

Treasury Committee

Oral evidence: The work of the Payment Systems Regulator, HC 711

Tuesday 12 February 2019

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Members present: Nicky Morgan (Chair); Rushanara Ali; Mr Steve Baker; Charlie Elphicke; Stewart Hosie; Catherine McKinnell; John Mann.

Questions 118 to 241

Witnesses

I. Hannah Nixon, Managing Director, Payment Systems Regulator; and Charles Randell, Chairman, Payment Systems Regulator.

Examination of witnesses

Witnesses: Hannah Nixon and Charles Randell.

Q118 **Chair:** Good morning. Thank you very much indeed to both of you for being here. It has been about a year since we had the last proper session on the Payment Systems Regulator. Hannah, I know this is going to be your last session in front of us, although I am not sure you are necessarily going to tell us where you are going next. You never know; it might be another job that brings you back before the Treasury Select Committee. Before we start, just for the benefit of the record I am going to ask you both to introduce yourselves.

Hannah Nixon: I am Hannah Nixon, managing director of the Payment Systems Regulator.

Charles Randell: I am Charles Randell. I am the chair of the Payment Systems Regulator.

Q119 **Chair:** Thank you very much. I want to start with something that is very much in the news this morning, which is the UK's ATM network and the number of ATMs that we have. At your July 2018 board meeting, the board noted that it had seen no evidence that protected ATMs were closing, and yet by September 2018 it said that the report showed that a number of protected ATMs had closed. Was the board of the PSR asleep at the wheel?

Hannah Nixon: It is really important that we make sure that the UK continues to benefit from the widespread network of free-to-use ATMs. At that point at the board meeting we did not have that information. We had had assurances from LINK that it was doing everything it could to protect those networks. We were extremely disappointed when it was reported to us formally that some of the protected ATMs had been lost. That is why we have pushed LINK to make sure they have clear processes in to remediate those ATMs as quickly as possible, because we know that there are communities that are suffering from the lack of an ATM.

We were pleased to see that LINK has now put in the higher interchange fees for protected ATMs with low volumes. We are also pleased to see that LINK is directly commissioning ATMs when no alternative deployer has come forward. Some of those ATMs are now being put in, but they need to go back in as quickly as possible.

Q120 **Chair:** Mr Randell, how does the board feel about not being given accurate information? It is not enough to wait for LINK to give the board information. Surely the board or the regulator has to go out to LINK to get the accurate information so that the board is fully updated.

Charles Randell: That is absolutely right, yes. You will see this reflected in the actions that were agreed at our September meeting. We felt the



quality of data we were getting from LINK was not adequate, and we felt that it was necessary to ask the staff of the PSR to engage much more intensively with LINK to ensure that their data was timely and accurate. You are right to point out that at the July point we felt that there was no cause for concern, but by September it had become clear that we were concerned. That is exactly why we responded in the way we did.

Q121 Chair: Ms Nixon, how many protected ATMs have closed since LINK introduced the changes to their interchange fee?

Hannah Nixon: We have about 2,400 protected ATMs across the UK. We have seen 116 of those closed. Some 28 of those are not open to the public. They will be in an office premises or something of the sort, so those 28 that have been closed are therefore not being replaced, because the demand is not there. Some 52 of those are close to a Post Office with good opening hours; 10 still have ongoing security problems. That leaves 26 that LINK is actively closing.

Q122 Chair: One of your goals is to protect the geographic spread of ATMs in the UK. How would assess your performance in relation to that?

Hannah Nixon: Now what we do have is a process that will make sure that we do continue to benefit from that widespread geographic spread of ATMs, but we need to be clear on what LINK's role is. A lot of the ATMs in those geographically remote areas can be in commercial premises, for example.

If the shopkeeper decides to close that business or retire, the ATM is lost with it. It is really important that LINK is identifying those and incentivising another operator to put an ATM in or, if that cannot be done, commissioning an ATM itself. LINK does now have those processes—we have pushed them to have in place—but in the early part of last year unfortunately some of those ATMs were lost.

Q123 Chair: In relation to the interchange fee, it seems that the banks have been able to drive through changes to the LINK fee. They have saved millions of pounds in making that change and yet little has been done to protect consumers from losing access to their own cash. Would you agree with that?

Hannah Nixon: We were really concerned when we saw LINK's original proposals to cut the interchange fee regulation. I recall discussing that with the Committee a year ago.

Chair: Yes, absolutely.

Hannah Nixon: That is why we said to LINK that they needed to understand the impact of any cut that they made to the interchange fee; that is why we told them it had to be incremental. We were pleased to see them put the third and fourth of their cuts on hold. We were really clear that they needed to maintain the interchange fee for those ATMs that are geographically remote. Those ATMs have not seen a cut in



HOUSE OF COMMONS

interchange. In fact, some of those ATMS are now attracting a higher interchange fee rate. We do now have a process in place that should protect that geographic spread of ATMs and make sure that, where ATMs are closing, for example because a business is closing down, LINK is doing what it can to replace them.

Q124 Chair: It is not just to do with geographic spread; it is also about areas of deprivation. Often, people are being asked to pay money to access their cash. These are the very people for whom that is another cost that their household finances cannot really bear. The latest data from LINK shows that the number of deprived areas without a free-to-use ATM has increased by over 18% since Q4 2017. How does that tally, again, with your objective of protecting service users?

Hannah Nixon: LINK does have a financial inclusion programme, which is filling those gaps. Our focus is on making sure that there is a widespread geographic network of free-to-use ATMs. We are up against the limit of our powers here. We can hold LINK to account for its commitments, but what we cannot do is force a particular spread across the country.

Q125 Chair: That is interesting. You are coming up against the limits of your powers. In October, you gave LINK something called a specific direction, which I think was what Mr Randell was just referring to, requiring it to do all it can to preserve the geographic spread of the ATM network. What has happened since?

Hannah Nixon: What has happened since is that LINK has put in place the tiered interchange fee. Any protected ATM that has fewer than around 50 transactions a day can attract a much higher interchange fee. It has also put in place a direct commissioning scheme, which is currently commissioning 12 ATMs at the moment for replacement. This means that, where ATMs are under threat of closing because, for example, the transactions are low or the business is closing, LINK does have processes to identify that and put them back in as quickly as possible or to stop them closing in the first place.

Q126 Chair: What further powers do you have at your disposal? Can you instruct LINK not to make changes to the interchange fee?

Hannah Nixon: Yes, we can do that. We were pleased to see that LINK has cancelled the third and postponed the fourth cut. The economics of ATMs clearly depends on a number of factors. Interchange is important, but it is not the only thing. Demand is important, hence the importance of this higher interchange fee on the low-demand machines. Ultimately, however, if the deployer or the premises in which the ATM is situated decides to close, LINK cannot stop that from happening.

Q127 Chair: Is the reality not that the PSR is reliant on LINK and then LINK is reliant on the banks in relation to fees? It is a bit of a vicious circle. At the heart of this is the poor consumer, who is just trying to get access to their cash without having to pay for it. Is the whole system in need of



HOUSE OF COMMONS

reform, frankly? Mr Randell, what is the board discussing about this?

Charles Randell: We have agreed that the whole system needs to be looked at afresh. For that reason, the board has approved a proposal from Hannah and colleagues to look at the entire infrastructure of cash provision over the course of the year, building on various other bits of work that have been done, including the work of Natalie Ceeney, commissioned by LINK, who is producing a report on access to cash. I know you also have an inquiry into access to financial services. We will be looking at the full range of evidence to consider whether this system is ultimately going to be sustainable.

In the short term, as Hannah says, you see some considerable decline now in demand for cash services and the numbers of withdrawals. That affects the economics of individual ATMs; it drives pressure, ultimately, for an increased subsidy to keep those ATMs open. Over time, while it is conceivable now that this will hold the ring for a year or two, one could see a world in which demand for cash declines even faster, so the subsidy requirement for individual ATMs goes up exponentially and is ultimately borne by cash issuers.

