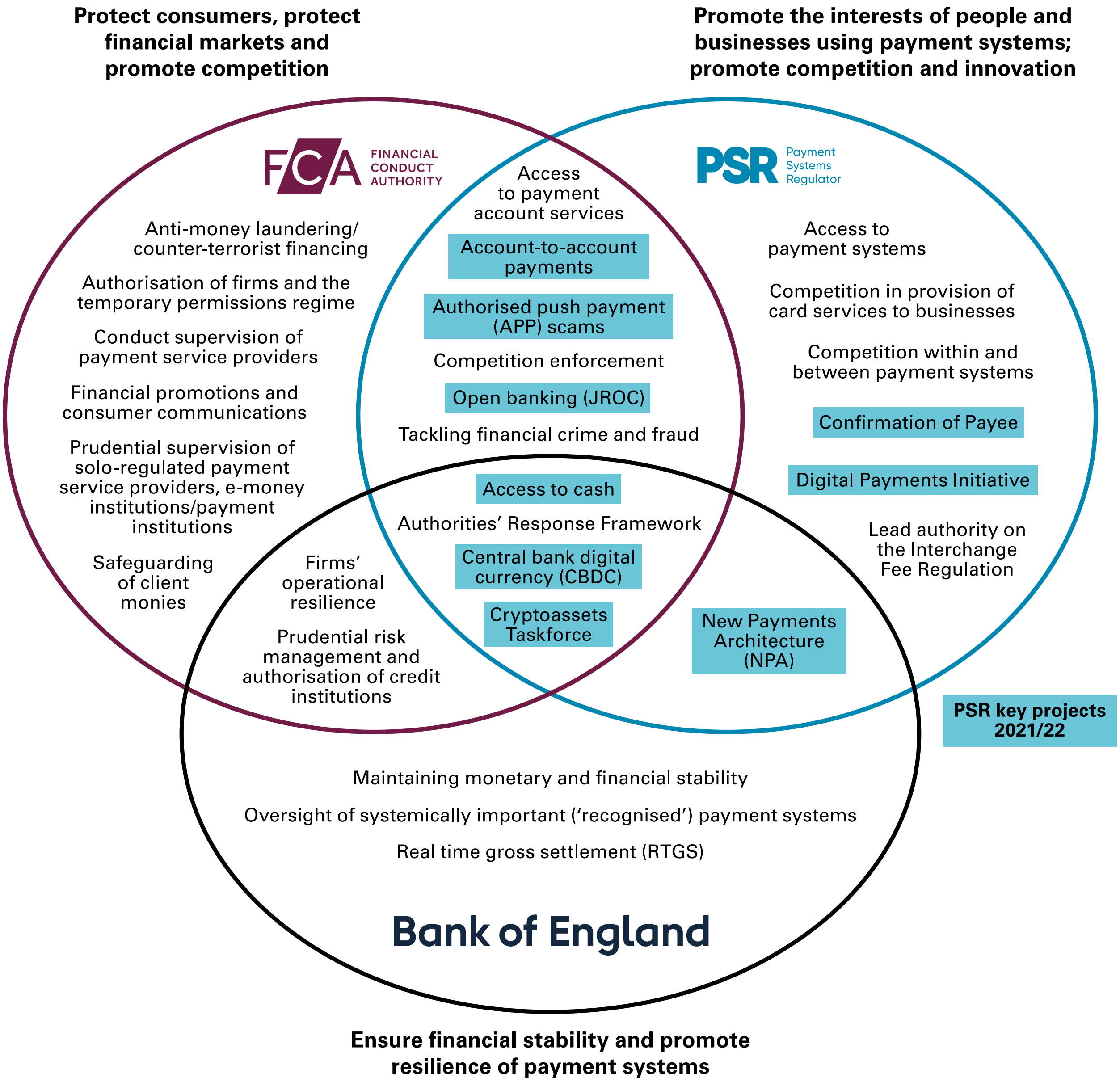
Working with other authorities

We’re an established regulator leading significant areas of work with outcomes that have a huge impact on the way the UK economy operates.

In exercising that responsibility, we coordinate certain uses of our Financial Services (Banking Reform) Act 2013 (FSBRA) functions with the other UK financial regulators – the Bank of England, the Prudential Regulation Authority (PRA) and, in particular, the Financial Conduct Authority (FCA). This is a statutory duty and helps us share and enhance our knowledge and work more effectively and efficiently, particularly in areas where our remits overlap.

The diagram below shows each authority's key projects and responsibilities, and the areas where we work together.

How our work fits in with other authorities: responsibilities and PSR key projects



The payments regulation remits of the FCA, the PSR, the Bank of England and the PRA

	FCA	PSR	Bank of England and PRA
Objectives	Protect consumers, protect financial markets and promote competition.	Promote the interests of people and businesses using payment systems; promote competition and innovation.	Ensure financial stability and promote resilience of payment systems.
Activity related to payments	Regulating conduct in financial services, including authorising and supervising payment service providers, and related enforcement. Regulated	Promoting the interests of the people and businesses that make and receive payments, using our economic regulation and competition powers. Key	Supervising payment systems, service providers and their users; delivering settlement and trustee functions, operating the RTGS and CHAPS

	FCA	PSR	Bank of England and PRA
	firms include payment institutions, such as money remitters and non-bank credit card issuers, and e-money institutions.	elements are protecting existing competition and identifying ways to enable and create more competition and innovation across the systems we regulate.	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 Prudential Regulation Authority, a subsidiary of the Bank of England, has a secondary competition objective.

Given our especially close relationship with the FCA, we worked hard in 2021/22 to find efficiencies – where appropriate – in the way we work. This included sharing research findings, as well as, on the people side, secondments between the two organisations.

We regularly engage with the Bank of England, the PRA and the FCA about payment systems, their evolution and regulation. This helps us all monitor developments in the industry and identify areas of common interest. In 2021/22 we held policy discussions on areas including, for example, access to cash, authorised push payment scams and merchant acquiring. We also work with the Bank of England, the FCA and the Treasury to consider if our legal framework continues to be appropriate for achieving our objectives in a changing environment.

Both the PSR and the FCA are competent authorities in relation to Regulation 105 of the Payment Services Regulations 2017, covering access to bank accounts. We continued to work closely with the FCA to monitor compliance, including through regular meetings to discuss notifications we received of withdrawal or refusal of bank account access.

We're the main authority for monitoring and enforcing compliance of the Interchange Fee Regulation (IFR), sharing this competency with the FCA in relation to Articles 8(2), (5) and (6), 9, 10(1) and (5), 11 and 12 of the IFR. As we continue to monitor compliance with these provisions, we work with the FCA to ensure we cooperate effectively. We also cooperate with the European Commission Directorate-General for

Competition and with EU national competent authorities in relation to our IFR monitoring work. This cooperation has continued since the UK left the EU.

We have a statutory Memorandum of Understanding (MoU) with other UK financial services regulators (the FCA, the PRA and the Bank of England), which describes:

- the role of each authority in relation to matters of common regulatory interest
- how we intend to cooperate

The memorandum is reviewed by 31 December each year. In October 2021, the Bank and PSR wrote to dual regulated firms asking for feedback on our cooperation with respect to payment systems regulation. The feedback we received helped us inform the findings of the 2021 MoU review and our approach for this year's review. For example, in future we plan to provide more information to stakeholders on the findings of each annual review.

As a member of the Financial Services Regulatory Initiatives Forum, we contribute to the Regulatory Initiatives Grid – a joint initiative designed to help firms prepare for upcoming regulatory work. The Grid was updated in November 2021.

During the last year, we've also continued to engage regularly with the Competition and Markets Authority (CMA) and other sector regulators in the UK Competition Network to share specialist knowledge and insights to helps us all identify and pursue competition cases. We are members of, and take an active role in, the UK Regulators Network (UKRN), which allows relevant bodies to pool their experience, identify best practices and work together where appropriate. In particular, we engaged with the CMA and other UKRN members to develop our thinking in response to the government's consultations on the Better Regulation Framework Review, a new pro-competition regime for digital markets consultation, and the Competition and Consumer Policy Review.

We also engaged with the European Banking Authority, the European Commission and other international supervisory authorities as needed.

Whistleblowing

The PSR is a Prescribed Person as defined in The Public Interest Disclosure (Prescribed Persons) Order 2014. It is prescribed to accept and act upon concerns about payment systems and the services provided by them ('disclosures of information').

We have processes in place to handle any whistleblowing enquiries or declarations we receive. This enables us to fulfil our duties as a Prescribed Person, and our statutory duties to promote effective competition, innovation and the interests of people and organisations that use payment systems. Under our provision of services agreement with the FCA, the FCA's Whistleblowing Team undertakes the administration of any whistleblowing cases directed to or relevant to the PSR. The PSR is the decision-maker on cases relating to its statutory remit.

The Prescribed Persons (Reports on Disclosures of Information) Regulations 2017 require us to produce an annual report on the disclosures that we've received. Regulation 5 of the 2017 Regulations stipulates that the report must contain:

(a) the number of workers' disclosures received that were reasonably believed to be:

(i) qualifying disclosures within the meaning of section 43B of the Employment Rights Act 1996; and

(ii) which fall within the matters in respect of which the PSR is prescribed;

(b) the number of those disclosures in relation to which the PSR decided to take further action;

(c) a summary of:

(i) the action that the PSR has taken in respect of the workers' disclosures; and

(ii) how workers' disclosures have impacted on the ability of the PSR to perform its functions and meet its objectives;

(d) an explanation of the functions and objectives of the PSR.

