

Treasury Committee

Oral evidence: The work of the Payment Systems Regulator, HC 144

Tuesday 27 June 2023

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Members present: Harriett Baldwin (Chair); Dame Angela Eagle; Emma Hardy; Dame Andrea Leadsom; Anne Marie Morris.

Questions 105 – 167

Witnesses

I: Aidene Walsh, Chair, Payment Systems Regulator; Chris Hemsley, Managing Director, Payment Systems Regulator.

Examination of Witnesses

Witnesses: Aidene Walsh and Chris Hemsley.

Q105 **Chair:** Welcome to the Treasury Committee evidence session on the work of the Payment Systems Regulator. Can I start by inviting our witnesses to introduce themselves?

Aidene Walsh: My name is Aidene Walsh. I am the chair of the Payment Systems Regulator.

Chris Hemsley: I am Chris Hemsley, managing director at the Payment Systems Regulator.

Q106 **Chair:** Thank you so much. Since we last met you, we published a report about what you were proposing in terms of authorised push payment reimbursement for our constituents. We highlighted some concerns that we had about the potential structure that you had set up, and we made some recommendations. It seems to us that you have taken on board those recommendations. Can you talk a little bit about how you closed off that consultation and came up with the recommendations that you are currently implementing?

Chris Hemsley: You are absolutely right. We consulted extensively, including the material from the Treasury Select Committee, and have now set out our proposals for how we are going to implement these important changes. We now need the Financial Services and Markets Bill



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to go into law. Working in parallel with that, we have a consultation on the implementation plan, so we are now really getting into the nitty-gritty of how to move from the decisions that we have taken, but we need that change in law. We are then going to be using our legal powers to move into the implementation phase. There is still quite a lot of work to do to make these changes real for customers.

Q107 **Chair:** One of the things that we had the biggest concerns about was the potential conflict of interest that you had asked Pay.UK to implement. That has now gone, we understand, by you taking these powers.

Chris Hemsley: That is right. Essentially, we are directing more people using our formal powers. Consistent with the original proposals, we will be directing Pay.UK to change the rules—it has no choice about that; it will be just directing that change—and then we will be directing both the direct participants and the indirect participants, so a much broader set of formal powers, which means that the extent to which we will be sitting behind these arrangements is broader than we originally proposed. It was an option in the consultation, but we have switched to that approach, which is in line with your recommendation.

Q108 **Chair:** Yes, and we welcome that you have taken on board the recommendations we made. Aidene, another concern that the Committee has is around the potential for the banks to continue dragging their feet over this. Where do you see the timeline for implementation on the board now?

Aidene Walsh: In terms of the timeline, the final report will be eight months, I think, after the Financial Services and Markets Bill receives Royal Assent.

Chair: It could be any day now.

Aidene Walsh: Yes, any day now, really. Also, some of this is reputational. The Payment Systems Regulator has received the first tranche of information, which we are just working through, on the performance of sending organisations and receiving organisations on fraud. We will be publishing that in October. We see that as an incentive for those organisations to really start addressing their position on fraud prevention.

Q109 **Chair:** So what this Committee should expect is that, from the moment the Financial Services and Markets Bill receives Royal Assent, which could be any day now, there will be an eight-month clock running, whereby full implementation of your proposals has taken place.

Aidene Walsh: It will be the final report for the overall approach on APP. We have encouraged all participants in the market to prepare themselves, but we will run a consultation on how quickly they will have it implemented.

Q110 **Chair:** When can our constituents, who suffer from these frauds on a



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day-to-day basis, expect this proposal for reimbursement to be implemented? Can you give us a date?

Chris Hemsley: We cannot at the moment. You are right that the eight months is when we need to finish the full implementation. The go-live date is now subject to consultation. We do not want to delay, because you are absolutely right and we are very well aware that we want to introduce these protections as soon as we can, but we also have this consultation on how quickly the sector can implement this in an orderly way.

Q111 **Chair:** That consultation will also start once the Financial Services and Markets Bill becomes law. There is no reason why it should not run concurrently rather than consecutively, is there?

Chris Hemsley: That is correct. We are preparing that consultation already, so that should come out in the next couple of weeks. It is not dependent on the Bill. We are doing that whenever the Bill comes into law. You are absolutely right that we are doing this in parallel, so that we can move as quickly as we can, because we are very conscious of the effects that you have talked about.

Q112 **Chair:** If the date of the Bill's Royal Assent is, say, 1 July, which does not seem completely unrealistic, or sometime next week, then, by the end of March next year, we would expect you to have gone through all these processes to bring this in so that it helps our constituents. I am setting you a stretch target. You are both nodding, for the record, and I will just put that out there.

Chris Hemsley: Yes.

Q113 **Chair:** Chris, could you just elaborate a little bit? Originally, your proposal was that any loss less than £100 would not be covered. You are now saying that all losses will be covered but that there will be an excess of £35 on any claim. Can you tell us why you changed your thinking on that?

Chris Hemsley: Yes. During that consultation process, on reflection, the arrangements that we had set out were perhaps a bit too complicated. We have seen an opportunity to simplify it so that, when we get to the eventual arrangements, more people will have a clear understanding.

We are consulting on the £35 as well; because we have changed the approach, we are doing a targeted consultation on that parameter. I am not expecting that, when we come forward with the final arrangements for the excess, it will be radically different from that value, but we may use a percentage rather than an absolute value, so there are a few choices to be made. Again, that is just to try to make sure that this is as simple and easily understood as possible.

Q114 **Chair:** That is more an operational decision. You are also going to put in place a maximum loss. Can you talk us through your thinking and where



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you might set the bar for that maximum?