If we fast-forward two or five years, the question we have to ask is whether it is going to be sustainable to have a system in which the subsidy is borne by card issuers when a whole load of other payment services have evolved that do not involve the issuance of cards? Who should fund the subsidy?

The one thing we are absolutely clear about is the fact there are very clear needs cases, whether they are in remote rural communities or people suffering in vulnerable circumstances. I went to visit a project in Newham for mothers and children living in very vulnerable housing circumstances, where they are very dependent on the ability to get hold of the necessary payments that they get from the local authority without paying charges. To them, the charges would represent at least 10% of their total income. It is absolutely essential that we continue to guarantee access to free-to-use machines, but we do need to think about this potential cliff-edge effect that we will see as cash withdrawals decline exponentially.

Q128 Chair: You are absolutely right about people who rely on cash for various reasons. Steve is going to come on and talk about the future of cash in a moment, but what you are basically saying is that the national system for people to have access to their cash via machines is basically broken.

Last week we heard from the Post Office, who said that they are also having to pick up the tab for banks pulling out of communities. That is not your particular issue, but of course it is of interest to you. The Post Office is losing money in terms of picking up those banking services.

Mr Randell, you also wear the FCA hat as well, as chair. Where does responsibility for this lie in terms of access to a pretty basic financial service, which is people's cash that they are entitled to? Does it lie with



HOUSE OF COMMONS

the FCA? Does it lie with the Bank of England? Does it lie with the PRA? Who is going to solve this model, which is clearly broken?

Charles Randell: Or does it lie with legislators and policymakers? These are great questions. As I say, we can hold the line for a period while we consider the implications of this profound change that we are seeing in people's use of cash and contactless payments and the effect it is having on the economics of the cash distribution industry. Ultimately the points that you highlight are about whether access to cash should be a universal service or a commercial service.

The Post Office is providing a great service through a universal service obligation, but at a cost to the public purse. Card issuers are subsidising the provision of ATMs, which are sometimes being deployed directly by LINK in cases where there is not a commercial deployer who is willing to shoulder the cost. It is headed towards a big debate about whether this becomes a universal service obligation. This is the year in which we need to have that debate.

Q129 **Chair:** Potentially, the whole system could fall over. It is interesting that you are talking about 12 months. I know Stewart has a particular question he wants to raise on ATMs, and I am going to come back to APP fraud scams, if you could say something on that. You are right to mention Government and legislators in this. Is this a conversation you have had with the Treasury wearing either of your hats? Particularly prompted by the Natalie Ceeney review, is this a conversation you have had with Government?

Charles Randell: Absolutely, yes. This is absolutely at the top of our agenda. It is a discussion that I have wearing both of my hats, my FCA hat and my PSR hat. I really do not distinguish between them. When I go on regional visits and I meet consumers who talk about the difficulties they have when their bank branch or local ATM has closed, or when they are being charged a fee for access to very small amounts of needs payments that they are getting through their local authority, I do not say, "Which hat am I wearing?" I say, "How are we going to solve this?"

It is a conversation that needs to include Government. It also needs to include the Bank of England, which has a role in the cost of wholesale cash distribution. That needs to be looked at as well. There is a lot to do. I wish I could offer you a solution right now, but that is why we have made this a very high priority for our work this year.

Chair: We might come back to your various hats.

Q130 **Stewart Hosie:** Hannah, I have a constituent who runs a community shop in a relatively deprived area. It is right on the outskirts of a city. Many of the people he serves are in a rural setting. He had an original supplier who paid the business rates on his ATM, but when he sought to change supplier, it transpired that he was going to have to pay the business rates, which was quite a substantial amount of money. Because of the nature of the community he is in, he also insists that this is a



free-to-use service. First, does the PSR have a policy on who should pick up the tab for the business rates? Is it the ATM provider or is it the tenant proprietor in the building itself?

Hannah Nixon: It is subject to commercial negotiations. All of these ATMs are deployed on a commercial basis. LINK will set the interchange fee arrangements and so forth, but if a business wants to provide an ATM to its customers, it would need to engage with the ATM deployers and agree a commercial contract.

Q131 **Stewart Hosie:** It is on an individual-by-individual basis.

Hannah Nixon: Yes.

Q132 **Stewart Hosie:** The second follow-up question is in relation to the interchange fee. If the shop and machine were a few miles farther north, in a clearly rural area in one of the small villages, they would get the higher interchange fee, but because it is clearly urban they get the lower interchange fee, even though the community he is serving are not necessarily around the shop. Is there flexibility in terms of the interchange fee for a situation like that? It cannot be unique.

Hannah Nixon: The test is around the distance to the next nearest free-to-use ATM.

Q133 **Stewart Hosie:** The next nearest free-to-use ATM is a supermarket perhaps less than a mile away, so they would fail that test, but the customer base does not come from there. The customer base comes from a completely different direction, where the nearest free-to-use ATM is around 13 miles away, from memory. Is there flexibility to deal with that and to set aside the one-mile rule?

Hannah Nixon: I understand the frustration in that case. We are dealing with an imperfect situation. Charles talked about the need for us all to look more holistically at how we make sure there is a sustainable model for access to cash. That is not something the PSR can solve on its own. It is going to need other regulators; it is going to need Government.

In the short to medium term, what we can do is hold LINK to account on its commitments. Those commitments are around the one-kilometre test. That one-kilometre test is based on TSC work that was done over a decade ago now but has become accepted industry standard. We are doing as much as we can within our powers to make sure we do preserve that free-to-use ATM network.

Q134 **Chair:** That is an interesting point. You are reliant there on TSC work. Is that going to be updated? Is there going to be more analysis of that? Does that distance need to be looked at again?

Hannah Nixon: I would hope that we would look at that as part of the wider work. In my mind, this is not just about access to free-to-use ATMs. We need to look at how people access cash more widely. We also need to look at how small businesses deposit their cash, for example. The



HOUSE OF COMMONS

wider work we are doing is about taking a much wider look at the industry than simply the ATM side of it.

Q135 Chair: Before I bring in Steve, just on something completely different, as you know, we are also doing an inquiry into economic crime. We have another evidence session on that tomorrow. You have written to us on 5 February about APP scams. We have just published that letter this morning, so people will be able to see it on our website. Did you want to draw attention to a couple of the things you have said in the letter?

Hannah Nixon: I am happy to do that. Push-payment fraud is a devastating crime, and we hear lots of stories about people who have lost their life savings through this type of fraud. It is a real priority for us to make sure that everybody is doing what they can to stamp out this type of crime. We as consumers have a role to protect ourselves, but, equally, we want to have confidence that our banks are doing everything they can to protect us from this type of fraud. That is why we have pushed the banks to make sure they are collecting the statistics so they understand and have a focus on this type of fraud.

We were really pleased to see the draft code that the banks published in September, setting out that where consumers have taken the requisite level of care they will be reimbursed, should they fall foul of this type of fraud. We are expecting to see that code finalised in line with the timetables and to have that rolled out to increase the protection here.

Q136 Mr Baker: Good morning. I must just refer the Committee to my registered shareholding in Glint Pay, which is of course a new payment system. Before I go back to the future of cash, can I pick up on this point about push fraud? In my casework, what I have seen is that it is surprisingly difficult to trace where the money has gone. Could you just elaborate why that is? There is so much in place with money-laundering regulations to identify who holds bank accounts and so on. Why is it difficult to audit how this money has flowed through the system?

Hannah Nixon: The reason why this type of fraud exists is that the Faster Payments system allows money to bounce from account to account very quickly. That Faster Payments system has huge benefits, but with those benefits comes the opportunity for new ways to defraud people. What we want to make sure is happening is that the payments systems and the banks are doing everything they can to mitigate the risks of that. We are pleased to see that there are new technologies now that can help track payments and potentially identify fraudulent or mule accounts.

Q137 Mr Baker: Just to be clear, the Faster Payments system is capable of being audited, is it not?

Hannah Nixon: There is the technology to do that now, yes.