In the current reporting period (1 April 2021 to 31 March 2022), we have the following to report:

(a)(i) and (ii)	We received three disclosures that we believed were qualifying disclosures falling within our remit as a Prescribed Person.
(b)	None.

(c)(i) We had already taken action in respect of some of the issues referred to in the workers' disclosures. After detailed consideration, we decided to take no further action.

(c)(ii) The workers' disclosures have not affected our ability to perform our functions and achieve our objectives during the reporting period.

An explanation of our functions and objectives (Regulation 5 (d)) can be found on page 14.

Further information about the PSR and whistleblowing can be found at www.psr.org.uk/psr-approach-to-whistleblowing/

PSR fees

We're funded by fees from the participants in the payment systems. We currently regulate using an 80:20 volume-to-value ratio calculation. This helps ensure our fees are collected and allocated in a simple, proportionate and sustainable way. The 2021/22 fees were gathered using this method.

We've used our current fees methodology since 2018. Over the next 12 months, we'll review our methodology and consider whether it remains appropriate in the current payments landscape. If we decide we need to make any changes, we'll consult stakeholders on our proposed approach.

Our Financial Penalty Scheme

If we impose financial penalties resulting from our enforcement action pursuant to the Financial Services (Banking Reform) Act 2013 (FSBRA), we pay the money we receive to the Treasury after deducting our enforcement costs. We would use this retained amount to reduce the regulatory fees we collect from firms that were not liable to pay a penalty. We didn't issue any enforcement penalties in the reporting period 2021/22.

This is different from enforcement action we undertake, and any associated penalties, under the Competition Act 1998 (for example, our investigation into cartels in the prepaid cards market (see page 93)), where we're required to pass the money from penalties on to the Treasury.

The Business Impact Target

Under the Small Business, Enterprise and Employment Act 2015 (as amended by the Enterprise Act 2016), we must report on our performance against the Business Impact Target (BIT). The BIT is the government's target for the economic impact on businesses of measures that fall within the definition of a qualifying regulatory provision (QRP).

We submitted our return for the parliamentary year in December 2021. Based on the list of exceptions within the BIT, we did not report any QRPs in the last reporting period. The Department for Business, Energy & Industrial Strategy published its 2020/21 BIT report on 13 January 2022.

Risks and uncertainties facing the PSR

The focus of this section is on risks to the PSR achieving our vision to have payment systems that are accessible, reliable and secure, and represent value for money. In considering risk, we assess the impact of events that could threaten the long-term viability of the PSR and our ability to serve the public interest.

Internal controls

We have an internal control framework to help manage risks to our statutory objectives. The framework is an important part of our governance arrangements and is intended to help manage risks to our statutory objectives. However, no framework can provide absolute assurance or eliminate all risk; we aim to prudently manage the risks that are a necessary part of our functions.

Our internal control framework includes these key features:

- Our project management reports highlight the key risks faced, as well as our resource position. This supports discussion at our Prioritisation Group meetings on the best course of action to mitigate the key risks, and helps the Executive make decisions on priorities and resource allocation.
- Our Executive Committee reviews these reports monthly and related matters, and reports its views to our Audit Committee as appropriate.

- The board and the Executive regularly demonstrate to all staff their commitment to maintaining an appropriate control culture across the PSR.
- We have clear reporting lines and delegated authorities, which we review periodically.
- We include appropriate policies and procedures in the employee handbook and other manuals.
- We have a provision of services agreement with the Financial Conduct Authority (FCA); its Internal Audit division provides us with independent assurance about the effectiveness of risk management and controls to the board and all levels of management.
- The PSR's key activities, systems and projects that contribute to managing our risks are captured in an Audit Universe. This is considered by Internal Audit during the development of the PSR's three-year strategic internal audit plan. Internal audit adopts a risk-based approach in its periodic review of the Audit Universe and in its development and review of the internal audit plan.

We monitor financial risks such as credit risk, cash flow risk and liquidity risk on an ongoing basis, and put mitigations in place to minimise any risk. In addition, we regularly review the effectiveness of financial policies, procedures and activities, including segregation of duties and authorisations in accordance with a delegation of financial authority.

Our risk management methodology is based on three lines of defence. Due to the size of the organisation and our board, the board reviews risks and oversees the operation and interaction between the first and second line of defence at the board meetings, rather than delegating this to a separate risk committee.

External risks

The most material risks and trends that could pose a risk to our objectives in the coming years are set out below.

- **Macroeconomic environment, accessibility and affordability:** The UK is entering a period of economic uncertainty for many people, with real challenges to their standard of living and ability to manage financially. This rising cost of living, particularly if the war in Ukraine continues to impact on global energy and food prices, will have varying impacts on different areas in the UK and could also affect payments needs and behaviours. The options available or preferred by those making and receiving payments will vary depending on age, location, abilities and income levels. Cost of living increases could therefore impact different groups in very different ways which we will need to take into account in our work going forward. For example, sources of vulnerability could increase and the number of people being temporarily or permanently vulnerable could increase. The payment options they need and use could change and will be important to them. 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. This will be particularly important in relation to widespread geographic availability of access of to cash. 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 people and businesses. As the New Payments Architecture 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. There's also continuing development in how digital payments are accessed and are becoming part of other products. For example, contactless mobile payments continue to grow. Further, major new players could also enter the payments space (for example, stablecoin offerings or further entry by large technology platform firms). This has the potential to bring greater competition, but could also raise vertical or bundling competition concerns. Depending on how such entry occurs and the exact form of the products, this could also raise consumer protection concerns (such as greater fraud risks or privacy risks). The effect on overall competition and consumers is therefore not clear, and would depend on the specifics of how particular new technologies and associated products are structured.

- **Data access and use:** Access to data, and the way it's used, 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, we will take account of the way payments data is used as appropriate.
- **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 maintain resilience. Along with the Bank of England, the Prudential Regulation Authority 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.
- **Changes to user behaviour around payments:** How people choose to pay and how businesses accept payments (especially small businesses) is continuing to evolve. The pandemic has clearly accelerated some changes – such as the increased use of contactless payments and the change in online digital sales. Technology and innovation are making more options available, and there's the potential for large numbers of consumers to rapidly adopt a new approach. Such a situation could create

risks through the impact on those preferring to remain on older platforms, as well as creating new consumer protection risks. Business models or incentives of key providers may also change as a result and this in turn could affect our strategic priorities. We'll continue to identify and monitor trends, as well as engage with stakeholders on their views on where risks to consumers lie, to ensure we can react if necessary.

- **Emerging issues:** As with all markets, there are unknown or emerging risks which we may need to address. We're continuing work to enhance our intelligence-gathering processes so that we can respond proactively to such risks. We'll also continue to work with the Treasury, the FCA, the Bank of England and other authorities to manage both emerging risks and those discussed above relating to the payments sector and its participants.

Internal risks

Balancing our priorities and resources within a fast-moving sector requires us to be close to market development and agile in our response. We've been working to refine internal processes with the set-up of our new Strategy, Analysis and Monitoring division, as well as using lessons learned to implement business improvements, but we're always looking for ways to improve further.

The main risks we face arise from our operating environment:

- **People risks:** Including risks associated with the capacity of our staff to deliver our work programme as capability needs change to match new workstreams and organisational needs. Key risks include the changes in the recruitment market and our ability to compete, attract and retain good quality candidates. Risks also include the PSR being unable to manage the retention of skills and knowledge within acceptable tolerances. This could potentially lead to increased costs, or failure to deliver our objectives. We continue to mitigate these risks as part of our people strategy.
- **Execution risk:** This relates to the execution of our regulatory objectives and arises if we fail to deliver our work programme as intended. When an execution risk crystallises, it usually means we've failed to reduce or prevent harm where we would otherwise have been able to with the resources available. The embedding of new processes from our new Strategy, Analysis and Monitoring division will support our efforts to improve our use of data. It will also improve how we match our workplan to the risks, issues and opportunities that exist in payment markets, and how we prioritise areas of focus. This risk is mitigated by the development of the new division, which includes a team that's accountable for the PSR Strategy and enhancing our ability to align our work to the Strategy.
- **Change delivery risk:** We're making a number of changes across the PSR to align the organisation to our five-year Strategy. Failure to successfully

implement the changes may compromise our ability to deliver benefits to our work programme in the future. There's a risk that the amount of change required will be difficult to prioritise and absorb alongside our existing priorities.

- **Regulatory scope/remit:** Including the risk that the scope of our regulatory remit is unclear, inappropriate or misunderstood internally or by people and organisations. This includes our work on authorised push payment scams and access to cash.
- **Key supplier risk (FCA service provision):** We're supported by the FCA through a provision of services agreement; therefore, internal operational risks affecting the FCA may also have an impact on our own operational effectiveness. The FCA is currently undertaking a number of complex projects and continuing its transformation work. Some of this affects the PSR under our service delivery provision, creating further change for us and potentially affecting our resources and how we use them. More detail on the FCA's transformation programme can be found in their Annual Report and Accounts.
- **Public confidence risks:** Includes risks that could constrain our ability to deliver against our objectives due to diminished levels of public confidence, a reduced ability to influence key stakeholders or a reduction in our credibility and standing as effective regulators. These risks could result from the inappropriate management of our other risks. One of the ways we mitigate this risk is through our stakeholder engagement strategy (see page 118).

COVID-19

We’ve continued to work with the FCA, the Bank of England and other regulatory authorities to manage internal and external risks.

- **Revenue and collections:** The potential for firm failures and/or reduced revenues generated by firms as a result of the current economic environment may affect the collection of our fees and future fee income. Bad debt for 2021/22 stands at less than 0.4% of revenue. See the credit risk section of the directors’ report on page 155.