Chris Hemsley: Yes, of course. One of the points that came forward during the consultation was that without that maximum limit, payment firms across the country were at risk of having quite an uncapped liability. Of course, they could manage that risk—the likelihood of these costs coming to them—by managing fraud risk better, but, being uncapped, it introduced a financial cost to those businesses.

Looking at that against the other considerations, we decided that a maximum cap would be appropriate. There are, broadly, two options that we are looking at, but there may well be others that come forward. One is the current limit in the Financial Ombudsman Service's awards. It changes every year, but it is currently £415,000. We could look to the FSCS, the compensation scheme, where the maximum amount is £85,000. That gives you a bit of a sense of the levels that we are thinking about. If we were to go for the £415,000, that would cover almost all current APP fraud. Very few frauds would fall outside of that maximum.

Q115 **Chair:** And then it would be more the CHAPS payment system, which is regulated by the PRA, for the house-purchase amounts, which might exceed that.

Chris Hemsley: Yes.

Chair: Thank you. That is helpful in terms of your thinking.

Q116 **Emma Hardy:** Good morning. I understand that you have been looking at market reviews into card scheme and processing fees and cross-border interchange fees. In your latest update, you said that "it has been proven incredibly challenging to gather the full evidence we need from the card schemes". Do you now have the evidence that you need? Are you still going to make the timetable set out by your terms of reference?

Chris Hemsley: If I could answer the second part of the question first, we are still working towards the published timeline. You are absolutely right that it has been harder than we expected to collect all the information that we needed. We broadly requested the information in two phases and we have all the information that we need from the first phase. In the second phase, there are a small number of items that are still outstanding, but we have the information that we need to proceed to that timetable. It is not slowing us down at the moment, but, sitting here today, we have some outstanding requests.

Q117 **Emma Hardy:** How co-operative are Visa and Mastercard being in these reviews?

Chris Hemsley: We have a constructive working relationship with them. We meet them regularly. To be honest, the extent of the requests that we have made perhaps surprised them. I do not think that they are used to this sort of regulatory scrutiny. It has required them to collect quite extensive data and evidence and provide that to us, and that process has



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taken longer than we thought, but we have a constructive working relationship with them.

- Q118 **Emma Hardy:** Are you not surprised that large multinationals like Visa and Mastercard seem to have difficulty providing the evidence or seem to be surprised that a regulator would require that evidence? Is that not a little surprising?

Chris Hemsley: They are not used to this level of scrutiny. I have found it quite frustrating at times that this information is not already available. The important thing there is that we have already set out plans to address this issue. We have set out proposals to move much of this data to a much more regular reporting structure—what we call a regulatory return. The important thing is that, now we have discovered this, we do not repeat this problem.

- Q119 **Emma Hardy:** Are you going to set a requirement for this information that they seem to have struggled with to be more regularly available to yourselves?

Chris Hemsley: Certainly the fees, revenues—that sort of information. The document searches are very issue-specific, but for that data side, we will get that regular flow of information.

- Q120 **Emma Hardy:** So in the future, they could not possibly say that they do not have it.

Chris Hemsley: Correct.

- Q121 **Emma Hardy:** You are a relatively small regulator. Do you think that you have the teeth needed to take on massive multinationals like Visa and Mastercard?

Aidene Walsh: The board has had extensive conversations around that. The reality was, as Charles highlighted last year, around the resourcing levels. The team is now absolutely resourced to the level to interact with the schemes and to get the information, and we are absolutely confident that we can take these pieces of work forward.

- Q122 **Emma Hardy:** You said originally that this information was not available and that they were surprised at being required to provide it. Does it not really concern you that they did not have this information available? You are going to insist on it being available. Are there any concerns around national cyber threats to them if they cannot lay their hands on relatively straightforward information?

Chris Hemsley: I would probably distinguish between those two things. We have set some of this out publicly. Both of the schemes do not routinely report on a UK basis. The sort of information that we are talking about here is largely commercial, financial information, so the comments that I have made relate to that sort of information. I would distinguish that from information around cyber security or other aspects of fraud prevention, for example, including where they have an existing



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relationship with the Bank of England as their supervisor for those aspects of resilience.

Q123 Emma Hardy: The UK interchange fee regulation limits interchange fees to 0.2% of the value of a transaction for consumer debit cards, and 0.3% for consumer credit cards. Have you found any evidence that these fees are not competitive or that this regulation has not been adhered to and that businesses are being overcharged?

Chris Hemsley: So on the compliance with those existing requirements.

Emma Hardy: Yes.

Chris Hemsley: We started a programme of work a number of years back—I would like to say about three years ago—where we were reviewing broad compliance with the IFR, as we call it, or the interchange fee regulation. That prompted quite a broad set of investigations with a whole number of parties.

Some of those have been resolved. Some of the issues were addressed. Some were closed quite early because the parties changed their behaviour, but two of those have led to enforcement action. Both were relating to compliance with the interchange fee regulation, so we issued fines to both the NatWest Group and to Barclays for matters of non-compliance relating to the interchange fee regulation. We take compliance with those rules very seriously and have acted.

Q124 Emma Hardy: What size were the fines that were issued for those two companies?

Chris Hemsley: The latest fines were between £8 million and £9 million for Barclays.

Aidene Walsh: It was £1.8 million for NatWest.

Q125 Emma Hardy: What were they doing that led to the fines? In what way were they not complying with the regulations?

Chris Hemsley: The Barclays issue was particularly around the provision of information to merchants. One of the requirements in the IFR is to provide merchants with, effectively, a summary of their own transaction volume, so that they can understand, essentially, whether it is worth switching to another provider and they have the information that they need. That information was not being provided, and that is the reason why we acted.