Q138 Mr Baker: What is preventing us from taking that technology and making it available so that our crime-fighting agencies can see where



HOUSE OF COMMONS

someone's life savings have ultimately gone?

Hannah Nixon: We would absolutely expect banks to be deploying the latest technology to trace and even predict potentially fraudulent accounts to make sure they are putting extra scrutiny on those. We are now seeing banks test and deploy that. It is new technology, but it is being rolled out.

Q139 **Mr Baker:** I would love to know more about it on another occasion, but I need to return to the future of cash. We have had a good canter around cash and got really into some of the detail, but can we just zoom out a bit? What is your strategic objective with cash? What are the outcomes you are pursuing?

Hannah Nixon: We know that cash is going to be an important part of the payments mix for decades to come. It is still an important part of the payments mix today, but we do see its usage declining. We know that there are needs cases that are best served by cash. Charles referred to some of those earlier around people who are in vulnerable situations—people who have mental health issues who prefer to use cash, for example. It is really important that we make sure that cash is a viable payment system. Of course, we all use cash as a back-up.

What we are seeing is a declining use of cash. We could end up in a situation where we have quite a small but long tail. That is probably the most difficult situation for us to deal with as a country. That is why we are convening the debate: to make sure that we do have a sustainable solution in place. It is not something that we can solve alone.

We do need to work with other regulators. We are already engaged with the FCA and the Bank of England. We do need to work with stakeholders and we are doing a lot of visits around the UK to understand cash needs—for example, in the Western Isles and northern Scotland, to understand community and consumer use of cash. Of course, there will be a role for Government as well. We are determined to convene that debate so that we can have a solution for the long term.

Q140 **Mr Baker:** We talked a lot about ATMs. What is the role of cashback at retail outlets in the course of that debate?

Hannah Nixon: That is clearly one way for people to get cash. That is why I say that looking forward we should not be focusing just on ATMs. It needs to be about how people access their cash more generally. Cashback is one option. Other solutions might also become available. Cash depositing is also important. We need to look at all of this in the round.

Q141 **Mr Baker:** As you go through that, what work are you going to do about the costs of each way of accessing cash and where those costs should fall? How will you explore and make sure that we all understand what the costs are, who is bearing them and perhaps have an opportunity to discuss who should bear them?



Hannah Nixon: Our starting point is about understanding the consumer need, hence the regional visits, the discussions with both businesses and consumers and the survey work we are doing at the moment as well. We then need to understand the market, as you say, and make sure that we understand the alternative options for accessing cash, along with potential innovations. We also need to make sure we remove as many barriers as possible. We are also looking to see what comes out of the Natalie Ceeney work that Charles mentioned. By Easter, our aim is to have started engaging with stakeholders about the potential options for taking this work forward.

Q142 **Mr Baker:** One of the key stakeholders is the merchants. What work are you doing to understand the merchants' cost of accepting cash versus digital payments?

Hannah Nixon: There are two broad things here. First, there is the survey work that is out at the moment and, secondly, there is our direct engagement. We had a roundtable up in Tarbert in the Western Isles and we talked to merchants of all sizes. We have done that around the UK to understand what drives the payment mix that they offer and what drives their cost base. We have heard a lot about the importance of the ability to deposit cash, for example, particularly for small merchants. That is going to be an important part of the thinking about making sure cash continues to be a good payment mechanism going forward.

Q143 **Mr Baker:** In the course of your evidence, you mentioned cash as a fall-back option, but in the 21st century, a time when we think a 4G data outage is a big deal—first world problems—what is the appropriate weight to apply to the question of cash as a fall-back option?

Hannah Nixon: That is an interesting question, and it is a question we are engaging with the Bank of England on, too. It is clear to us today that cash is a really important part of the payments mix. It is also clear it is not going anywhere soon, which is why we need to make sure we have in place a market that supports that.

Q144 **Mr Baker:** Moving on slightly, how are you going to engage with the review into access to cash that the chair mentioned earlier, chaired by Natalie Ceeney?

Hannah Nixon: We are an observer on the group. We also meet regularly with Natalie Ceeney to discuss her thinking. We will look at the results carefully. We have had the phase 1 report just before Christmas. It will be part of our thinking in terms of taking this work forward and convening the debate.

Q145 **Mr Baker:** Is there a danger of you cutting across the work of that inquiry?

Hannah Nixon: No, I do not think so. She has been very clear with us in terms of what she is focusing on. We obviously do not want to repeat that work. Our work is focused on areas where we can complement that.



Q146 **Mr Baker:** We variously talked about your powers and the need to have access to cash with a long tail. How would you reflect on the regulatory landscape in relation to achieving this access to cash, particularly for vulnerable people? Do you have the powers you need?

Hannah Nixon: That is a really good question. At the moment, we are doing everything we can within our powers, as we have discussed. Charles outlined a scenario where it might be difficult for any regulator to solve this problem, absent new powers. That is part of the thinking we will be doing over the coming months.

Q147 **Mr Baker:** Finally, what challenges will you as a regulator face in relation to the future of cash over the next few years? Mr Randell, perhaps you might answer. You are going to have a change at the top of the organisation. What challenges will the new boss need to rise to?

Charles Randell: It is really the point I have already outlined. Cash is going to be part of payments for the foreseeable future, certainly for as long as I am going to be involved with the FCA and the PSR. We are seeing a decline in usage, and that fundamentally changes the economics and runs the risk of leaving people financially isolated, either individually or as communities.

Financial inclusion has not been a specific statutory objective of the PSR, but it does have an objective about service user interest. For us at the PSR, the next chapter of our development is going to involve even further intensified focus on the consumer experience. By that, I mean the actual lived lives of people using payments, whether it is cash or cards. We need to think about how fragile their existence will be if one of those systems falls over.

In the scenario in which everybody goes cashless much faster than we expect, will we find new single points of failure emerging in the system? Will the system have the resilience it needs to have? In the scenario in which cash remains an important part of the mix, if the electronic payments system falls over, will that cash system still work to ensure some continuity in payments for people? All of that is part of the thinking we need to do.

Q148 **Mr Baker:** When you discuss resilience, it prompts me to ask you whether you see the regulator having a reduced tolerance for failure in the payments system as we go forward.

Charles Randell: We have a very low tolerance for failure in the payments system, but the systemic resilience function lies principally with the Bank of England. That is why Hannah and I make sure that we are in regular touch with colleagues at the Bank—Hannah meets more at a working level; I tend to meet at Deputy Governor level—to make sure our functions fit together well and that we are balancing our natural desire for competition and innovation, because those are the objectives that Parliament has given us, with safety and resilience, which are very much the Bank's focus. We need to make sure that, while a healthy tension



HOUSE OF COMMONS

exists between those objectives, overall they are delivering in the public interest.

That dialogue is actually working very well. Hannah has driven a lot of conversations between the regulators about these issues. Over the last year, we have seen a lot of discussion and progress. On the work that Hannah is referring to on cash, I am confident that everyone will be around the table contributing.

Q149 Catherine McKinnell: Since the interchange fee regulation was introduced in 2015—the PSR is obviously the competent authority—have UK retailers seen the cost of accepting card payments fall as was intended?

Hannah Nixon: That is a really good question. We have heard concerns from various parties that they might not be seeing those benefits. That is exactly why we have launched our card-acquiring market review. We put out the terms of reference just recently.

It is really important that we make sure that market is working well, because it affects all of our merchants and ultimately it affects all of us as consumers. We are doing that market review at the moment. We will examine the evidence carefully and we will come to a conclusion later this year on whether that market is working well and, if not, whether there are things we need to do to improve it.

Q150 Catherine McKinnell: From the evidence I have seen, rather than seeing a fall they have actually seen quite a sharp increase in the cost of accepting card payments. Do you have any indication as to what the causes are behind this?

Hannah Nixon: We need to look at it carefully. That is what the review is about. The interchange fee is only one charge of the fees that a merchant would face for being able to accept cards. It is the largest part, hence the importance of looking at this, but we have seen some of the scheme fees go up. There are also other fees for terminals and so on. We really need to understand how this market is operating. If merchants are not able to identify the best deal and switch, then we need to do something to improve how that market works.