Statement on section 172(1) of the Companies Act 2006

The board holds the PSR accountable for the way it works. It takes decisions and acts in a way that ensures that we advance, where relevant, our statutory objectives of promoting effective competition and innovation, and ensuring payment systems are operated and developed in a way that takes account of the interests of service users. Section 172(1) of the Companies Act 2006 requires the board to act in a way that it considers will promote the success of the company. The board must take account of:

a. the likely consequences of any decision in the long term
b. the interests of the company's employees
c. the need to foster the company's business relationships with suppliers, customers and others
d. the impact of the company's operations on the community and the environment
e. the desirability of the company maintaining a reputation for high standards of business conduct
f. the need to act fairly as between members of the company

Under the Companies Act 2006, we must make a section 172(1) statement in our annual report explaining how the board has regard to the above matters in promoting the success of the company.

We explain in more detail below how the board considered the above matters under section 172(1).

This includes the engagement the board had with stakeholders during the year, and how this helped us deliver better outcomes for payment system users.

The likely consequences of any decision in the long term

As an organisation, our focus is on making sure payment systems continue to work well for the people and businesses that use them, both now and in the future. This means the long-term strategic outcomes of our actions are always a factor in the board's decisions and in our prioritisation of our work. As part of this, the board also considers feedback it hears from stakeholders through, for example, our perceptions survey, and increasingly webinars and bilateral meetings.

This prioritisation is demonstrated by our key projects for 2021/22, where our actions were dictated by our long-term aims of protecting and promoting the interests of those who use payment systems. In particular: authorised push payment scams (see page 39); Confirmation of Payee (page 49); access to cash (page 54); competition enforcement work (page 93); our work on the New Payments Architecture (page 34); account-to-account payments (page 28); and our five-year PSR Strategy (page 21).

The interests of the company's employees

Our employees are key to our success as a regulator. We aim to create a diverse and inclusive workplace that's free from discrimination and bias so that our employees can perform at their best and we can better deliver as a regulator. We demonstrate our support for our staff in a number of ways:

- we actively engage with the PSR/Financial Conduct Authority (FCA) employee networks
- we have a Women in Finance Charter commitment
- we're a signatory to the government's Disability Confident scheme, guaranteeing an interview to any candidates with a disability who meet the minimum criteria for a role
- we hold Level 2 Carer Confident accreditation from Carers UK
- we're a Living Wage employer
- we've signed up to and are committed to the Social Mobility Pledge

We build and develop multi-skilled teams, using a mix of flexible and permanent resources to help ensure we have the capability and skills to deliver our aims and objectives. Providing and supporting career development is an essential part of our employee value proposition, not just to help us deliver our objectives but also to enable our staff to achieve their full potential in their current roles and to build capability for the future.

This year, alongside the FCA, we reviewed our pay, grading and career families, and developed a new employment offer designed to reward strong, consistent performance and aid career development. Our staff participated in an extensive consultation process, the aim of which was to ensure that the employee offer is fair and we have a system of reward that recognises consistently strong performance over time. And that we maintain a range of grades, job titles and job families that promote flexibility and career progression.

We have a Staff Consultative Committee (SCC) which has been elected by employees to provide representation and support through companioning, formal consultations, and informal consultations and discussions on a wide range of topics. The SCC provides an important communication link between the Executive and employees and acts as a forum for discussion and consultation, although it doesn't have a formal negotiation role. Most recently the SCC played a key role in providing employees with support through the pay, grading and career families consultation.

During the year, the board discussed matters including our employee survey; our diversity, gender and ethnicity pay gap data; succession planning; talent; and our culture.

See *Our people* (page 106) and *Diversity* (page 110) for more details.

The need to foster the company's business relationships with suppliers, customers and others

The board oversees the cooperation and coordination activities we undertake with regulatory counterparts across the UK and internationally. These include, for example, our collaboration with the Directorate-General for Competition of the European Commission and EU national competent authorities to increase the effectiveness of our Interchange Fee Regulation (IFR) monitoring work, (see page 89).

We have a statutory duty to coordinate the exercise of our functions under the Financial Services (Banking Reform) Act 2013 (FSBRA) with the FCA, the Prudential Regulation Authority and the Bank of England. This includes consulting with them when we propose to exercise a function in a way that could have a material adverse effect on how they advance their objectives, and obtaining information and advice from them where appropriate. We and the other regulators must also maintain a Memorandum of Understanding setting out our roles in areas of common regulatory interest and how we'll cooperate in exercising their relevant functions.

In ensuring that we continue to meet these requirements, the board maintains strong relationships with other domestic financial services regulators – for example, the FCA, the Bank of England, the Treasury and more broadly the UK Regulators Network.

The directors recognise that there are numerous external stakeholders that they must have regard to in their decision making. These include consumers, regulated and other businesses (for example, payment system operators and payment service providers), the communities we operate in, community leaders and parliamentarians, international and domestic regulators, and our suppliers. By working to gain an understanding of the perceptions of each external stakeholder group and of the issues that matter to them, we can ensure that we deliver a high-quality service and provide appropriate protection to consumers in a fast-changing world.

The directors recognise that the views of our external stakeholder groups do not always align. In such circumstances, the directors decide on the most appropriate course of action to ensure we're delivering in the public interest.

See How we engage with our stakeholders (page 116), Working with other authorities (page 122), and the Business Impact Target (page 131) for more details.

To meet our objectives efficiently and effectively, we use FCA operational services (where appropriate) to drive value for money for fee payers. This means taking advantage of the scale, scope and established practices of the FCA through a provision of services agreement (see *Business model* on page 150). Through board-member membership of the Audit Committee, there is oversight of the operational services on behalf of the PSR.

The board delegates all matters relating to procurement and management of suppliers to the Managing Director and Chief Operating Officer.

As last year, we've worked closely with the FCA and our suppliers to ensure service continuity during the significant disruption arising from the COVID-19 outbreak, and have accelerated payments of valid, undisputed invoices to support suppliers' cash flows. In alignment with the FCA, we buy responsibly, ensuring Value for Money criteria are met, and we adhere to the Ethical Procurement Policy. In addition, the behaviours and standards we expect from our suppliers are clearly set out in the Supplier Code of Conduct, which was updated in December 2021.

The impact of the company's operations on the community and the environment

Good corporate citizenship and corporate responsibility are important parts of our identity, both as an employer and as a regulator.

The board, together with our Executive, oversees our community engagement, diversity and inclusion, and sustainability strategies.

We actively contributed to our local community through volunteering programmes and our work with our nominated local charity, St Mungo's. We raised nearly £1,000 to support St Mungo's work.

We're committed to running a sustainable operation that minimises our impact on the environment. This is helped by sharing some practical operational elements with the FCA. For example, our building in Stratford was designed with sustainability in mind and was awarded the Building Research Establishment Environmental Assessment Method rating of excellence. Changes to our working practices in response to COVID-19 have led to a significant reduction in our environmental impact, particularly in emissions from business travel.

The desirability of the company maintaining a reputation for high standards of business conduct

The board is committed to attaining and maintaining high standards within the company.

See *Corporate governance* on page 160 for more details.

The need to act fairly as between members of the company

As a wholly owned subsidiary of the FCA, the PSR has only one member.

Considering stakeholders' interests

The board takes account of the interests of our internal and external stakeholders, and recognises that effective stakeholder engagement is key to promoting the success of the company.

The board sets out to achieve this by:

- ensuring that it engages fully with stakeholders to gain an understanding of the issues that matter to them – for example, through our regional visits programme
- providing strategic leadership within a framework of robust corporate governance and internal control
- setting the culture, values and standards that are embedded throughout the PSR, which help us to deliver in the public interest (for example, the board holds an annual dedicated strategy-setting session, and receives regular updates on organisational culture – including (but not limited to) feedback from our annual employee survey)

For details on our leadership and governance framework, see the directors' report on page 153 and our corporate governance statement on page 160.

Making sure we engage with the right stakeholders across our broad work programme is essential, and we keep this continually under review. Our key stakeholders include our employees, consumers, parliamentarians, international and domestic regulators, those we regulate, our suppliers and the communities we operate in.

The directors take account of the views of our different stakeholders when making decisions in a number of ways, including:

- discussing the findings from our annual stakeholder perceptions survey each year, and monitoring recommended actions from the survey to enhance engagement with, and communications to, stakeholders
- reviewing feedback to consultations and other engagement before making decisions, and meeting with stakeholders through regular meetings, roundtable discussions and other forums

See *How we engage with our stakeholders* on page 116 for more details.

Financial overview

Business model

We do not receive funding from the UK government as we fund the cost of delivering our statutory objectives by raising fees from the organisations we regulate. The Financial Conduct Authority (FCA) has powers to levy fees to recover our costs. We seek to make neither a profit nor a loss from our regulatory activities, although in practice this can happen due to unforeseen circumstances or timing issues. We follow best practice procurement mechanisms as part of our focus on delivering good value for money.

We are co-located in the FCA’s offices, and, where it’s appropriate, are operationally supported by the FCA through a provision of services agreement. The aim is to fully maximise the FCA’s existing resources and infrastructure to support the effective operation of the PSR. This means leveraging of the scale, scope and established practices of the FCA, and working hard to find efficiencies where possible.