The issue with NatWest, if I recall, was around the treatment of whether cards were commercial cards or consumer cards—the cards that we would use day to day—and they were not treated correctly. Again, they were not being treated as being subject to the cap.



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These were different aspects. We looked at a whole range of compliance risks across the piece, but those were the two that relate to those enforcement actions.

Q126 Emma Hardy: What would happen to the card market if the interchange fees were removed entirely?

Chris Hemsley: Do you mean by law?

Emma Hardy: Yes. If they were removed entirely, what would happen to the card market? How do the fees that we have at the moment compare to countries or regions outside of the EU?

Chris Hemsley: If I take the first of those, although I do not want to speculate too much, one observation that I would make is that we want this market to be competitive. If you prevent some forms of cost recovery, you can often see responses elsewhere, so you might see changes in fees elsewhere across the card schemes.

Q127 Emma Hardy: The reason why I am asking particularly is that I have noticed, certainly where I live, an increasing number of small businesses asking people to pay cash or not to use cards, to support their local businesses. It is an issue for many small traders up and down the high street, hence my question. What would happen if, by law, we said, "There are going to be no fees now for the use of cards"?

Chris Hemsley: One of the underlying issues that we have called out in our strategy is a concern that there is not sufficient competition in this market, hence my comment that, if you focus on one fee and there is this competition problem, you will see it elsewhere.

Our response to this challenge—particularly the merchant challenge that you have called out—is to do the fees work that we have under way, but then to find ways of injecting more competition into this market at a more structural level, which is where we see that the combination of open banking in particular, as well as some renewal of the infrastructure that we use for account-to-account payments, has the potential to open a different way of taking payments.

That different way of taking payments will inject more rivalry and, hopefully, put more cost pressure and more quality pressure on the firms that are already in the market. It will take a bit of time, but, over the longer term, that is the route to giving businesses across the country more choice and better-value services.

Q128 Emma Hardy: The second part of my question was about how these fees compare to those in other countries and regions outside of the EU.

Chris Hemsley: Simplifying somewhat, the 0.2% and 0.3% that you referred to are quite low by international standards. In other countries, they can be much higher than we have in the UK and much higher than in Europe. The question that we are asking ourselves is whether the fees are at the right level. Are they fair? Should they have increased? We have



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an eye to the costs elsewhere, but we are particularly looking at whether those fees are set at a reasonable level in the UK.

Q129 Emma Hardy: Just finally, I wonder whether any thought has been given to having fee levels for different-sized businesses, again thinking of the small traders on the high street. It is theoretically possible, bearing in mind that you do not set the rules, to have different levels of fees for different sizes or types of businesses.

Chris Hemsley: Doing that would require a change in law and be quite a detailed intervention. We have highlighted a concern in this area. We looked at competition in what we call card-acquiring services—essentially, those services needed to accept digital payments in any business, online or in person. What we found was that large retailers—the big supermarkets and big high street names—were getting a reasonable deal in the provision of those card services, because they are big enough to shop around and understand the fees.

Small and medium-sized enterprises, some of which have hundreds of employees and are not very small businesses, were not getting as good a deal. That is why we introduced a package of measures that are going live this year to inject more competition and to allow those businesses to more easily compare and switch around, so that they can get a better deal. There are issues there, but ones that we have acted upon already.

Q130 Anne Marie Morris: Can we turn to cash, in terms of both the ability to access it and the ability to spend it? The access to cash review in 2018 came up with five recommendations, but there were probably three core ones: first, cash should be available wherever you live or work; secondly, we should ensure that traders continue to accept cash; and, thirdly, we should promote systems that make digital payments available to all.

The Financial Services and Markets Bill mulled much of this. I would say that it has probably achieved some of it, but not all of it. There was a resistance to the second one—to ensure that traders accept cash—but there is not much point in having a system that mandates that you can get cash if there is not the counterbalancing ability to spend it.

Given that you are the Payment Systems Regulator, albeit that we now have the FCA setting overarching policy on all of these issues, do you feel that you have the power following implementation of the Act? Is there more that needs to be done to ensure that you, with the FCA, can deliver on those three things?

The first is the access piece, and one of the challenges is the ATM mechanism, the geographic spread and the availability to deprived communities. Right now, the jury is out. I would love your comments on how we are going to ensure, given that you regulate LINK, that we get the spread and the diversity that we need. How do you measure where we have and do not have it?

Secondly, on the acceptance point, LINK found in one of its surveys that 45% of people have been unable to pay in cash. Most of the bodies that



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would not accept it are transport—particularly railways—and restaurants. I would like your comments on this, because the reality is that, for some who could only have cash, there are some basics of life, such as being able to pay crucial bills, and to pay for using public transport, for public services and for food. If you cannot pay in cash, that seems to me a very difficult situation that we should find ourselves in, so do we need to do more about that, accepting the need to give our businesses some flexibility?

The third element of this is digitisation. This is a bit of a conundrum, because we are going to try to digitise payment mechanisms, but one of the problems, which is why it is important for cash to remain, is that many of the people who use cash are unable to use or access digital systems. How is that going to help this particular group?

Would you be willing to comment on those three things, the way forward and how we are going to deal with them?

Chris Hemsley: Yes. I will try to cover those three as a start. The simple answer to whether we have the powers that we need is yes. LINK is a designated payments system. Even before the current Bill, we were using our powers quite extensively to protect access to cash, through both the geographic commitment of a 2 km rule and, as I am sure you are aware, the ability to provide additional machines in areas of particular vulnerability, and communities had the ability to request machines as well. That is under way. We have recently reviewed that piece and whether LINK is discharging its obligations.