Q151 Catherine McKinnell: It is interesting that you have mentioned the fact that there are scheme fees as well that retailers face, which are the charges levied by Visa and Mastercard, but you have taken the decision as part of this review not to look at the scheme fees. Why is that, if it is acknowledged as an issue?

Hannah Nixon: We will look at them, but the biggest concern that we have heard is around whether the interchange fee cuts are being passed on to the merchant. That is the biggest part of the fee that merchants face. As we take this evidence, clearly we will look at all the evidence that we gather. If we think that there is a problem with the scheme fees, then clearly we will look into that. At the moment, the focus is primarily on the



HOUSE OF COMMONS

interchange fee, because that is where we see the greatest potential for harm.

Q152 **Catherine McKinnell:** Presumably, if you are undertaking a review and you already have an awareness that the scheme fees are part of that picture, I do not understand why you would not include it in that review.

Hannah Nixon: We are looking at them.

Q153 **Catherine McKinnell:** What do you mean by, "We are looking at them"?

Hannah Nixon: We will get all of the information on the charging. When a merchant decides whether to offer cards or not, they need to take into account all the fees they face, not just one part of that.

Q154 **Catherine McKinnell:** So you are including a review of the scheme fees as part of the review.

Hannah Nixon: We will look at the scheme fees as part of this, but the issue we have heard most concern about is the one you identified upfront around whether the interchange fee reduction has been passed on. That is the area that has the biggest impact on merchants.

Q155 **Catherine McKinnell:** Some of the evidence I and the Committee have seen suggests that the scheme fees are as big as issue as the interchange fee. I just want to be clear that you are looking at this in the round and it is all part of your review. That is only because my understanding was that you had said in your terms of reference document that you were not investigating the scheme fees due to limited resources. Is that not the case?

Hannah Nixon: We will look at it; we will gather the evidence. If we think there is an issue, clearly we will follow that up.

Q156 **Catherine McKinnell:** You must understand that is not what your terms of reference say at the moment, so there is a lack of clarity there. It is included within the current review.

Hannah Nixon: We will have to gather evidence on all parts of the fees that merchants face, because that would inform the decision as to whether to accept cards, which acquirer to go with and so forth. If there is an issue with the scheme fees, clearly we will follow that up.

Q157 **Catherine McKinnell:** You have not taken the decision not to review the scheme fees alongside the interchange fee regulation and its impact.

Hannah Nixon: No, but our focus, which is what the terms of reference reflect, is, in the first instance, the interchange fee, because that is by far the biggest part of the fee and also the area where we have heard the most concerns. That does not stop us looking at wider issues.

Q158 **Catherine McKinnell:** I have to say that is not very clear. Your terms of reference say very clearly that you have taken a decision not to look at the scheme fees. It just does not seem very clear whether that is going



HOUSE OF COMMONS

to be looked at. Obviously, as you have acknowledged, it is an issue. It would give a lot of reassurance to know you are looking at both issues in the round. You are not waiting for that evidence to come in to decide whether to look at it or whether you are looking at it as part of this review.

Hannah Nixon: I can assure the Committee that, if we see evidence that there is a concern, we will obviously act on that.

Q159 **Catherine McKinnell:** You have not seen any evidence yet.

Hannah Nixon: We are right at beginning of that review. Until we get that evidence, it would obviously be premature to speculate on that.

Q160 **Catherine McKinnell:** But you have already said in your evidence this morning that you have seen that scheme fees are an issue.

Hannah Nixon: We have heard concerns about it. We will pick it up as part of the review. If there is an issue, we will act on it.

Q161 **Catherine McKinnell:** It is not a resource issue. You have not chosen not to look at that aspect due to a lack of resources.

Hannah Nixon: We have to prioritise resources. The first emphasis, as that reflects, is on the interchange fee regulation, but it does not stop us picking it up.

Q162 **Catherine McKinnell:** The reason I press is that there are concerns expressed that this review is perhaps being a bit too lenient on the card schemes. There is an accusation that it has been lenient since its creation on Visa and Mastercard. What can you say to give us some reassurance that this not an issue of leniency and you are looking at both of these issues as they emerge to be challenges? Clearly, we have seen evidence that they are.

Hannah Nixon: It is certainly not an issue of lenience. We need to make sure that the cards market is working properly and that cards versus the interbank payment systems is working properly. All of those are areas of concern.

Q163 **Catherine McKinnell:** I just have two other questions, which are quite practical. The European Commission has started its review of the interchange fee regulation. How are you going to make sure that the UK markets element of those concerns is fed into that review? My second practical question is about when your market review into card-acquiring services will be concluded?

Hannah Nixon: On the first point, we do have a good working relationship with the Commission. We want to understand the work it is doing and input into that. The UK is by far the largest card market in the EU, so the UK experience is going to be really important there, so we are joining up. On the specific point about our market review, in line with our other market reviews, we will publish our conclusions document within a year, which is at the end of this calendar year.



Q164 **Catherine McKinnell:** Obviously, this was raised by this Committee a year ago now, yet the terms of reference were only published a few weeks ago, so there have been questions raised as to why there has been such a delay in even getting to the terms of reference stage. From the evidence we have seen already, it does seem to be a really big issue for retailers and consumers, which are impacted by those charges that seem to be being passed on to consumers.

Hannah Nixon: We have been looking at the cards market from the moment the PSR was set up. But the interchange fee regulation is the biggest change we have seen in the cards market we have seen for a long time. We wanted to make sure that regulation was implemented—obviously, we were the first regulator to implement the IFR in the EU—and make sure it had bedded down before we undertook the market review. Otherwise, it is very difficult to pick up whether there are issues or not. This market review is timed to be at the earliest moment at which it would make sense for us to look at that acquiring market and whether the IFR charges have been feeding through.

Q165 **Stewart Hosie:** Hannah, it was announced two weeks ago that you are leaving the PSR in April. Can I ask why you are leaving? Had you always planned to leave at that time? What discussions did you have with the chair before making the announcement?

Hannah Nixon: It is always difficult to know exactly when to leave. It has been a real privilege for me to be able to set up and lead the PSR over the last five years. Of course, the PSR is the first of its kind. As an organisation, we have made a huge amount of progress. Certainly, the conversation has fundamentally changed in payments system while I have been involved. It is now much more strategic and much more focused on customer. We have opened up access. We see a lot more players in the market. We have promoted innovation in pipes and wires through the design of the new payments architecture. Of course, we are also improving protection against fraud for consumers.

We have achieved a lot. There are clearly lots and lots of challenges ahead for the PSR, but I feel I have achieved what I set out to achieve at the PSR, so it is the right time for me to move on. I know I leave the PSR in extremely strong hands in taking it forward.

Q166 **Stewart Hosie:** I am sure all of that is true, but the question is this: had you always planned to leave at this point? Is this a planned thing or is this something that has come out of the blue?

Hannah Nixon: It is something I have been thinking about for a little while. As I say, I do feel I have achieved what I came to achieve at the PSR. When a new opportunity came up, I thought now was the time to take the opportunity.

Q167 **Stewart Hosie:** What advice would you give your successor?



HOUSE OF COMMONS

Hannah Nixon: That is always a difficult one. I would not presume to give advice, but the touchstone for me in the past five years has always been about being clear on what we are doing and why we are doing it, which is to improve payments for the UK economy and consumers. I would encourage my successor to keep hold of that touchstone.

Q168 **Stewart Hosie:** Mr Randell, the latest annual report says that "succession planning remains a key agenda item for the board". Can you describe your succession-planning process? How many candidates have you identified potentially to replace Ms Nixon? When do you expect to appoint a permanent replacement?

Charles Randell: Answering a little bit of your previous question, Hannah approached me around about the last quarter of last year to start the conversation about the fact she was thinking about pursuing other options. Obviously, my immediate thought was about how we would handle the succession.