Analysis of performance during the year

Total	2022 £'000	2021 £'000	Year-on-year change
Fee income	17,203	16,848	355
Other income	29	88	(59)
Total income	**17,232**	**16,936**	**296**
Staff costs	(10,842)	(11,208)	(366)
Administrative costs	(5,881)	(4,624)	1,257
Total operating costs	**(16,723)**	**(15,832)**	**891**
Profit for the year	**509**	**1,104**	**(595)**

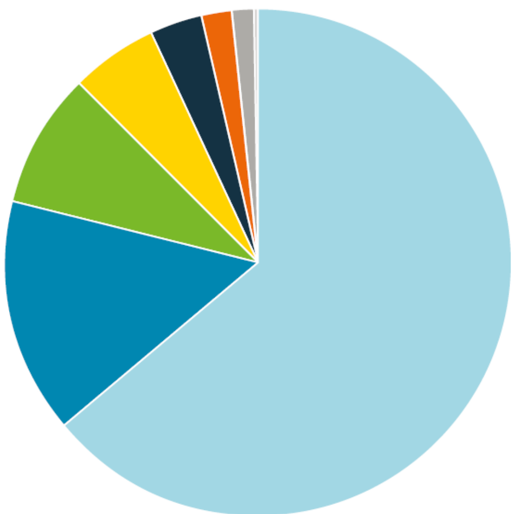
For 2021/22, we set a budget of £18.9 million, which was based on the planned work for the year and us reaching our anticipated scale. The underspend this year can, in the main, be attributed to a difficulty in reaching anticipated staffing levels due to market buoyancy. Alongside other public bodies, we adopted a conservative approach in relation to remuneration and bonuses. Projects and pieces of work were also delayed or reprioritised, resulting in an increase in reserves. Therefore, we will use our reserves to fund the delayed projects we've carried over into 2022/23.

We had an accumulated surplus held in reserves of £5.1 million at 31 March 2022 (2021: accumulated surplus of £4.6 million). To ensure we have the resources to deliver our strategy, we will rely on our reserves up to a maximum of £2 million in 2022/23. This will lessen the annual funding requirement (AFR) and minimise the burden on fee payers. We will continue to hold the remainder in reserves in case we need to further draw on funds in response to changing business demands.

The chart below shows a breakdown of our operating costs. Overall, operating costs have increased by £0.9 million to £16.7 million (2021: £15.8 million), largely due to higher professional fees. Staff make up 65% of our cost base and are key in delivering our objectives. This increase in professional fees was due to a difficulty in reaching our target operating model of staffing levels but needing to maintain a focus on attaining our work programme. We had 99 full-time equivalent employees at the end of this financial year, compared to 106 on 31 March 2021.

The year-end cash position is £10.8 million (2021: £11.9 million). The FCA collects fees on our behalf and pays the balance over on a weekly basis. As at 31 March, the FCA had invoiced £7.4m of on-account fees, of which £4.9m had been collected and £3.4m had been remitted to the PSR.

Analysis of operating costs



Operating costs	£'000
Staff Costs	10,842
Professional fees	2,700
Accommodation and office services	1,350
IT running Costs	957
FCA staff recharges	559
Recruitment, training and wellbeing	166
Other costs	141
Travel and hospitality	8
TOTAL	**16,723**

Directors' report

The directors present their report for the year ended 31 March 2022.

Some information that fulfils the requirements of the directors' report can be found elsewhere in this document and is referred to below. This information is incorporated into this directors' report by reference.

Details of the directors during the year can be found in Table 1 in the corporate governance statement (page 164).

The section 172 statement (page 141) and the corporate governance statement (page 160) are used by the directors to explain how they have performed their duty to promote the success of the PSR under section 172 of the Companies Act 2006. These include details of how the directors have engaged with employees and external stakeholders, including consumers, regulated and other businesses, the communities we operate in, community leaders and parliamentarians, domestic and international regulators, and our suppliers during the year.

The PSR has no branches or subsidiaries outside the UK.

Directors' responsibilities in respect of the annual report and accounts

In accordance with applicable law and regulations, the directors are responsible for preparing the annual report and the financial statements.

Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have elected to prepare financial statements in accordance with International Financial Reporting Standards, as adopted by the United Kingdom. The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

- make judgements and estimates that are reasonable and prudent
- select suitable accounting policies and then apply them consistently
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the company will continue in business
- state whether applicable International Financial Reporting Standards, as adopted by the United Kingdom, have been followed, subject to any material departures disclosed and explained in the financial statements

The directors are responsible for keeping proper accounting records that show, with reasonable accuracy, the financial position of the company and enable the directors to ensure that the financial statements comply with the Companies Act 2006. The directors are also responsible for safeguarding the assets of the company and for taking reasonable steps to prevent and detect fraud and other irregularities.

As far as the directors are aware:

- they have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and establish that the auditor is aware of that information
- there is no relevant audit information of which the company's auditor is unaware

The directors are responsible for maintaining and ensuring the integrity of the corporate and financial information on the company's website. UK legislation that applies to preparing and distributing financial statements may differ from legislation in other jurisdictions.

The directors confirm that the annual report and accounts, as a whole, are fair, balanced and understandable.

Going concern and key financial risks

As a subsidiary of the Financial Conduct Authority (FCA), the financial resilience of the PSR is closely connected to that of the FCA. In preparing the financial statements, the directors and the FCA board performed a going concern assessment which covered the period from April 2022 to March 2025. This included a robust assessment of the key emerging and principal risks, taking into consideration the FCA's Business Plan 2022/23 and the PSR's Annual Plan 2022/23. The key financial risks and uncertainties identified are set out below.

Liquidity risk: The FCA is currently well placed from a liquidity perspective, with cash deposits of £285.0 million at 31 March 2022 and an available overdraft facility of £100 million, sufficient to meet its short-term payment obligations when due, or otherwise fund its ongoing operations. The PSR has cash deposits of £10.8 million, which are ring-fenced within the FCA total.

Cash flow risk can be assessed by looking at the following three key areas:

a. The FCA's current liquidity position reflects:
    1. cumulative scope change costs (£7.9 million)
    2. the continued cash contributions to reduce the pension scheme deficit
    3. the funding of capital expenditure which is recovered over the useful economic lives of the assets rather than when the expenditure is incurred
    4. the potential to make ex gratia compensatory payments to remedy complaints under the Complaints Scheme
b. The FCA's net pension surplus of £15.5 million at 31 March 2022 reflects:
    1. the triennial valuation of the FCA Pension Plan at 31 March 2019
    2. the effectiveness of the Plan's low-risk strategy to minimise the impact of market fluctuations on funding levels

c. The FCA's strong fee covenants are underpinned by its statutory powers to raise fees to fund its and the PSR's regulatory activities. Of the firms on which the FCA currently levies its fees, the top 100 are responsible for 49.1% of those fees (2020: 50.5%). For the PSR, the top 10 fees payers are responsible for 70.0% (2021: 70.9%) of our Annual Funding Requirement.

Credit risk falls into three main categories:

a. **The collection of fees from the financial services industry:** The potential for firm failures arising from current economic conditions may impact the collection of fees by the FCA on the PSR's behalf, and future fee income, due to reduced revenues generated by firms. The FCA has a strong record in terms of collecting fees, with bad debt experience averaging less than 0.4% of fees receivable for both the FCA and PSR over the last three years.

b. **Brexit:** There has been a minimal impact on 2021/22 fee rates from firms moving some of their business outside the UK. The impact on 2022/23 fees will therefore depend on whether firms have continued to move part of their operations outside the UK and reduce the tariff data they report for the calendar year ending 31 December 2021. PSR fees are based on transactions with a UK element and are not significantly affected by firms moving their business outside the UK (for details of the full approach, see the FCA and PSR's joint policy statement on PSR regulatory fees, PS18/12, paragraph 4.26).

c. **The placement of fees as deposits with various counter parties:** The FCA only invests with financial institutions which, among other things, meet its minimum credit rating as assigned by credit rating agencies. The FCA also spreads its deposits across a number of counterparties to avoid the concentration of credit risk. The FCA manages these deposits on our behalf.

Having regard to the above, it is the directors' opinion that the PSR is well placed to manage any possible future funding requirements pertaining to its regulatory activity, and has sufficient resources to continue its business for the foreseeable future.

The directors therefore conclude that using the going concern basis is appropriate in preparing its financial statements, as there are no material uncertainties related to events or conditions that may cast significant doubt about the PSR's ability to continue as a going concern.

Events after the reporting period

There were no material events after the reporting period.

Directors' indemnities

Qualifying third party indemnity provisions for the purposes of section 234 of the Companies Act 2006 were in force during the course of the financial year ended 31 March 2022 and remain in force at the date of this report.

Under the Financial Services (Banking Reform) Act 2013 (FSBRA), we have the benefit of an exemption from liability in damages for anything done or omitted in relation to the exercise or purported exercise of our statutory functions, provided that such acts or omissions are in good faith and do not infringe section 6(1) of the Human Rights Act 1998. This is supplemented with indemnities given by the FCA for the protection of individual employees, including directors. Accordingly, we do not currently purchase Directors and Officers Liability Insurance.

Political donations

The PSR did not give any money for political purposes in the UK or the rest of the EU, nor did it make any political donations to political organisations, or to any independent election candidates, or incur any political expenditure during the year.

Auditor

FSBRA requires the company's accounts to be examined, certified and reported on by the Comptroller and Auditor General.

Accordingly, the Comptroller and Auditor General was auditor throughout the year.

By Order of the Board on 14 July 2022.

Sarah Day

Company Secretary

Corporate governance

Corporate governance statement for the year ended 31 March 2022

Introduction

This section of the report details the board's composition and governance structure. It explains the board's role, its performance, ongoing professional development and succession planning.

The PSR is funded by the regulated payments industry through statutory fee-raising powers. We are independent of government, but accountable to government and Parliament through obligations set out in the Financial Services (Banking Reform) Act 2013 (FSBRA). We consult with industry participants and users on our practices and policies and how our objectives may be best achieved, including through engagement with the PSR Panel (see page 172).