On the business depositing side and businesses' use of cash and cash acceptance, this is where the Financial Services and Markets Bill will give the FCA significant new powers. It moves the debate away from the previous legislative framework, which was very much about cash machines—LINK was the system that was designated and provides cash machines—to the banks and other payment firms. They must provide a wider set of cash services, so deposit as well as withdrawal.

This goes a bit to your question around businesses. It is a matter for Government and Parliament whether there are specific legislative requirements, but the approach that we have been taking, working closely with the FCA on these matters for some time now, is about whether we can make it easier for businesses to accept cash. If they have ready access to a way of banking that cash through the post office or a shared banking hub, the inconvenience of going to the next town to bank the day's takings is radically removed. I have talked to real businesses that talk about the importance of this. If cash is a convenient method to accept payment, why would they not, if they have customers who want to buy things from them? That is the strategy on those first two.

Turning briefly to the digital piece, we have undertaken some work here. We have an independent PSR panel that provided some helpful material to us. One of the real opportunities here is to realise the opportunity



provided by open banking. That sounds quite complicated and removed, but what that means in practice is that, this year, we can turn on some additional capabilities within open banking that will allow people to take control over some digital payments. They will be able to give people permission to take what we call variable recurring payments. These are the sorts of things that you might currently use a direct debit for, but direct debits are relatively inflexible. Can we turn on these new ways of paying, where customers are given more control if their utility provider makes a request for them to make a payment, whereby they might be able to make a part-payment this week and another payment next week?

This sort of flexibility addresses one of the challenges in the digital space that will allow more people to make use of it. It is not the whole answer, but it does start that journey of whether we can remove the barriers to using digital payments. In many cases, they are the cheaper way of doing it, so it is incumbent on us to play our part in making digital more convenient as well as continuing to protect access to cash.

Aidene Walsh: One thing that I would add is that, as part of our stakeholder engagement, the team absolutely hear the voices of all users of the payment systems. I was in Northern Ireland in March and met with the Consumer Council. In looking at digital payments as a potential option for a lot of people, it is about having the confidence. We are very aware within the Payment Systems Regulator of what we need to do to make the capability available, but then we need to influence that whole education piece and getting people comfortable to adopt it when it is in place.

Q131 **Anne Marie Morris:** Thank you, both of you. However, it does not answer some of the fundamental questions. I suspect that you may tell me that it is a matter of Government policy rather than for your good selves, but none the less, you see the consequences.

On your answer with regard to LINK and access, you said that you have just done a review of LINK and were satisfied that it had in place whatever was needed in terms of steps to ensure that deprived communities were covered, so a little bit more flesh on that would be helpful. That is the first piece.

On the second piece, the answer that it is for Government to decide as a matter of policy whether they mandate that businesses should accept cash was a bit of a get-out of-jail answer. I hear what you say about trying to incentivise and make it easier, but that is certainly not what I am hearing from my local businesses, which have now had the luxury of always taking credit cards. There is no way that they are going back to cash, unless they absolutely have to. There is a huge amount of resistance, at the railway station or trying to buy sandwich on a train.

All of these things seem very trivial, but, at the end of the day, if all you have is cash and that is all you can spend, there are some fundamentals that need to be protected. If supermarkets suddenly started saying, "Do



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you know what? We are only going to accept cards,” that would be a very bad place to be. My challenge is that I accept that it is a policy issue and that, ultimately, Government will have to make the decision, but can you see and are you seeing, in the work you are doing with LINK, which is looking both at getting the cash out and the ability to spend it, a growing problem that is making it incredibly difficult to the extent that it is pushing some people out of the ability to enjoy a normal life?

On the digital piece, if you are digital savvy and you have access to digital, that is great, but my concern is that we still have a number who are digitally excluded. Aidene, while you are right that we need to increase the education, that is never going to be enough for some groups who simply cannot access it, for all sorts of different and complicated reasons.

I am also a bit worried, given the flexibilities that you talk about, Chris, about how vulnerable all of this is either to fraud or, dare I say it, user error. With all of those flexibilities to part-pay my gas bill, I can see all sorts of challenges, such as pushing the wrong button and then wanting to unpick it, and I am not going to be able to unpick it, because unpicking it is always harder than doing it in the first place and then losing the plot as to how much of that bill I have paid. When I have paid the whole lot, hopefully I know I have paid the whole lot. It seems to me that it might have more complexity and error than solving a problem.

If you could just give me some thoughts on those three pieces, that would be helpful.

Chris Hemsley: We do a review of LINK annually. We are in the process of completing this year's. It looks at whether they have been doing the job well on the important protection of the ability to have free access to cash. Broadly, we are happy that LINK is doing a good job in that role. We will be publishing our findings in a few weeks' time in a bit more detail. That is about protecting the geographic spread but also that communities and vulnerability angle.

Q132 **Anne Marie Morris:** There was a recent finding that there were 484 communities with inadequate access. Has that now been addressed?

Chris Hemsley: It depends on the community. If the problem was a free-to-use cash machine, LINK should be plugging that gap proactively. If that community just falls between the cracks of the rules and guidance out there, the community can ask for a free cash machine to be installed. That has happened in about 100 locations. LINK both applies the rules, so that it can do the national job, and then makes sure that there are ways for communities to explain why those rules do not work for them. That is always going to be the case, because each community has particular features that no one can design a simple rule to address.

On the second part, you are right: we are an independent regulator, so we do the job that we have been given, which does not include regulating whether businesses should accept cash. We do not have those powers.



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The issues that you are raising are real ones. We are seeing that the UK is one of the more digital economies. We have made that transition probably sooner than most and have gone further than many. We all need to be alive to this and to make sure that we are playing our part and collecting the information, and that we understand what both businesses and consumers are telling us.