We have announced that we are appointing joint interim managing directors, Louise Buckley and Chris Hemsley, who are both senior executives within the PSR. That is a move I am very confident is the right interim succession plan. It is an interim succession plan that is possible because of action taken earlier in 2018 to replace the outgoing director of policy.

Q169 **Stewart Hosie:** It is only a stop-gap.

Charles Randell: The reason why we thought an interim succession plan was the right alternative was that we want to conduct a very full process of seeing both which candidates are available internally within the PSR and the FCA but also seeing which candidates are available externally.

Q170 **Stewart Hosie:** Does that mean there is no long-list at the moment?

Charles Randell: The board has discussed succession candidates, but we do not have a long-list because the long-list and shortlist will be finalised as part of a proper, full recruitment process that will also examine external applications. With a very senior appointment like this, it is right that you conduct a full internal and external process.

Q171 **Stewart Hosie:** Ms Nixon leaves in two and a half months. This discussion began, as you said, in the last quarter of last year. Let us be generous and add another three or four months to that. One would have thought, with 10 weeks or so to go, that you would have been a bit further forward in the process of finding a permanent replacement.

Charles Randell: It is very important the post is properly and fully advertised publically and that external candidates are approached as well as internal candidates. That is only possible once there has been an announcement about Hannah's plans, which there has been. That process is now getting underway. That seems to me to be the right way of approaching it.



HOUSE OF COMMONS

Q172 **Stewart Hosie:** You describe this interim succession plan as the head of policy and chief operating officer as joint interim MDs reporting to the chief executive of the FCA. Can you explain why they are reporting to Andrew Bailey rather than to the board?

Charles Randell: Yes. First of all, I am absolutely satisfied that Louise and Chris will do a great job. I would also like to be clear that they will be accountable to the PSR board. That is their accountability line. However, where you have joint interim managing directors, it is right that there is a mechanism to ensure they can seek guidance in cases where they might have a difference of view or in cases where there might be issues about whose side of the line a particular action should fall on.

It is really for that purpose as much as any other that they would have recourse to Andrew Bailey. I would expect it to be a rather unusual set of circumstances where they feel need recourse to Andrew Bailey. Certainly, from my knowledge of the individuals concerned, I cannot see that as very probably arising, which is a good thing because Andrew has quite a big job and he will not want to run or attempt to run the Payment Systems Regulator. The joint interim managing directors will be accountable to the board.

Q173 **Stewart Hosie:** In terms of these individuals, the head of policy, Chris Hemsley, has only been in post since last November. He is the third head of policy in less than four years. It is clearly an important role.

Charles Randell: Yes.

Q174 **Stewart Hosie:** Clearly, someone in that position can take on at least a joint MD role for the time being. Why are you on the third head of policy in less than four years?

Charles Randell: It is a difficult one for me to answer, because I have only really known one head of policy for any length of time, and that is Chris.

Chair: Let us ask Hannah.

Hannah Nixon: Yes, it is clearly a really important role. It is part of my senior leadership team. We have had some really strong heads of policy over our time. People have come here, done a great job, got some great experience and then moved on to other roles. I am really pleased that they have been able to do that. It is great that the PSR is able to offer people interesting roles that enable them to develop and move their career on. We have been to attract good succession and to retain their knowledge.

Q175 **Stewart Hosie:** Clearly, the PSR now has a very important role to play as we move at least towards a near-cashless position, potentially. We had a discussion earlier about ATMs and how the provision of cash through that mechanism is now important. When it reduces, it causes real people real problems.



HOUSE OF COMMONS

I understand what you have said about giving people opportunities to further their careers, but Mark Falcon was in place for six months, Paul Smith for barely two years and Chris Hemsley only since last November. You have been there for five years or so, and that is great, but the PSR surely has to be more than just a place where people come to get opportunities before beetling off to somewhere bigger and better, does it not?

Hannah Nixon: Absolutely, yes. We have made a lot of progress during that time.

Q176 **John Mann:** Mr Randell, most people try to do one job well. How does it benefit society that you have two jobs?

Charles Randell: I really like to think of it as one job, which is trying to ensure that the financial system meets the needs of society, including consumers. Within that job, there are two parts. One is the payments systems part and of it and the other is the rest of the financial services system. When you start looking at the reality of the way we protect consumers in payments, you see that there is a continuum of activity between the PSR and the payments team and other parts of the FCA.

Q177 **John Mann:** Should it be a single appointment then?

Charles Randell: It has been a single appointment in my case, yes.

Q178 **John Mann:** Should it be a single appointment in the future? Is that what you are recommending to us?

Charles Randell: What I am saying is that at the moment I do not feel it would be right to split the roles. Parliament has given us a model where, based on a recommendation of this Committee, I think, there should be a regulator focusing on payments systems. It originally came out of a Treasury Committee recommendation.

Q179 **John Mann:** We did not suggest that the appointment had to be the same person.

Charles Randell: No. I am sorry. You are asking about how many regulators there are.

Q180 **John Mann:** From what you are saying, are you telling us that we should be recommending a single appointment for both roles?

Charles Randell: I believe that for the time being, as we move into the next chapter of the PSR's development, it would certainly be premature to have two different people occupying these roles.

John Mann: That has cleared that up.

Charles Randell: Does that answer your question?

Q181 **John Mann:** Yes, it does. Ms Nixon, you require firms to submit minutes of their board meetings within eight weeks, but you do not manage it. Is that incompetence or wilful neglect?



HOUSE OF COMMONS

Hannah Nixon: The board minutes are published within eight weeks of approval.

Q182 **John Mann:** Are yours, on all occasions?

Hannah Nixon: As far as I am aware, yes.

Charles Randell: I believe so, yes.

John Mann: You would be aware. You are saying that they are on all occasions. That is interesting.

Charles Randell: Just on that, we were challenged about this. I did not appear, but John Griffith-Jones was in this chair. I think Stephen Hammond MP asked the question about why the rules are different for the firms we regulate and ourselves in relation to the publication of board minutes. We took that point away and we acknowledged that it was a bit unfair to hold them to higher standards than we were achieving ourselves, so the rules for us and the firms we regulate in terms of publication of board minutes are the same, and we stick to our rules.

Q183 **John Mann:** That is very clear, then. What is the best foreign junket you go on?

Charles Randell: I have not been on any, so I cannot help you there. I was due to be in Northern Ireland, but I am obviously here today.

John Mann: I am asking for the organisation. I am asking what the best foreign junket is for the organisation.

Hannah Nixon: We do not have any.

John Mann: You do. It is in your accounts.

Chair: Between 1 July and 1 September 2017—

John Mann: You have foreign travel in your accounts.

Chair: It is over £7,000.

John Mann: But you do not specify what it is for. Therefore, one would rationally presume that it is some kind of a junket that you do not want anyone to know about.

Hannah Nixon: No. All of our—

John Mann: Any rational person would presume that. Obviously, you know what the standards in public life are. If you are not giving detail, you are covering something up.

Hannah Nixon: Value for money is really important to us, because—

Q184 **John Mann:** What about transparency? The question is about transparency? Why are you not putting full transparency into your accounts?

Charles Randell: Unless I am mistaken, all of the senior team's travel expenses are put onto our website.



HOUSE OF COMMONS

Hannah Nixon: Yes.

Q185 **John Mann:** You are saying that it is itemised in the way that one would expect.

Charles Randell: Yes.

Q186 **John Mann:** So we can see exactly what you are doing and where and hold you to account. Can I ask you about the Visa outage? Is Visa messing you around?

Hannah Nixon: We were really concerned to see the Visa outage in June last year. That is why we are putting a direction in place to make sure that, should something like that happen again, Visa are actually communicating much more effectively with the market and with the customers to make sure that the impact—

Q187 **John Mann:** We understand that. My question is about whether Visa has been messing you around? Has it been failing to properly co-operate?

Hannah Nixon: No, it is not failing to co-operate.

Q188 **John Mann:** So why do you need to use your statutory powers, then?