The PSR is a wholly owned subsidiary of the Financial Conduct Authority (FCA). We share operational functions and support with the FCA through a provision of services agreement, which is reviewed annually. All PSR staff are employees of the FCA.

This report sets out how we are governed in line with the principles of the UK Corporate Governance Code (the Code). The board considers that we maintain high standards of corporate governance and comply with the Code as far as is appropriate, except for the Code's requirement to include a statement regarding going concern and longer-term viability.

Due to the statutory framework set out in FSBRA, which enables the ability to raise fees to recover the costs of carrying out our statutory functions, the board considers the requirement to include an explanation of how it has assessed the prospects of the PSR and any related disclosures under provision 31 of the UK Corporate Governance Code is not applicable.

The role of the board

The board is our governing body. It sets our strategic direction and ensures our long-term success. The board liaises with the FCA, consistent with the obligations set out in FSBRA, to take necessary steps to ensure that the PSR is, at all times, capable of exercising its functions and that the necessary financial and human resources are in place.

The Managing Director is responsible for implementing the strategy agreed by the board, as well as leading the organisation and managing it within the authorities delegated by the board.

The board's role includes:

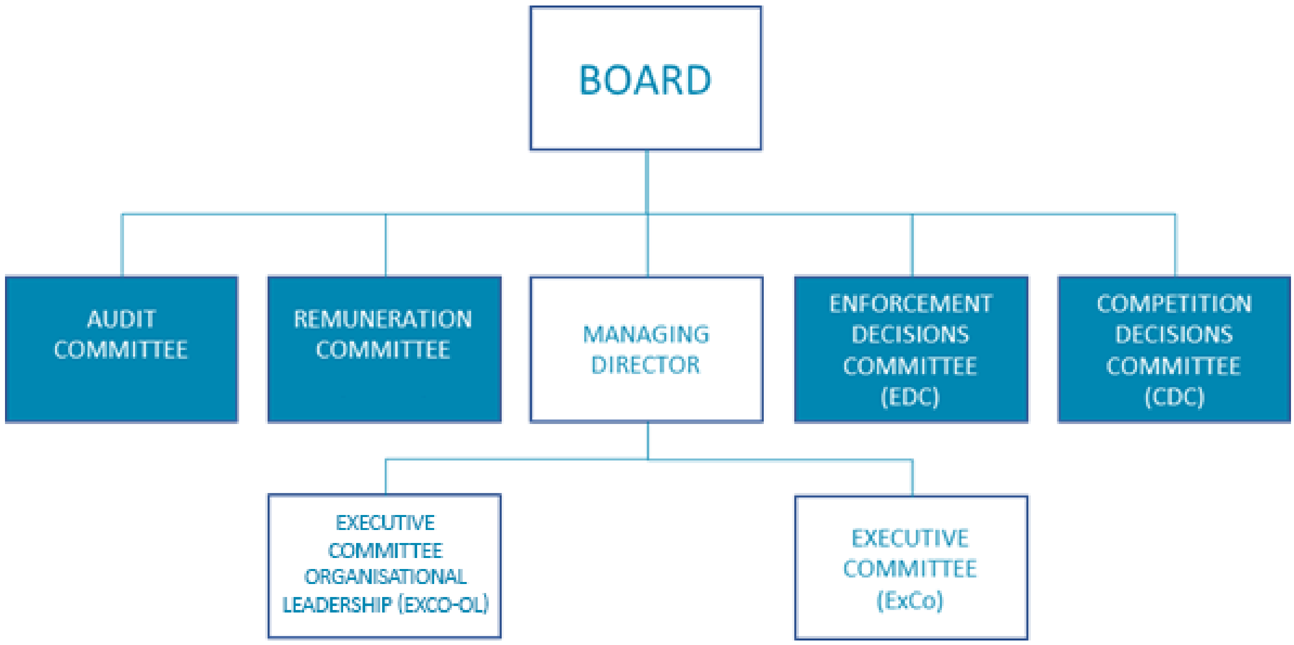
- making strategic decisions about our future operation
- deciding which matters it should make decisions on, including exercising our legislative functions and other matters as set out in the Schedule of Matters Reserved to the Board

- overseeing the executive management of our day-to-day business
- maintaining a sound system of financial control
- seeking regular assurance that our system of internal control is effective in managing risks
- setting appropriate policies to manage risks to our operations and the achievement of our regulatory objectives
- reviewing the risks to the PSR on a regular basis
- taking specific decisions that are not expressly included in the Schedule of Matters Reserved to the Board, but that the board or executive management consider are novel or contentious, or so significant that the board should take them
- establishing and maintaining the accountability for decisions made by committees of the board and executive management
- succession planning and setting the objectives of the Managing Director
- maintaining high-level relations with other organisations and authorities, including the government, the FCA, the Prudential Regulation Authority, the Bank of England and the Competition and Markets Authority

Our executive committees also play an important role in our overall corporate governance.

Our website gives more details on our governance arrangements as detailed in our '[Corporate governance of the PSR Limited]' document.

Our governance framework



Senior Managers and Certification Regime

The Senior Managers and Certification Regime (SM&CR) does not formally apply to us. However, as a matter of best practice, we have set out a formal description of the core responsibilities of members of our board and those carrying out senior management functions. Our website has more details on how we apply the SM&CR to ourselves.

Members of our board

The composition of our board is set out in FSBRA and, consistent with those requirements, the board currently comprises:

- the Chair, appointed by the FCA with the approval of the Treasury

- the Managing Director, appointed by the FCA with the approval of the Treasury
- other members, who are all non-executive directors (NEDs), appointed by the FCA

Table 1: Directors and dates of service

Name	Original appointment date	Expiry of current term/date membership ceased
David Geale Non-Executive Director	14/02/20	13/02/23
Chris Hemsley Executive Director Managing Director	02/09/19	01/09/24
Charles Randell[5] Non-Executive Director Chair (until 31/03/22)[6]	01/04/18	31/05/22

5 Charles Randell also served as Chair of the FCA board until 31 May 2022.

6 Charles Randell served as the Chair of the PSR board until 31 March 2022 but remained as a non-executive director until 31 May 2022.

Name	Original appointment date	Expiry of current term/date membership ceased
Faith Reynolds Non-Executive Director	12/04/21	11/04/24
Simon Ricketts[7] Non-Executive Director	01/07/17	30/06/24
Tommaso Valletti[8] Non-Executive Director	01/04/20	04/11/25[9]
Aidene Walsh Non-Executive Director Interim Chair (from 01/04/22)	01/06/20	31/05/23

7 Simon Ricketts was reappointed for a second term in April 2020 and his term was extended for a further year in May 2022.

8 Tommaso Valletti is also a non-executive director of the FCA board.

9 Tommaso Valletti was reappointed for a second term in May 2022.

Charles Randell was appointed for a five-year term. All other non-executive directors are appointed for three-year terms.

Charles Randell stood down as Chair on 31 March 2022 and had no commitments in addition to his Chairmanship of the PSR and FCA. The search for the next Chair of the PSR is underway. Aidene Walsh took over as Interim Chair from 1 April 2022. Aidene Walsh is also an executive director of Banking Competition Remedies Ltd.

In addition, Faith Reynolds was appointed as a non-executive director for a three-year term with effect from 12 April 2021.

A majority of our board members are NEDs and bring extensive and varied experience. All NEDs are considered to be independent. For 2021, Simon Ricketts was the Senior Independent Director. Over the course of the year one or more NEDs, including the Chair, also served on the board of the FCA. Our NEDs bring a range of skills and experience that is appropriate for the requirements of the PSR.

As an executive member of the board, Chris Hemsley was appointed by the FCA, with the approval of the Treasury, for a five-year period (expiring in September 2024), and is subject to a six-month notice period.

The board is committed to ensuring that diversity is a central feature of its membership. Particular attention is paid to the recruitment process to attract a diverse field of candidates from which board members with the appropriate balance of relevant skills and experience can be selected. While the gender balance of the board has improved, there is still work to be done to increase the representation of people from a minority ethnic background and to consider wider diversity characteristics.

Board meetings and activities of the board

There is a clear division of responsibility between the executive running of the organisation and the running of the board. The Chair leads the board and ensures its effectiveness, while the Managing Director is responsible for implementing the strategy agreed by the board, the leadership of the organisation and managing it within the authorities delegated by the board.

The board has a formal schedule of matters reserved to it and meets regularly in order to discharge its duties effectively. The board held eight meetings during the year.

Details of the number of meetings held and attendance at those meetings are set out in Table 2 (the table reflects the number of meetings available for them to attend, given that their terms began or ended part way through the reporting year).

Table 2: Attendance at board meetings for 2021/22

Name	Scheduled board meetings	Additional board meetings
David Geale	6/6	2/2
Chris Hemsley	6/6	2/2
Charles Randell	6/6	2/2
Faith Reynolds (from 12/04/2021)	6/6	2/2
Simon Ricketts	6/6	1/2
Tommaso Valletti	6/6	2/2
Aidene Walsh	6/6	2/2

During the year, the non-executive directors met privately without members of the executive present.

The Chair and Company Secretary ensure that the board's agendas reflect our business priorities. They also conduct a review of papers before they are circulated to the board to ensure that information is clear and accurate. Papers for board and committee meetings are normally circulated one week before meetings.

Board members provide rigorous challenge on strategy, performance, responsibility and accountability. They hold the executive to account and ensure that the decisions of the board are robust.