The example of Sweden is a good one. They went very quickly towards digital payments and away from cash, and there was a correction. If I recall, the issues were particularly around payment for certain public services, where you had to make those digital. I do not want to speak for them, but I do not think that their society was ready for that step, so there is a bit of a cautionary tale there of making sure that we do not leave people behind.

On the points that you make about digital, the detail really matters here. Digital cannot mean more complicated, because it needs to work for people. It can meet the needs of some people quite well, if it is well designed. Some people, but not all, do prefer that, because it gives control in different ways.

I would probably just agree with your point that, as we go through this process, we need to make sure that, as we turn on the capability, we do our job properly, so that we understand that we turn on only those things that do not introduce unforeseen or too many risks, that we do this in a progressive way, and that we first target these in slightly lower-risk scenarios and then build from there, so that, eventually, these digital capabilities become a lot more tried and tested. The points that you call out are absolutely right. Digital cannot mean more complicated. It needs to work with how normal human beings behave.

Q133 Dame Angela Eagle: Mr Hemsley, where are we with the new payments architecture progress?

Chris Hemsley: The programme is currently delivering against the timetable that I previously set out to the Committee. We are moving towards the go-live date of July 2026, which is the date that is in our directions.

To unpack that a bit, the programme has recently met one of the quite key milestones in this process, in that the competitive tender has now completed. Quite an important phase of the procurement was to get a competitive process to bring forward good value and good ideas, and to get those proposals.

Q134 Dame Angela Eagle: Is that the central infrastructure services?

Chris Hemsley: Correct. We are now in the process whereby the two regulators—the PSR and the Bank of England—are reviewing the proposal from Pay.UK, which is the tendering authority, and making sure that the proposal for the next phase meets the relevant regulatory requirements, which are, broadly, that it promotes competition and protects consumers,



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which is particularly the PSR focus, and the Bank of England is looking at resilience, security and other really important aspects of this national infrastructure.

Q135 Dame Angela Eagle: That is happening at the Bank, and it is crucial. Anyone watching this needs to realise that this payments architecture is about all of the transfers that are done in many different systems between banks. The plumbing for the entire banking system is what we are talking about.

You say in your annual plan that one of the things that you will do in this financial year is review Pay.UK's proposed design and funding model business case. That sounds like something that should have happened rather a long time ago rather than at this stage of the process.

Chris Hemsley: We have been talking about all of those matters to Pay.UK and other stakeholders for quite some time. Indeed, we made quite a significant intervention about 18 months ago to simplify the scope of what is delivered.

Dame Angela Eagle: Yes. You talked about that last time you were before us.

Chris Hemsley: Yes. What we are doing in this phase is what I would almost describe as appropriate due diligence. We are not expecting any particular surprises. We know and are aware of the specification and how it is going to be funded, but we are now doing the final due diligence, so that we are comfortable that it can move on to the next phase. The way that we described it there probably gave the impression of a more extensive review or that we were starting from first principles, which we are not.

Dame Angela Eagle: Yes. It set a few alarm bells ringing.

Chris Hemsley: This is a more formal checking of all the evidence to make sure that we are comfortable to move forward.

Q136 Dame Angela Eagle: You used your powers three years ago to simplify the national payments architecture project, and also to raise capability within Pay.UK. You told us last year that Pay.UK was in a better place as a result, and now you say that you have accepted some suggestions from Pay.UK to add extra capability, which also rings alarm bells for me that you should be adding things on after you have simplified something right in the middle of a procurement. That is usually what happens when things start to go wrong, so why are you doing it?

Chris Hemsley: There were two sets of services that were proposed, and one has not been put in. We took a very careful decision on this.

Q137 Dame Angela Eagle: So you simplified it and now you have complicated it again.



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Chris Hemsley: We simplified it by, in simple terms, removing BACS, which is the largest by volume and very complicated.

Q138 **Dame Angela Eagle:** That is everybody's wages, payments and benefit payments, so that is hundreds of millions of payments structures upon which everybody relies.

Chris Hemsley: Yes. That is quite a radical simplification. The services to which we gave consent to add back in are quite focused. They add in a capability to future-proof what is being procured. It would particularly allow some of those BACS services to more easily migrate across in the future, if that is what we choose to do. They are an order of magnitude simpler and more targeted relative to that simplification.

Q139 **Dame Angela Eagle:** So BACS, which is the big bulk of the payments system in terms of volume, is not in the new system.

Chris Hemsley: Not on day one, no. One of the requirements that we have placed on Pay.UK is, essentially, to have a BACS strategy and to identify the best way of meeting that payment need. Broadly, we could build new services—a replacement for direct debit, for example—on the new payment architecture, and then businesses might just choose to adopt it, or we may decide that there are some services where we need to do a more traditional IT migration, whereby we move volumes and shut down the old system. Those are broadly the choices and the strategy that Pay.UK is currently working on, but the priority for us has been to get this new clearing and settlement layer in and make sure that it can be delivered.

Q140 **Dame Angela Eagle:** This is, essentially, a clearing system for banks, and a few bells and whistles for customers, but the main bulk is outside of it.

Chris Hemsley: What it replaces is Faster Payments. It will deliver a new, modernised information standard, which is referred to as ISO 20022 and is the more international standard for payments. It will also introduce some really important capabilities, so that the inter-bank, account-to-account system can also work for genuinely instant payments. It will work for retail use.

We are replacing the Faster Payments system but also introducing new capabilities that will unlock a wider range of benefits. Eventually, there are questions about whether we want to migrate or replace BACS as well, because those systems do need investment.

Q141 **Dame Angela Eagle:** The BACS systems are ancient now.