Hannah Nixon: Because we think it is very important that we are clear about what Visa needs to do to improve the communications in the future. We want to make sure that Visa is rehearsing those communications procedures and we need to be able to make sure we can hold Visa to account.

Q189 **John Mann:** If a company such as Visa is fully co-operating with you, you still think in that situation, when they are fully co-operating, that it is appropriate to use your statutory powers. That will be the process in the future, will it?

Hannah Nixon: In this situation, there were several recommendations that came out of the EY report that Visa commissioned. Visa said that it would take those on board and follow through on them. We felt that the recommendations in that report were not sufficiently granular to give us confidence that Visa would be doing everything to mitigate those risks going forward. That is why the direction is there: to be really clear about what we expect.

Q190 **John Mann:** So it is not fully co-operating, then.

Hannah Nixon: We have put in a direction that would go further than the EY recommendations in terms of putting more granularity on the actions.

Q191 **John Mann:** You are leaving. Is it about time that the limit on contactless pay rose from £30 upwards?

Hannah Nixon: That is a matter for individual banks.

Q192 **John Mann:** What is your view of what the maximum should now be?



HOUSE OF COMMONS

Hannah Nixon: It is not for the regulator to have a view on that. We want to make sure there are no unnecessary restrictions on the decisions that the banks can take in that area. It is a risk decision for the banks to take.

Q193 **John Mann:** If it was to increase to £100, that would have no consequences for you.

Hannah Nixon: The question is around whether there is clarity on what happens if there is fraud in that area and whether consumers are protected. We are comfortable with the £30 limit. If we saw it go up to £100, as you suggest, we would need to be clear that there was appropriate consumer protection to facilitate that.

Q194 **John Mann:** If there was appropriate consumer protection, you would not see that as a problem.

Hannah Nixon: Not necessarily, no, but this is a theoretical point. The banks would need to set that out.

Q195 **John Mann:** At some stage it will not be. At some stage, someone is going to be pushing this up, are they not?

Hannah Nixon: Possibly, yes.

Q196 **John Mann:** They are likely to. That is highly predictable at some stage.

Charles Randell: If the proposal to increase the limit was put to us, I would like to feel the board would look at broader picture at that point. One is the effect on the incidence of contactless fraud. The other thing that slightly concerns me personally is whether consumers tend to fire and forget with contactless payments and whether it has a profound effect on their budgeting behaviour.

I would like to see contactless payments in the context of their general awareness of how much money they have in their bank account and the extent to which it fits in with their use of other apps to make sure that they can track their expenditure. There is some evidence we have seen that contactless card payments may lead to increased expenditure by consumers, but I would like to see the whole set of questions in the round and think about them from a public interest point of view.

Chair: Just before I bring in Charlie, just returning to some of the issues about governance, on the expenses, first of all, we cannot actually find them on the website at the moment.

Charles Randell: I am sorry.

Q197 **Chair:** That is all right. It would be helpful if you could perhaps just check where they are. The second thing was that you might want to consider the Bank of England and the way they do it. We have also asked them questions about the level of their expenses, but they do actually break it down, not just covered by a general "foreign travel" heading but actually going into the trips undertaken and the expenses incurred in



HOUSE OF COMMONS

each trip. I appreciate that the FCA does it in more aggregated way as well, which may be what you are following.

I wanted to ask about spend on consultants. Your average annual spend on consultants has been about £3.5 million. That is about a quarter of your budget each year being spent on consultants. Is that a level that the board is happy with, Mr Randell?

Charles Randell: Hannah is suggesting to me that that is not correct.

Q198 **Chair:** Would you write to us about the breakdown on consultants?

Charles Randell: I will suggest that Hannah writes to you. Intuitively, a £3 million spend on consultants would not be one that I would want to see repeated year after year. There is one area of our activity where we do sometimes need to make greater use of professional services externally, and that is if we have large enforcement actions that require the use of external counsel and specialist consultants. I just highlight that as something that, if we have a big case—for example, a big competition case—they are lumpy and we could not have a standing in-house resource that would provide all those services all of the time.

Q199 **Chair:** Perhaps you could write to us on that. The other one was that at the board meeting last June, you discussed the annual report and accounts of PSR and you discussed particularly the non-disclosure of the gender pay gap. It would be helpful to know what the PSR's current gender pay gap is and your plans for publication this year.

Hannah Nixon: Our gender pay gap is 4%, down from 9% last year. It is a real focus for us and we will be publishing it.

Charles Randell: Yes. The debate was around whether we should synchronise the publication of the annual report and the gender pay gap, rather than whether we should publish it.

Q200 **Chair:** Right, but this year it will be published.

Charles Randell: It may not be published at the same time. There is some merit in publishing it separately.

Q201 **Chair:** The number will be out there. That is very good.

Charles Randell: Yes.

Q202 **Charlie Elphicke:** Good morning. Let me talk to you about the future. Have cheques had their day?

Hannah Nixon: It is clear that cheques still do play an important role in the UK and that is why it is important that the banks maintain their cheque system, as they agreed to do several years ago. I am pleased to see that is now in the imaging system and so people will be able to use cheques as long as they want to.

Q203 **Charlie Elphicke:** What is the point of them, given you can just make a payment for your gas bill by bank transfer, contactless and all the rest of



HOUSE OF COMMONS

it? Why does anyone have a cheque anymore? Why not just get rid of them?

Hannah Nixon: We want to make sure that people have choice about the payment system they use and the way they want to pay. Cheques do still play a role and while that is the case the cheque system will be there to enable that.

Charles Randell: I do not wish to be ageist or stereotypical, but there are some elderly consumers who are very attached to the use of cheques and who find online payment quite challenging. We need to think about the pace at which this moves, but we have a sustainable system at the moment.

Q204 **Charlie Elphicke:** You can assure particularly my older constituents in Dover that the cheque is alive and well and here to stay.

Hannah Nixon: That is the commitment the banks have all made, yes.

Q205 **Charlie Elphicke:** Great. This image clearing system allows consumers to pay in cheques by just taking a picture on your smartphone. Do you think the delivery of that was an effective and well done project?

Hannah Nixon: That agreement obviously predates the PSR. It is something the banks agreed before the PSR was even set up. Our role in that has been to make sure that there is nothing they do there that would cut across our objectives. The difficulties with the setup of that are well documented, but I am pleased to see that that system has now come in.

Q206 **Charlie Elphicke:** It all predated the PSR, so the PSR had no role to play in overseeing the delivery of the image cheque clearance system at all. It was completely nothing to do with you.

Hannah Nixon: Our role was to make sure that there was nothing they were doing there that cut across our objectives. It was an agreement that was made before the PSR was established.

Q207 **Charlie Elphicke:** Do you know why external consultants have been tasked by the system's operator with conducting a lessons learned exercise for the project?

Hannah Nixon: We would expect there to be a lessons learned exercise. Pay.UK is running the tender for the New Payments Architecture. We want to make sure that happens effectively and efficiently, and we would expect the operator to be looking at lessons learned from other procurement projects.

Q208 **Charlie Elphicke:** You would say, all in all, that it was an entirely trouble-free project and it all went swimmingly.

Hannah Nixon: That is not what I said.

Q209 **Charlie Elphicke:** Why do you not tell us the reality?



HOUSE OF COMMONS

Hannah Nixon: The issues are well documented. I am really pleased to see that Pay.UK is learning lessons, because we need to make sure that the NPA is tendered effectively and efficiently. That is where our focus is.

Q210 **Charlie Elphicke:** In 2018, you did a report summarising research into contactless mobile payments, which of course is new here but has been going on in Africa for years. Are you taking any action as a result of that work and how did the project advance your objectives?

Hannah Nixon: We published our report in the summer of last year. That was the result of a piece of work we did to really understand this market, because we know contactless payments are a reasonably small part of the payments market at the moment but they have the potential to be much bigger.

We had heard concerns from some participants about whether the market was working efficiently, and so that is what we investigated. The conclusions of that report were that, at the moment, we do not think there are any major concerns in that market, but clearly it is one that we would want to keep an eye on as that market develops.