The board addressed many issues during the year. The principal areas of activity included:

- progression on the New Payments Architecture
- measures to ensure reasonable reimbursement of victims of authorised push payment fraud
- strategic policy development following the card-acquiring market review and consideration of the protections available to those who use interbank systems
- progression of the staff consultation on career and grading
- discussions on internal and external risk and strategy setting
- review of our risk framework and approach, our responsibilities, and our reporting mechanisms
- consideration of the annual report and accounts
- review of the organisation's Strategy and development of our annual plan and budget
- review of the performance objectives of the Managing Director

A record of the board's activities can be found in our published minutes on our website.

Company Secretary and independent advice

Each director has access to the advice and services of the Company Secretary, who advises the board on governance matters and ensures the board follows appropriate procedures. The Company Secretary is also responsible for providing access to external professional advice for directors, if required.

Simon Pearce stood down as Company Secretary on 18 May 2022 and was succeeded by Sarah Day.

Succession

The board considers that all of the NEDs bring strong oversight. However, the board recognises the recommended term within the Code and is mindful of the need for suitable succession.

Succession planning remains a key agenda item for the board. It monitors the skills and experience of its members and identifies where gaps exist to inform future appointments and makes representations to the FCA Board as required.

Board induction and training

On joining the board, directors are given background information describing the PSR and our activities. They receive an induction pack which includes information on our governance arrangements, the board's role and responsibilities, its sub-committees and officers, and other relevant information. Structured meetings and briefings with a range of key people across the PSR are also organised, to ensure directors have a thorough induction to the board and to the business of the PSR. There is also a systematic continuing professional development programme for board members.

Board effectiveness

Reviews of board effectiveness are conducted annually. In accordance with good corporate governance practice, such reviews are externally facilitated every three years. Prior to the latest externally facilitated review in 2021, there was one in 2017/18.

The board commissioned Advanced Boardroom Excellence to conduct the evaluation between May and September 2021. The board then discussed the evaluation at a meeting in September 2021.

The board welcomed the review which it considered reflects positively on the board's and the organisation's development. The board continues to discuss how the outcomes from the evaluation can best be taken forward in the context of the change in Chair, focused in particular on its interactions with other regulators and further enhancing its oversight of the PSR strategy.

Further details of the evaluation can be found on our website.

Conflict of interests

All directors are required to declare relevant interests in accordance with the Conflict of Interests Policy for Non-Executive Directors. The board took appropriate steps to manage any potential conflicts of interest that arose during the year.

A register of interests is maintained by the Company Secretary. The board reviewed its policy in January 2020.

Committee structure of the PSR

The functions of the PSR's Audit Committee and Remuneration Committee are carried out by the members of the respective FCA committees.

Further details about the membership of these committees, as well as details of the issues they considered, are available in the FCA's Annual Report and Accounts 2021/22.

The functions of the PSR's Nomination Committee and Risk Committee are carried out by the board.

Our website has more details on our governance arrangements.

The PSR Panel

The PSR Panel (the Panel) is independent of the PSR. It contributes towards the effective development of our strategy and policy, and offers advice and early input on our work.

The Panel comprises members drawn from payment system operators, payment service providers, infrastructure and technology providers, and service-users, including representatives of consumers and large and small businesses.

Further information on the Panel, including a list of members, can be found on our website.

Competition Decisions Committee

The Competition Decisions Committee (CDC) acts as the decision-maker in any particular investigation arising where we propose to impose a sanction under the Competition Act 1998. In individual cases, a CDC Panel comprising three CDC members will be appointed to decide on behalf of the PSR on whether there has been a competition law infringement, whether to impose a penalty, and whether to give directions.

Enforcement Decisions Committee

The Enforcement Decisions Committee (EDC) makes regulatory enforcement decisions for the PSR under FSBRA or other legislation (for example, the Interchange Fee Regulation) when a settlement cannot be reached. The EDC is separate from staff at the PSR who investigate whether there has been a compliance failure.

In individual cases, an EDC Panel comprising three EDC members will be appointed to decide on behalf of the PSR whether there has been a compliance failure and whether to impose a financial penalty and/or publish details of the compliance failure.

By Order of the Board on 14 July 2022.

Sarah Day

Company Secretary

Remuneration report

Directors' remuneration (audited)

The table below sets out the remuneration paid or payable to any person that served as a director during the years ending 31 March 2022 and 2021. The remuneration figures shown are for the period served as directors.

The PSR follows the same remuneration principles as the Financial Conduct Authority (FCA). Further information is available in the FCA's annual report.

	Basic Salary		Discretionary performance bonus		Other benefits		Total Remuneration (excluding pension)		Pension		Total Remuneration	
	2022 £'000	2021 £'000	**2022 £'000**	2021 £'000	**2022 £'000**	2021 £'000	**2022 £'000**	2021 £'000	**2022 £'000**	2021 £'000	**2022 £'000**	2021 £'000
Chair												
Charles Randell [1]	**20**	20	**-**	-	**-**	-	**20**	20	**-**	-	**20**	20
Executive Directors												
Christopher Hemsley [2]	**198**	198	**-**	17	**25**	24	**223**	239	**26**	25	**249**	264

	PSR Fee Paid	
Non-Executive Directors [3]	**2022 £'000**	2021 £'000
David Geale [4]	**-**	-
Noel Gordon [5]	**-**	5
Faith Reynolds [6]	**14**	-
Simon Ricketts [7]	**25**	15
Tommaso Valletti [8]	**8**	8
Aidene Walsh [9]	**15**	13

Notes

Chair

1. Charles Randell received a fee of £20,000 as Chair of the PSR board during the year and stepped down as Chair from 31 March 2022. He stepped down from the PSR board on 31 May 2022.

Executive directors of the PSR

2. Chris Hemsley was appointed as Managing Director of the PSR on 2 September 2019. For the 2020/21

financial year, Chris received a performance bonus of £16,795, of which £6,718 (40%) was paid in March 2021. The remaining £10,077 (60%) was held in deferment and was paid in April 2022. The Remuneration Committee agreed that roles at this level in the organisation would not be eligible to be considered for a performance bonus for the performance year 2021/22 and onwards.

Non-executive directors of the PSR

3. The FCA is responsible for determining the remuneration of the other non-executive directors. The fee for non-executive directors remains unchanged at £15,000 per annum. Non-executive directors serving on both the FCA and PSR boards and FCA board committees receive £7,500 per annum (rounded to £8,000 in the table above) in addition to their FCA board fee for serving on the PSR board.
4. David Geale was appointed to the PSR board on 14 February 2020. David Geale did not receive a fee for his non-executive director role on the PSR board.
5. Noel Gordon stepped down from the PSR board on 31 July 2020.
6. Faith Reynolds was appointed to the PSR board on 12 April 2021.
7. Simon Ricketts was appointed as a member of the FCA Audit Committee on 1 April 2019.
8. Tommaso Valletti was appointed to the FCA Board on 5 November 2019 and receives a fee of £35,000

per annum for this role. Tommaso Valletti was appointed to the PSR board on 1 April 2020.

9. Aidene Walsh was appointed to the PSR board on 1 June 2020 and as interim Chair of the PSR board from 1 April 2022.

Senior pay disclosure

In addition to the executive directors reported under *Directors' remuneration*, the table below sets out the remuneration paid or payable to any person that served as a voting member of the Executive Committee during the year ending 31 March 2022.

`	Basic salary		Discretionary performance bonus		Other benefits		Total Remuneration (excluding pension)		Pension		Total Remuneration	
	2022	2021	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021
Name	**£'000**	£'000	**£'000**	£'000	**£'000**	£'000	**£'000**	£'000	**£'000**	£'000	**£'000**	£'000
Carole Begent	**175**	168	**-**	11	**23**	23	**198**	202	**25**	19	**223**	222
Louise Buckley	**152**	146	**9**	11	**22**	21	**183**	179	**24**	24	**207**	203
Genevieve Marjoribanks	**145**	133	**13**	11	**21**	20	**179**	164	**24**	23	**203**	187
Natalie Timan[1]	**78**	-	**-**	-	**10**	-	**88**	-	**9**	-	**97**	-

1 Natalie Timan was appointed Head of Strategy, Analysis and Monitoring from 6 September 2021.

Financial statements

For the year ended 31 March 2022

Company number: 8970864

The certificate and report of the Comptroller and Auditor General to the Houses of Parliament

Opinion on financial statements

I certify that I have audited the financial statements of The Payment Systems Regulator Limited (PSR) for the year ended 31 March 2022 under the Financial Services (Banking Reform) Act 2013, which comprise the:

- Statement of Financial Position as at 31 March 2022
- Statement of Comprehensive Income, Statement of Cash Flows and Statement of Changes in Equity for the year then ended, and
- related notes, including the significant accounting policies

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and UK adopted International Accounting Standards.

In my opinion, the financial statements:

- give a true and fair view of the state of The Payment Systems Regulator Limited's affairs as at 31 March

2022 and of the total comprehensive profit for the year then ended

- have been properly prepared in accordance with UK adopted International Accounting Standards, and
- have been prepared in accordance with the requirements of the Companies Act 2006 where applicable in accordance with HM Treasury directions issued under the Financial Services (Banking Reform) Act 2013

Opinion on regularity

In my opinion, in all material respects the income and expenditure recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Basis for opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK), applicable law and Practice Note 10, *Audit of Financial Statements and Regularity of Public Sector Bodies in the United Kingdom*. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my report.

Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2019. I have also elected to apply the ethical standards relevant to listed entities. I am independent of the PSR in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

The framework of authorities described in the table below has been considered in the context of my opinion on regularity.