Chris Hemsley: They have been upgraded. You are right that the original BACS system has been around for decades.

Dame Angela Eagle: Which, in IT terms, is prehistoric.



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Chris Hemsley: I have had the benefit of seeing these computer systems in real life, and it is modern architecture and infrastructure now. It is not the same as you would probably think, but it is not the 1980s computers at all. It is much more modern architecture that these services are running on, but we do need a fundamental upgrade at some point to make sure that they are fit for the future, essentially.

Q142 **Dame Angela Eagle:** You had to intervene to upgrade the leadership and management team at Pay.UK. Are you now satisfied that they are of the appropriate standard to deliver this system and this new architecture?

Chris Hemsley: Yes. That confidence in Pay.UK is built on the extensive capability review that we put in place. It is important to make sure that we do not see any deterioration. One of the changes that we are making in how we run ourselves and do our job is to create a dedicated supervision team, in effect. That will maintain that sharper focus on Pay.UK, as well as the other payment system operators, to make sure that the standard of capability is maintained going forward.

Q143 **Dame Angela Eagle:** Will the new payments architecture increase or reduce the risk of payment fraud?

Chris Hemsley: It should unlock a lot of additional capabilities to tackle payment fraud. One of the uses of the richer data that it will provide and that you can attach to a payment message is that it will provide an additional capability for tackling fraud. There is still a lot that we can do with the current system and with FPS. Indeed, Pay.UK is currently procuring additional data services to, essentially, allow quicker intervention to prevent fraud. While we are not waiting for the NPA, it will provide us with a more modern platform to make that next step on fraud prevention.

Q144 **Dame Angela Eagle:** You think that it will improve fraud protection because it is more instant. We know that one of the problems with purchase fraud and payment fraud is that the more instant it is, the more likely it is that scammers get clean away with people's money before they realise that there has been a fraud. Instantaneous payments are good if you know what you are doing and you have not been scammed, but they are pretty disastrous if you have been scammed and you are maybe not as savvy as you ought to be and have fallen victim to one of these quite sophisticated frauds that are happening mainly from online fraudsters, who are often out of the country these days.

Chris Hemsley: Because of the instant nature of Faster Payments that exists today, the work that we are doing on authorised push payment fraud is to try to stop payments being initiated on the system and also to be quicker in our response when we see those frauds.

The move from Faster Payments to the new payments architecture is removing fractions of a second. These fractions of seconds matter to big retailers across the country, but that switch will probably not make a big



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difference to the particular problem, because we have it today and we need to deal with it.

Where it will allow us to make that further step is in the better and quicker use of data. There are things that we can do today, but there is more that we could do in the future to use modern processing techniques, machine learning and all these sorts of things to interrogate that data, spot suspicious patterns and intervene more quickly. We can do some of that today, but the NPA will allow us to do more.

Q145 Dame Angela Eagle: You are saying that it is neutral. It will not make it better and it will not make it worse.

Chris Hemsley: It will not make that speed of payment problem for a consumer any worse, but it will unlock better data techniques to tackle the underlying problem.

Q146 Dame Angela Eagle: How much are you expecting the overall cost of the transformation to the new payments architecture to be?

Chris Hemsley: That number is part of the bidding process, so I cannot give you those numbers. That is confidential, sensitive information at the moment, but I will be very happy to write to the Committee at the earliest opportunity and set out those numbers as soon as they are not market-sensitive.

Q147 Dame Angela Eagle: That would be useful. To what extent is the cost of that going to be visited upon consumers and retailers in the costs that they get for using the banking system, rather than absorbed within the banking system as part of its own productivity increase?

Chris Hemsley: The potential here is for a system that is better but could also be cheaper. You are right that the costs of these systems are ultimately paid by everyone.

Q148 Dame Angela Eagle: The cost of procurement is a big up-front payment that will be taken on board, presumably, and shared between those who are using it. The way that the banks behave at the moment is that they tend to pass those costs directly on to their users or consumers. What are you doing to ensure that the cost of this investment is borne fairly by the banks as well as those that use the systems that the banks make available?

Chris Hemsley: The first thing that we did was that we insisted on this competition, which is one way of driving the total costs down.

Dame Angela Eagle: That does not answer my question.

Chris Hemsley: We have also been overseeing the proposals for that cost recovery and being really clear that it needs to be spread out over time. It needs to be funded by participants, but the costs need to be recovered from users on a reasonable basis.

Q149 Dame Angela Eagle: What you are saying is that users are going to pay



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for the whole cost of this, but the intervention that you are making with your regulatory powers is to make them recover the cost over a longer period than the banks might have charged if they had been left to their own devices.

Chris Hemsley: Our intervention has helped on this, but the mechanism by which participants pay for payments infrastructure is the arrangement that we have today for Faster Payments.

Q150 **Dame Angela Eagle:** So if you are a bank, you win. If the customer loses, the banks win as well. There is no capacity whatsoever, or you do not think that it is part of your job, to make it the case that banks could, at some stage, pay a little bit out of their own profits for the systems infrastructure upgrades that we have been talking about, while they keep taking away vast profits.

Chris Hemsley: The approach that we are taking is to make sure that the banks and other payment firms pay for these services. There is no reason why this, in itself, should change the current approach of free-if-in-credit banking. At the moment, if initiate a payment to a relative or to a business, I do not face that cost, but businesses do pay for those services today, and I would expect that broad structure to continue in the future. The key job for me is to make sure that that system works, is delivered as soon as it can be and, of course, is keenly priced. Again, that is one of the reasons why we have taken the approach that we have.

Q151 **Dame Andrea Leadsom:** Good morning. You have had quite a lot of staff turnover in the last few months and, as a result, some high-profile departures and some new arrivals. Why the departures, and how well are you coping with the arrivals?