Q211 **Charlie Elphicke:** How does the Bank of England takeover of the CHAPS system impact your statutory objectives?

Hannah Nixon: It does change the designation for the PSR. CHAPS was designated as a system for regulation by the PSR. Clearly now it is with the Bank, we do not oversee the system, but we continue to oversee the participants of CHAPS.

Q212 **Charlie Elphicke:** Why did the Bank take over the CHAPS system?

Hannah Nixon: It was a natural progression of the way that the CHAPS system is working and the Bank of England's concern about having more control over the infrastructure.

Q213 **Charlie Elphicke:** Why would the Bank then not take over the rest of it, like Faster Payments and whatnot?

Hannah Nixon: It is to do with the systemic resilience of the payment systems. There is far more money going through CHAPS and it is wholesale market money, not retail market.

Q214 **Charlie Elphicke:** Last year, you published a discussion paper on data in the payments industry. Can you explain what you were trying to achieve with this work?

Hannah Nixon: Yes. We know that data is a really big issue. It is not just something that is relevant to payments or just financial services; it goes much wider than that. A lot of information does flow through the payments system, and that will become increasingly true as we build out the New Payments Architecture. The pipes are essentially wider, and so we wanted to make sure that we understood exactly what we should be doing, as a regulator, to make sure that we can get the benefits of



HOUSE OF COMMONS

greater data for the UK economy while mitigating any risks that might emerge. That is what the work was focused on.

There are some things that we need to think about to make sure that we do get the benefits. The sorts of things we highlighted are around how we make sure that customers can have confidence about how their data is used, for example. If they do not have confidence, that market is not going to work as we would want. We also raised questions about how aggregate payments data is flowing through the systems and how we make sure that people who want to use that data to innovate and offer new products to consumers can have appropriate access. Those are some of the things that we are thinking about.

Q215 Charlie Elphicke: In the minutes for your September board away-day, you were due to discuss your work underway with the FCA and the Bank of England that seeks to articulate your vision for the payments sector. Did you have a get-together with the FCA and the Bank of England and what is your vision for the sector?

Charles Randell: Yes, we had a successful first stab at this question. The payments system as a whole is a patchwork of interconnecting systems. Some of those systems are outside our regulation altogether, some of them lie with the Bank of England and some of them are matters for the FCA.

It is very important that we start by understanding where there may be either overlaps or gaps, and that we then come up with an agreed vision of how we each act to produce the desirable outcomes in the payments system. The focus of that discussion was, first, a definition of who we are and of where the limits of our jurisdictions are, making sure that we have a clear sense of when each of us might act or might not act, and how we need to co-operate; it was also about some agreement on what our overall shared objectives were, so that we are moving towards the same endpoint; there was then a discussion about how we could take the temperature from time to time as to whether this co-operation is working well.

That was largely the discussion. It was a fruitful discussion, but it did not come to an end. It is an action plan for continued engagement.

Q216 Charlie Elphicke: You put it very well, Mr Randell. The “patchwork” issue means that you have the FCA here, the Bank of England over here and the Payment Systems Regulator is over here. Would it not be much easier if they all came together, as I said to you the last time we had this discussion?

It is ridiculous having the FCA and a separate regulator. It is time to bring them together. Do you think that you would make a case to this Committee or to Parliament to maybe do a short Bill with one purpose, one clause only, just to bring this whole organisation together so that there is less bureaucracy, less chaos and one seamless, smooth system?



HOUSE OF COMMONS

Charles Randall: I do not want to deflect the question. We have a unique opportunity to get the outgoing managing director's thoughts on that. I am happy to answer it from my point of view. From my point of view, the key thing is what happens on the ground.

Do we see a set of public policy actors moving as one or do we see three unco-ordinated bodies? The answer is not necessarily a legislative one. There are plenty of public bodies that are, from a legislative point of view, entirely unified and manage to create within them the most powerful silos and dysfunction imaginable. A lot of this is about how people behave, and my focus is on how people behave.

The legislative thing is, to some extent, potentially, a distraction from that. This is why we talked at our away-day. We said, "What would evidence of really good teamwork and co-operation be? How would we take the temperature as to whether that is happening, whether a piece of work is being done once rather than three times, or whether we have an agile team working on something once and solving it rather than a lot of emails flying around?" Those were the sorts of discussions we had. It is about people's behaviour.

Hannah Nixon: I would absolutely agree with that. I talked earlier about the touchstone of the PSR always being what we are trying to achieve and the customer, and that is where we have always started. The structural setup is a secondary issue. We have worked effectively with the FCA, the Bank and the wider community to deliver on our objectives.

Q217 **Charlie Elphicke:** Hannah, in the future, what do you plan to do next?

Hannah Nixon: In the immediate future, I am taking on another non-executive role and I want to explore whether that is something that I want to pursue as a portfolio career.

Charlie Elphicke: May I wish you luck?

Hannah Nixon: Thank you.

Q218 **John Mann:** Just checking my records, I want to come back to one of the answers that you gave to me. The chair and chief executive both answered this. I asked about your board meetings, and each of you said that you meet the same standards that you expect of firms, of eight weeks. I have just looked at the record.

The 14 March meeting took you 10 weeks, one day. The 9 May meeting took you 11 weeks and three days. The 27 June meeting took you 13 weeks and six days. The 12 July meeting took you 11 weeks and five days. The 17 September meeting took you 11 weeks and four days. They are the ones that are publicly available.

Not only have you misled us, both of you, but since this issue was raised with you before, your performance in doing that has worsened. Would the general public, as well as this Committee, not expect that when it comes to precision and accuracy, that precision and accuracy in all matters by



HOUSE OF COMMONS

the Payment Systems Regulator is of vital importance? You have just misled us on what is a worsening of a situation. The answers that both of you gave a few minutes ago are not true, are they?

Charles Randell: What is possibly not true—obviously I will need to check this before I come back—was your suggestion that that was the standard to which we hold ourselves. My recollection is that the standard to which we hold ourselves is that we will publish our minutes within—

Hannah Nixon: It is from the date of approval.

Charles Randell: It is a period after they are approved. You will have to excuse me if I come back to you on what that period is. I am being told it is within eight weeks from approval. The discussion that you had with my predecessor, or that Stephen Hammond had with my predecessor at our previous meeting, was about why it took so long.

The explanation given was that the PSR board, unlike the FCA board, does not meet monthly and the minutes are approved at the subsequent meeting. That subsequent meeting itself can be eight weeks from the previous meeting, and the publication deadline then runs from approval of the minutes.

The objection that Stephen Hammond MP had was that this was a standard that was less exacting for us than the absolute time deadline that we set for payments industry participants to publish their minutes. We took that point away and made an amendment to our direction relating to the publication of minutes by payments systems participants, to ensure that their standard is the same as ours, i.e. that within eight weeks of approval of their minutes they are published.

A charge of misleading the Committee is a very serious one, but I think the misunderstanding may have come from you not correctly articulating the commitment that we hold ourselves to.

John Mann: You can put the blame on me, but I am aware of what was discussed before. On 27 June, even with your attempt at an explanation, again you have just misled us. That is not within eight weeks under the criteria you have just said. Your performance overall has worsened.

Q219 **Chair:** There is an issue about the eight weeks of each meeting. The PSR is asking for time to approve the minutes in person at the subsequent board meeting before publication. It is not clear to me that that is the standard that applies to member firms. That is the point that Stephen Hammond was making and that John is drawing out. There is a different standard and, by our calculation, when you appeared last year the average time taken to publish the board minutes was 10 weeks and, since then, the average time taken to publish has increased to 11 weeks. Perhaps that is where the confusion is arising.

Hannah Nixon: There was a mismatch between the standard required of the payment providers versus the standard we applied to ourselves. We



HOUSE OF COMMONS

have since then aligned the two. Our standard is to publish within eight weeks of approval. Because we have a board meeting roughly every two months, the time elapsed can be 10 or 11 weeks.