Framework of authorities

Authorising legislation	Financial Services (Banking Reform) Act 2013

Conclusions relating to going concern

In auditing the financial statements, I have concluded that the PSR's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

My evaluation of the directors' assessment of the entity's ability to continue to adopt the going concern basis of accounting included consideration of the PSR's funding arrangements and assessment of whether any conditions exist which may cast significant doubt on the PSR's ability to continue to operate. My key observations were that funding is secured by statutory levies raised on the PSR's behalf and that no events or conditions exist which may cast significant doubts on the PSR's ability to continue operations.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the PSR’s ability to continue as a going concern for a period of at least 12 months from when the financial statements are authorised for issue.

In relation to the entity’s reporting on how it has applied the UK Corporate Governance Code, I have nothing material to add or draw attention to in relation to the directors’ statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

My responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Overview of my audit approach

Key audit matters

Key audit matters are those matters that, in my professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditor, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of the audit of the financial statements as a whole, and in forming my opinion thereon. I do not provide a separate opinion on these matters.

I have not identified any key audit matters throughout the course of my audit.

The areas of focus were discussed with the Audit Committee; their report on matters that they considered to be significant to the financial statements is set out on page 172.

Application of materiality

Materiality

I applied the concept of materiality in both planning and performing my audit, and in evaluating the effect of misstatements on my audit and on the financial statements. This approach recognises that financial statements are rarely absolutely correct, and that an audit is designed to provide reasonable, rather than absolute, assurance that the financial statements are free from material misstatement or irregularity. A matter is material if its omission or misstatement would, in the judgement of the auditor, reasonably influence the decisions of users of the financial statements.

Based on my professional judgement, I determined overall materiality for the PSR's financial statements as a whole as follows:

Materiality	£315,000 (2020-21: £316,000)
Basis for determining materiality	1.89% of gross expenditure of £16,723,000 (2020-21: 2% of gross expenditure)
Rationale for the benchmark applied	Expenditure is the key area of interest for Parliament (and indeed more broadly the firms regulated by the PSR) because the budgeted amount for the financial year determines the

	annual funding requirement for the PSR, which forms the basis of the fees invoiced to regulated firms. This represents the size of the regulatory cost that the PSR imposed upon the financial services sector. The account is primarily composed of payroll and other operating costs.

I have determined that for financial statement components connected with the Remuneration Report, audit fee and comparatives, misstatements of a lesser amount than overall materiality could influence the decisions of users of the accounts given their interest in these figures. I have therefore determined that the level to be applied to these components is £1.

Performance materiality

I set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 72% of materiality for the 2021-22 audit (2020-21: 71%). In determining performance materiality, I have also considered the uncorrected misstatements identified in the previous period.

Other materiality considerations

As well as quantitative materiality there are certain matters that, by their very nature, would, if not corrected, influence the decisions of users – for example, any errors reported in the Directors'

Remuneration Report. Assessment of such matters would need to have regard to the nature of the misstatement and the applicable legal and reporting framework, as well as the size of the misstatement.

I applied the same concept of materiality to my audit of regularity. In planning and performing audit work in support of my opinion on regularity and evaluating the impact of any irregular transactions, I took into account both quantitative and qualitative aspects that I consider would reasonably influence the decisions of users of the financial statements.

Error reporting threshold

I agreed with the Audit Committee that I would report to it all uncorrected misstatements identified through my audit in excess of £6,300 (2020/21: £6,800), as well as differences below this threshold that in my view warranted reporting on qualitative grounds. I also report to the Audit Committee on disclosure matters that I identified when assessing the overall presentation of the financial statements

The impact of the unadjusted errors, as reported to the Audit Committee, is an overstatement of expenditure and accruals by £45,127.

Audit scope

The scope of my audit was determined by obtaining an understanding of the PSR and its environment, including the entity wide controls, and assessing the risks of material misstatement.

Other information

The other information comprises information included in the Annual Report, but does not include the financial statements and my auditor's certificate and report thereon. The directors are responsible for the other information.

My opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in my report, I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated.

If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact.

I have nothing to report in this regard.

Opinion on other matters

In my opinion, the part of the Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

In my opinion, based on the work undertaken in the course of the audit:

- the Strategic Report, the Corporate Governance Statement and the Directors' Report have been prepared in accordance with applicable legal requirements
- the information given in the Strategic Report, the Corporate Governance Statement and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements
- the information about internal control and risk management systems in relation to financial reporting processes, and about share capital structures, in compliance with rules 7.2.5 and 7.2.6 in the Disclosure Rules and Transparency Rules sourcebook made by the Financial Conduct Authority (the FCA Rules), is consistent with the financial statements and has been prepared in accordance with applicable legal requirements, and
- information about the PSR's corporate governance code and practices and about its administrative, management and supervisory bodies and their committees complies with rules 7.2.2, 7.2.3 and 7.2.7 of the FCA Rules

Matters on which I report by exception

In the light of the knowledge and understanding of the PSR and its environment obtained in the course of the audit, I have not identified material misstatements in the Strategic Report or the Directors' Report.

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff, or
- the financial statements and the parts of the remuneration report to be audited are not in agreement with the accounting records and returns, or
- certain disclosures of directors’ remuneration specified by law are not made, or
- a corporate governance statement has not been prepared, or
- I have not received all of the information and explanations I require for my audit

Corporate governance statement

The Listing Rules require me to review the directors’ statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the PSR’s compliance with the provisions of the UK Corporate Governance Statement specified for my review.

Based on the work undertaken as part of my audit, I have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or my knowledge obtained during the audit:

- The directors’ statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified, set out on page 155.

- The directors' statement on fair, balanced and understandable, set out on page 153.
- The board's confirmation that it has carried out a robust assessment of the emerging and principal risks, set out on pages 153.
- The section of the annual report that describes the review of effectiveness of risk management and internal control systems, set out on page 132; and
- The section describing the work of the audit committee, set out on page 172.

The directors have not provided an assessment of the entity's prospects, the period this assessment covers and why the period is appropriate as required by provision 31 of the UK Corporate Governance Code. The directors have set out the reasons for omitting these disclosures on page 161.

Responsibilities of the directors for the financial statements

As explained more fully in the statement of Directors' Responsibilities in respect of the annual report and accounts, the directors are responsible for:

- the preparation of the financial statements in accordance with the applicable financial reporting framework and for being satisfied that they give a true and fair view
- internal controls as directors determine is necessary to enable the preparation of financial statements to be free from material misstatement, whether due to fraud or error; and

- assessing the PSR's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the entity or to cease operations, or have no realistic alternative but to do so

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit, certify and report on the financial statements in accordance with the Financial Services (Banking Reform) Act 2013.

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Extent to which the audit was considered capable of detecting non-compliance with laws and regulations, including fraud

I design procedures in line with my responsibilities, outlined above, to detect material misstatements in respect of non-compliance with laws and regulations, including fraud. The extent to which my procedures are capable of detecting non-compliance with laws and regulations, including fraud is detailed below.

Identifying and assessing potential risks related to non-compliance with laws and regulations, including fraud

In identifying and assessing risks of material misstatement in respect of non-compliance with laws and regulations, including fraud, I considered the following:

- the nature of the sector, control environment and operational performance including the design of the PSR's accounting policies
- enquiring of management, the FCA Group's head of internal audit and those charged with governance, including obtaining and reviewing supporting documentation relating to the PSR's policies and procedures relating to:
    - identifying, evaluating and complying with laws and regulations, and whether they were aware of any instances of non-compliance
    - detecting and responding to the risks of fraud, and whether they have knowledge of any actual, suspected or alleged fraud, and
    - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations, including the PSR's controls relating to the PSR's compliance with the Companies Act 2006 and the Financial Services (Banking Reform) Act 2013

- discussing among the engagement team regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, I considered the opportunities and incentives that may exist within the PSR for fraud and identified the greatest potential for fraud in the following areas: revenue recognition, and the posting of unusual journals. In common with all audits under ISAs (UK), I am also required to perform specific procedures to respond to the risk of management override of controls.

I also obtained an understanding of the PSR's framework of authority, as well as other legal and regulatory frameworks in which the PSR operates, focusing on those laws and regulations that had a direct effect on material amounts and disclosures in the financial statements or that had a fundamental effect on the operations of the PSR. The key laws and regulations I considered in this context included the Companies Act 2006, the Financial Services (Banking Reform) Act 2013, relevant employment law and tax legislation.

Audit response to identified risk

As a result of performing the above, the procedures I implemented to respond to identified risks included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described above as having direct effect on the financial statements

- enquiring of management and the Audit Committee concerning actual and potential litigation and claims
- reading and reviewing minutes of meetings of those charged with governance and the Board and internal audit reports
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business
- reviewing the accounting policies related to the PSR
- using analytical procedures to identify any unusual or unexpected relationships

I also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

A further description of my responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of my report.

Other auditor's responsibilities

I am required to obtain evidence sufficient to give reasonable assurance that the income and expenditure reported in the financial statements have been applied to the purposes intended by Parliament, and the financial transactions conform to the authorities which govern them.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

Report

I have no observations to make on these financial statements.