Chris Hemsley: One of the effects that we have seen is that, during the pandemic, our staff stayed with us, so we went through the pandemic period. We tend to recruit people who have good experience with us, learn a lot, do a lot and deliver things that really matter, but they also then become quite valuable. What we experienced in the last financial year was that a lot of people who would have stayed with us for three or four years had stayed with us for an extra year, but then saw opportunities to further their career. There was also quite a buoyant payments market out there recruiting.

Q152 **Dame Andrea Leadsom:** Just to come back on that, it is not usual to have so many senior staff leave in one go, is it? That suggests more than just great demand out there.

Chris Hemsley: Sorry, my observation was more about the staff in general. In terms of the senior team, we needed to structure the organisation so that we can deliver against the strategy that we have. We needed to change the way that we organise ourselves so that we remain effective. That meant that we changed a number of the roles in the senior team in the divisions.



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Q153 **Dame Andrea Leadsom:** So you got rid of people.

Chris Hemsley: No, we did not get rid of people. Two members of the executive team decided that it was the right time for them to explore other opportunities. Both of those individuals who left the executive team had been with the organisation for seven years, pretty much since it started, which, at that kind of senior leadership level, means that they have done a lot and delivered a lot.

Q154 **Dame Andrea Leadsom:** But it has left you somewhat vulnerable, has it not?

Chris Hemsley: We have had a smaller executive team over the last nine months, which has meant that those of us who are in that executive team have had to work harder. The good thing is that Oliver Hanmer joined us yesterday, Alex Olive, our new general counsel, joined two weeks prior to that, and we complete the executive team next Monday. We have gone through that transition. For any organisation going through one of these internal reorganisations, it creates opportunities, and other people decide to leave, but we are now through that phase.

Q155 **Dame Andrea Leadsom:** But it also does risk morale and overload, does it not? You also have new people who you need to bring on. Do you have any concerns from that point of view?

Chris Hemsley: You are absolutely right to call that out. During that transition, some of the teams have worked really hard, frankly, and I am really proud of and thankful for the work that they have put in. Looking at our most recent staff engagement results, which were released last week, the PSR's engagement scores have increased significantly, and we remain within the brand category of great places to work. We have gone through a year, but those scores have gone up.

Of course, there are lots of things to work on, and one of those is the particular areas of the organisation where people are working really hard to get things done. We are not complacent about that, but, over the last year, we have been delivering things, and people are enjoying the work that they are doing and see purpose in it.

Q156 **Dame Andrea Leadsom:** Your proposed budget has also increased quite significantly this year, as has your expected use of consultants. Can you just explain that to us, please?

Chris Hemsley: It has increased, but it reflects the ambition and the scale of what we are doing. The PSR has never been busier. We have taken on some significant pieces of work, because there is work that needs to be done. We were talking about card fees and the fraud prevention work, and also the work on open banking, which is to make sure that the UK is at the forefront of payments. It is really important work. That is the principal driver of the increase in our overall budget.

You asked about the professional fees side. We do not seek to rely on



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professional fees as an alternative to having staff. Having staff is the better, more effective and more cost-effective way of doing it, but we are in a phase where we expect to use more external expert advice to complement the skills and knowledge that we have. That is particularly on card fees but also on those other workstreams where we expect to bring in that specialist advice to help us to do our job. That has been built up on a project-by-project basis to identify where we could use staff and where we could use external consultants.

Q157 Dame Andrea Leadsom: Would you say that you are losing control of your costs and overheads, or would you say that they are tightly under control?

Aidene Walsh: I would say that, from a board perspective, they are tightly under control. We review the costs at every board. To Chris's point, we did a zero budgeting process this year. We get criticised for not being agile enough, and we know that this is a year of delivery. The next two years are absolutely critical to payments in the UK, so we were very confident in the increase in the costs this time around. I review them monthly in my conversations with Chris, and the board reviews them every time we meet.

Q158 Dame Andrea Leadsom: Would you say that you are having to pay significantly more for staff costs in terms of attracting and retaining good people?

Aidene Walsh: No, not especially. I will caveat that, because I will say that the costs of acquiring staff in the market have gone up. In looking at the Payment Systems Regulator, the key thing that I would call out is the motivation of people to come in and make a difference to society. We are very aware, when we go through a recruitment process, that we cannot pay the top rates for getting people in, but we get quality people in who really want to make a difference. They have gone up, but they have not gone up perhaps as much as they have gone up in the external market.

Q159 Dame Andrea Leadsom: Changing subject slightly, one of the key reasons for establishing your organisation was the inadequacy of the Payments Council, which was the banks self-regulating. Going back to some of the questions from my colleagues, with regard to access to cash and being able to use it, and with regard to payments and to cheques, is it your overarching corporate value that all of these facilities should continue to be available, or is it not? Do you see it as your responsibility to make sure that you meet the needs of consumers and businesses?

Chris Hemsley: Your final articulation there is very close to the language that we used in our strategy. We talk about the need to protect choice for people, so that they have a good choice of how to make payments in ways that work for them.

You are also right that there is a process of change going on in payments. We were talking just a moment ago about the fact that there will come a point where we need to think about direct debits and the standing order



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process, and migrating those to some form of newer, more modernised approach, so those debates are coming.

Q160 Dame Andrea Leadsom: I understand that the processes are changing, but I am talking about the basics: if you want a cheque book, you can have one; if you want to use cash, you can pay with it; if you want to access cash, you will always have access to it; if you want to make a payment between yourself and another body or organisation, you will always be able to do it. Can you give us some assurance that those statements will always be the case?

Chris Hemsley: That is not quite the job we have been given by the legislation. Our job is to protect the interests of users, but we have not been given the job to protect every single way of paying. As the Financial Services and Markets Bill shows, at times Government need to play a role in taking decisions on protecting access to cash, as the current Bill does. It is our job to make sure we support that debate and provide evidence, views and analysis. Some of it falls to independent regulators. Some of that will fall to Government to take the decisions.

Q161 Dame Andrea Leadsom: Is it then not clear whose responsibility it is to protect the cheque or the use of cash? Is that unclear? Would that be your view?

Chris Hemsley: I do not think it is unclear, no.

Q162 Dame Andrea Leadsom: Who is responsible for protecting access to cash and access to the use of cheques?

Chris Hemsley: On cash, the financial services Bill makes this really clear. The FCA will have the responsibility and Parliament will have set out the requirements for it.

Q163 Dame Andrea Leadsom: It is the Government and the FCA, yes. What about cheques?

Chris Hemsley: The cheque is a designated payment system. We will be protecting access to that system and promoting the use of it. There will come a time when we have to have a wider conversation about the role of cheques, but that is not today. That is when Government, Parliament, regulators and others need to support that conversation.

Q164 Dame Andrea Leadsom: Fundamentally, your role is to protect the users of payment systems, and you do accept that overarching responsibility.

Chris Hemsley: Yes.

Q165 Dame Andrea Leadsom: Turning quickly to the banks, would you agree that banks' core clearing systems and payment systems are extremely elderly and clunky? We have seen banks be unable to make payments over the years, though not so much recently. You said yourself, Chris, that the front-end computer systems are now quite good, but the back



end has not really changed, has it? There is still this problem where so much fraud is due to poor bank systems and fraudsters being able to access those. What responsibility do you have as a regulator to push the banks into improving and upgrading their core systems, which would solve this issue over the long term?

Chris Hemsley: You are absolutely right. It is definitely our role to modernise central payment systems. In respect of the banks, it is to make sure they can deliver the requirements we place on them. We do not directly regulate their systems and their resilience. Depending on the bank we are talking about, that is a job for the PRA, the Bank of England or the FCA.

The work on fraud is a really good example here. It is definitely our job to make sure people are protected. It is our job to make sure there are incentives for all payment firms to act. Today, that is about making firms upgrade their systems. There are broad differences between the capabilities of different firms. They are starting in different places. There are a number of firms out there that are more able to make that transition, that make better use of data and that have more modern systems. There are some that do not.

My job is to make sure that the incentives are in there and that there are requirements on those firms so they act in users' interests. Of course, that places an incentive on them to get their own house in order.

Q166 **Dame Andrea Leadsom:** Further to my colleague Dame Angela's question, do you have the ability to require banks to absorb the costs of upgrading their payment systems rather than passing them on to consumers?

Chris Hemsley: The straightforward answer to that is no. Our regulatory remit for a designated payment system goes to the system itself, the provider of infrastructure, and then also to the participants. The pricing of services, which is essentially where they would get the cost recovery, would be the pricing of a current account or a business account. That would fall to the FCA as the relevant regulator. That is not an area where we would have direct powers.

Q167 **Chair:** You are going to be coming up to your 10th anniversary as an independent regulator in April next year. Looking back on those 10 years and thinking about your objectives to ensure competition and innovation, one of the themes that has come out of this morning seems to be—you said it yourself, Chris—the anti-competitive behaviour of Visa and Mastercard and the banks dragging their feet on some of these things. You are nodding, Aidene.

Over those 10 years, we have heard about the promise of open banking, open payments, the ability to bring in more competition for consumers, and the ability to be radical and be the world's leading centre for payments. I was struck by the fact that in 2022 you established a joint regulatory oversight committee on open banking and then in August that



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committee established a strategic working group to look at the future of open banking. This month the joint regulatory oversight committee announced the creation of two new working groups on open banking, one of which is focused on the design of another entity that will work on open banking.

All of this made me think of the second world war field manual entitled *Simple Sabotage*. It said, "When possible, refer all materials to a committee, for further 'study and consideration'. Attempt to make the committee as large as possible—never less than five." It just feels like you are being pressured by all these anti-competitive forces to sabotage all these different ways that could help our constituents enjoy better, more competitive and more open payment systems with more competition and more innovation.

Aidene, you have just become chair. What are your thoughts on what I have just said? Am I being unfair?

Aidene Walsh: I do not see that. Your perception is your perception, but I do not see that. One of the key challenges for the Payment Systems Regulator is ensuring that, in doing what it does, it consults properly and gets the evidence in terms of the actions it takes to progress pieces of work.

I have been sitting on the board since 2020 and I have seen tremendous progress with Chris and the team in terms of agility, hitting the milestones it has committed to and engaging with various participants in the system, whether they are consumers, providers or what have you. We have been very clear about the milestones that will be hit and how to move pieces of work forward.

Chair: It feels as though there has been a concerted effort by incumbents to continue to try to slow these processes down. I am seeing nods from my fellow Committee members.

I am going to leave the session there, planting that thought in your heads. There is huge potential out there in terms of payment innovation and competition. We welcome the progress you have made in response to the concerns we had about your push payment consultation, but we do want the UK to remain absolutely at the forefront and the cutting edge.

I believe there are forces—you have referred to them yourself today, Chris—that are maybe trying to slow things down or act in a way that is anti-competitive. They may be thinking, "The worst that can happen to us is that in two years' time we might get referred to the Competition and Markets Authority."

I am just going to leave you with that thought. It has been a very interesting session. That is the abiding perception I have been left with. Thank you so much for your time today. That brings to an end our session of the Treasury Select Committee.