Gareth Davies

15 July 2022

Comptroller and Auditor General (Statutory Auditor)

National Audit Office

157-197 Buckingham Palace Road

Victoria

London

SW1W 9SP

Statement of comprehensive income for the year ended 31 March 2022

	Notes	Total 2022 £'000	Total 2021 £'000
Income			
Fee income		17,203	16,848
Other income		29	88
Total income	4	**17,232**	**16,936**
Operating costs			
Staff costs	5	(10,842)	(11,208)
Administrative costs	6	(5,881)	(4,624)
Total operating costs		**(16,723)**	**(15,832)**
Total comprehensive profit for the year		**509**	**1,104**

Statement of changes in equity for the year ended 31 March 2022

	£'000
At 1 April 2020	**3,528**
Total comprehensive profit for the year	1,104
At 1 April 2021	**4,632**
Total comprehensive profit for the year	509
At 31 March 2022	**5,141**

Statement of financial position for the year ended 31 March 2022

Company number: 8970864

	Notes	Total 2022 £'000	Total 2021 £'000
Current assets			
Cash and cash equivalents		10,752	11,910
Trade and other receivables		64	58
Intragroup receivable		33,528	-
Total assets	7	**44,344**	**11,968**
Current liabilities			
Trade and other payables		(39,203)	(6,728)
Intragroup payable		-	(608)
Total liabilities	8	**(39,203)**	**(7,336)**
Total assets less total liabilities		**5,141**	**4,632**
Accumulated surplus		**5,141**	**4,632**

The financial statements were approved by the board on 22 June 2022, and were signed on its behalf on 14 July 2022 by:

Aidene Walsh
Interim Chair

Chris Hemsley
Managing Director

The Company is exempt from the requirement of Part 16 of the Companies Act 2006 as stipulated in Schedule 4, paragraph 8 (5) of the Financial Services (Banking Reform) Act 2013.

Statement of cash flows for the year ended 31 March 2022

	Notes	Total 2022 £'000	Total 2021 £'000
Net cash (used)/generated by operating activities	3	**(1,160)**	**2,294**
Investing activities			
Interest received on bank deposits		2	29
Net cash generated in investing activities		**2**	**29**
Net (decrease)/increase in cash and cash equivalents		(1,158)	2,323
Cash and cash equivalents at the start of the year		11,910	9,587
Cash and cash equivalents at the end of the year		**10,752**	**11,910**

Notes to the financial statements

1. General information

The Payment Systems Regulator (PSR) was incorporated in England and Wales under the Companies Act 2006 on 1 April 2014 as a private company, limited by shares (a single share with a £1 nominal value, wholly owned by the Financial Conduct Authority (FCA)). The nature of the PSR's operations is set out in the financial overview.

The registered office is 12 Endeavour Square, London, E20 1JN.

The financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the PSR operates.

2. Core accounting policies

Basis of preparation

The financial statements have been prepared on a going concern basis, under the historical cost convention in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The principal accounting policies applied in preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Changes in accounting policy

There are no new or amended IFRS or International Reporting Interpretations Committee (IFRIC) interpretations that have been adopted.

Income

The core principle of IFRS 15, *Revenue from Contracts with Customers*, is that 'an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services'.

The standard requires an entity to identify the contract(s) with a customer and the performance obligation related to the contract. It further requires the entity to determine the transaction price and allocate it to the performance obligations in the contract. Revenue can only be recognised under the standard when the entity satisfies a performance obligation.

The implication of adopting IFRS 15 directly has been assessed, but – given the nature of the PSR's activities and that IFRS 15 relates to commercial organisations – it was not considered appropriate. Accordingly, International Accounting Standards (IAS) 8(10) has been applied in developing and applying an accounting policy that provides information that is relevant and reliable.

In doing so, the definition of a contract has been broadened to include legislation and regulation. In this circumstance, a 'contract' is the underlying statutory framework set out in the Financial Services (Banking Reform) Act 2013 (FSBRA). This framework enables the PSR to raise fees to recover the cost of carrying out its statutory functions. The performance obligation under the ‘contract’ is the granting of the ability to operate during the course of the year.

The PSR's revenue streams are categorised as either **fee income** or **other income.**

Fee income includes the annual periodic fees which are levied and measured at fair value when recognised. The Financial Services and Markets Act 2000 (FSMA) enables the FCA to raise fees, and FSBRA enables the FCA to raise fees on behalf of the PSR to recover the costs of carrying out its statutory functions. Fees are recognised at the later of:

- the fee year to which they relate (invoices on account), or
- the invoice date

Other income satisfies the core principles and conditions set out to recognise revenue. Resulting contract assets and liabilities are included in *Intragroup receivable* within *Current assets* and as *Fees received in advance* in *Current liabilities*.

Retirement benefit costs

Money Purchase Section (defined contribution)

The PSR is a member of the Money Purchase Section of the FCA Pension Plan, a defined contribution plan where the company pays contributions at defined rates to a separate entity.

Payments to the Money Purchase Section of the Plan are recognised as an expense in the statement of comprehensive income, as they fall due.

Prepaid contributions are recognised as an asset to the extent that a cost refund or a reduction in future payments is available.

3. Notes to the cash flow statement

	Notes	Total 2022 £'000	Total 2021 £'000
Profit for the year from operations		509	1,104
Adjustments for:			
Interest received on bank deposits	4	(2)	(29)
Operating cash flows before movements in working capital		**507**	**1,075**
(Increase)/decrease in receivables	7	(33,534)	725
Increase in payables	8	31,867	494
Net cash (used)/generated by operations		**(1,160)**	**2,294**

4. Income

FSBRA enables the FCA to raise fees on behalf of the PSR to recover the costs of carrying out its statutory functions. Fee income represents the annual periodic fees receivable for the financial year, is recognised in the year it is levied, and is measured at fair value.

	Total 2022 £'000	Total 2021 £'000
Fee income	17,203	16,848
Interest on bank deposit	2	29
Other income	27	59
Total income	**17,232**	**16,936**

5. Staff information

Staff costs (including executive directors) comprise:

	Total 2022 £'000	Total 2021 £'000
Gross salaries and taxable benefits	8,720	9,061
Employer's national insurance costs	1,012	1,039
Employer's defined contribution pension costs	963	904
Permanent staff costs	**10,695**	**11,004**
Secondees	-	-
Contractors	147	204
Short-term resource costs	**147**	**204**
Total staff costs	**10,842**	**11,208**

Staff numbers comprise:

The average number of full-time equivalent employees (including executive directors and fixed-term contractors) during the year is presented below:

	Total 2022	Total 2021
Permanent staff	101	103
Short-term resource	3	4
Total	**104**	**107**

As at 31 March, the number of full-time equivalent employees (including executive directors and fixed-term contractors) was:

	Total 2022	Total 2021
Permanent staff	99	106
Short-term resource	5	3
Total	**104**	**109**

6. Administrative costs

Administrative costs include:

	Total 2022 £'000	Total 2021 £'000
IT running costs	957	1,046
Professional fees	2,700	1,062
Accommodation and office services	1,350	1,359
Recruitment, training and wellbeing	166	403
Travel and hospitality	8	3
FCA staff recharges	559	598
Other costs	141	153
Total	**5,881**	**4,624**

Auditors

The Comptroller and Auditor General was appointed as auditor on 1 April 2014 under FSBRA. The auditor's total remuneration for audit services is set out below:

	Total 2022 £'000	Total 2021 £'000
Fees payable to the National Audit Office for the audit of the financial statements	28	21

7. Current assets

	Note	Total 2022 £'000	Total 2021 £'000
Cash at bank		10,752	7,410
Cash deposits		-	4,500
Cash and cash equivalents		**10,752**	**11,910**
Prepayments and accrued income		52	58
Trade debtors		12	-
Intragroup receivable – FCA	9	33,528	-
Total current assets		**44,344**	**11,968**

Cash and cash equivalents comprise cash and short-term fixed-rate bank deposits with a maturity date of 12 months or less. The carrying amount of these assets approximates to their fair value.

Intragroup receivable consists of fees and penalties collected by the FCA on behalf of the PSR but not remitted to the PSR at 31 March, less amounts due from the PSR to the FCA under the provision of services agreement between the two companies which sets out the services that are supplied and the respective costs. These costs are based on the charges the FCA incurs, without margins.

8. Current liabilities

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

	Note	Total 2022 £'000	Total 2021 £'000
Fees received in advance		4,889	5,514
Trade creditors and accruals		1,053	1,214
Penalties payable		33,261	-
Trade and other payables		**39,203**	**6,728**
Intragroup payable – FCA	9	-	608
Total current liabilities		**39,203**	**7,336**

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade payables is 12 days (2021: 9).

Penalties issued and not yet collected as at 31 March are included in both current assets and current liabilities, and are subject to an assessment of recoverability. Once total penalties collected during the year exceed this amount, a liability to the Treasury arises.

Financial penalties resulting from enforcement action pursuant to FSBRA are paid to the Treasury after deducting enforcement costs. Penalties issued and collected under the Competition Act 1998 are paid in full to the Treasury.

Intragroup payable consists of amounts due from the PSR to the FCA under the provision of services agreement between the two companies which sets out the services that are supplied and the respective costs, less fees collected by the FCA on behalf of the PSR but not remitted to the PSR at 31 March. These costs are based on the charges the FCA incurs, without margins.

9. Related party transactions

Remuneration of key management personnel

	Total 2022 £'000	Total 2021 £'000
Short-term benefits	894	808
Post-employment benefits	108	90
Total related party transactions	**1,002**	**898**

There were no other transactions with key management personnel in the year.

Transactions with the FCA

The FCA provides certain services to the PSR, which are set out in the provision of services agreement. Summarised as:

	Total 2022 £'000	Total 2021 £'000
Accommodation and office services	1,345	1,345
Staff costs	548	634
IT costs	841	835
Other costs	96	103
	2,830	**2,917**

As at 31 March 2022, the intragroup receivable from the FCA was £33,528,000, as disclosed in note 7 (2021: £608,000 intragroup payable, as disclosed in note 8).

10. Events after the reporting period

There were no material events after the reporting period. The financial statements were authorised for issue on the date of the Comptroller and Auditor General's signature.

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