Charles Randell: We had a debate after the previous Committee meeting as to whether we should change our practice and not discuss board minutes for the previous meeting at each meeting, but rather have some sort of system of email exchanges, with people piling in and giving their comments on the minutes. We had a debate on that and came to the conclusion—and I do not know what your experience is with this Committee—that it can be a very time-consuming and inefficient way of making changes to minutes to do it in that way.

It is easier to approve the minutes at a meeting. That was the rationale for our activity. Eleven weeks is, obviously, as you say, longer than 10 weeks but, for the record, I would note that we do hold ourselves to the same standard as we apply to firms, and I do not believe that I have misled the Committee about that.

Q220 **Chair:** I suggest we all read the record and we can share with you our calculation of days. There was particularly an issue around last year's June board meeting, when the minutes were not published until 1 October 2018, but there was a subsequent board meeting in July 2018, when that would have provided an opportunity to publish by the end of July, before everybody went off on their summer holidays.

Q221 **Rushanara Ali:** Good morning. I wanted to ask a follow-up question on cash and ATMs, and then go on to Brexit. Listening to some of the earlier responses, I have one concern that I wanted to share with you. The numbers have already been mentioned: 25 million people depending on cash, 3,500 branches closed since 2015, according to Which?, and nearly 5,000—4,692—cashpoint machines closed. You are doing this review, which is going to take quite a long time. In the meantime, there will be more closures and there will be more changes to what happens to access to cash. You have highlighted some of the vulnerabilities and we have done the same; we see it in our constituencies.

I do not get the sense that there is an urgency to tackling this, because while you are doing your review and reflecting on what needs to happen, things will carry on and potentially accelerate. Are you satisfied that there is no more that can be done in the meantime, and are you using your powers effectively and sufficiently to try to bring some sort of pause to continued closures and challenges around cash and transfer? That is what people will be thinking, reflecting on what has been said, and I do not feel very confident that anything is going to happen until you do your review.

Some of these things are quite frustrating, to be honest, because people like yourselves, as regulators, come along and say, "We are going to do a review. We are going to see what happens", and then time lapses, people move on—you are moving on—and so on. What can we do to try to deal



HOUSE OF COMMONS

with the immediate issues? We have talked about technology outages, TSB, Visa and others; there will be many others. Cyber-attacks are growing, banks are under attack and so on. It does not really inspire confidence. Can you just reflect on this, please?

Hannah Nixon: There is definitely a sense of urgency. We have taken action on access to cash. I would separate our work into two components. The work that we are doing now and where we have taken action is about making sure that we preserve the widespread geographic network of free-to-use ATMs. That is in place. As we talked about earlier, I now think we have processes in place that should help prevent closures and, where they do happen, to remediate them as quickly as possible.

Separately to that, though, we do need to be thinking about the longer term because, as we have discussed, that position is unlikely to be a sustainable one for the medium to long term. That is why we need to convene a debate with other regulators, stakeholders and Government, to make sure that we have a sustainable solution in place. We are convening the debate, but it is not one that we as the PSR can solve alone.

Q222 Rushanara Ali: Mr Randell, who is going to take the lead on this if you cannot solve it alone? Do you need more encouragement? Do you need this Committee to bring some of the other regulators in and challenge them to get this sorted out, so that we can be confident that this situation around access to cash will not deteriorate further?

I have one other linked point, which is to do with the Post Office bearing the brunt of some of the cost. I know that there are some systems for paying and banks can make a contribution. Can you do more around that?

Charles Randell: It is an issue that I regard with urgency. The first thing we have to do is to make sure that we are successfully stemming the flow as regards, in particular, protected ATMs. That is why we are working intensively with LINK to make sure that ATMs are being replaced promptly, but much better still that they are not being closed when they are protected ATMs and the case for them to stay is present. That is the first thing.

Secondly, you are absolutely right, and that is why one of the issues, I am sure, that this Committee will be focusing in on in your access to financial services inquiry is digitisation and the removal of physical points of interaction with the financial services system, whether that is bank branches; cash withdrawal ATMs; the fact that, post bank branch closures, cash depositing facilities are not there; the burden that this puts on publicly funded services, including the Post Office; the fact that the Post Office is a great service but is not open at night and, in some cases, it is not open five or six days a week.

These are not complete substitutes. We are seeing an acceleration in the way in which people access financial services, which will create the risk of



HOUSE OF COMMONS

what I might describe as “stranded assets”, of legacy costs that people are bearing and, increasingly, those become unsustainable. That is exactly why, I assume, you have chosen this as a topic for your inquiry, and it is exactly why we have to, urgently, promote our end of the debate.

What can we do in practice? In practice, we can make sure that LINK delivers on its commitment in respect of protected ATMs. We can continue to get more and more granular information about what is really happening. *Which?*, for example, has put out a report with a lot of statistics. When you start peeling those statistics back, some of them are concerning; some of them are not.

Some of the ATM closures are not concerning. If you have ATMs closing in a high street that is already full of free-to-use ATMs, a natural consequence of the reduction in cash withdrawal is going to be that some of those ATMs become less economic, because they are not needed. That is fine. The question is about whether we have the confidence that we know the difference between an ATM that is closing for perfectly good reasons, without inconveniencing consumers, and those that need to be kept open?

It is fair to say that, over the course of the last 12 months, we have become aware that there is an information gap. There was an information gap at LINK after it gave its commitment in January. That is why we took action in September to hold them to account for that commitment. There is still a bit of an ATM gap of the kind that Stewart Hosie’s questions revealed, in that one kilometre may be a standard that the Treasury Committee set some time ago, but it is a poor proxy for the lived experience of consumers in a particular part of the country.

Q223 Rushanara Ali: Let us move on to Brexit. What issues does Brexit present for the UK payments sector and for the work of the PSR?

Hannah Nixon: Obviously, we have been working closely with Treasury and other regulators on this. We have onshored the legislation that is directly applicable to the PSR. We have also worked with others to make sure we understand some of the issues that could arise. We are as ready as we could be.

Q224 Rushanara Ali: Your annual plan states that you are working to mitigate any risks that might arise. Can you say more about what those risks are and what you are doing to mitigate them?

Hannah Nixon: Yes. We have onshored the legislation that is applicable to the PSR. For a lot of the other risks we are working with the FCA, in particular, to make sure we understand them, but the levers tend to sit outside the PSR, so it is about making sure we understand the risks and are able to articulate those and keeping in touch with the other regulators.

Q225 Rushanara Ali: Can you give some examples of the risks?



Charles Randell: From an overall FCA/PSR context, first, we have a standing item at each of our board meetings, both FCA and PSR, to look at a dashboard of the emerging issues that might result from a disorderly exit from the European Union.

Secondly, an absolutely key workstream is effective communication to consumers, because otherwise they are going to get potentially conflicting advice from service providers, from firms they have relationships with, from different branches of Government and different regulators. We have been very active in contributing to a central programme of communication, answering the questions that consumers predictably have. These are things like, "Will I still be able to make payments after 29 March? Will it cost me more when I use my card abroad after 29 March? If I want to send money abroad after 29 March, will it cost me more? Will I still be able to do it?"

Q226 **Rushanara Ali:** Is that all publicly available?

Charles Randell: Those are issues that, first, we are asking firms to make sure they have very clear communication with their customers about, but also that there is one central repository of information, which is going to be GOV.UK, which provides answers to the key consumer-facing questions.

Q227 **Rushanara Ali:** What are the specific risks? Do you want to give some examples?

Hannah Nixon: Some of the issues we identified, for example, are around whether payments companies can continue to operate in the UK or overseas. That is to do with the FCA's passporting regime and there are arrangements in place that will ensure that that can continue.

Charles Randell: We have instituted something called a "temporary permissions regime", which will ensure that those firms can continue to operate.

Q228 **Rushanara Ali:** What about in a no-deal scenario?

Charles Randell: For our part, we will allow incoming European firms to continue to operate. Of course, what we cannot do is require European authorities to continue to allow outgoing UK firms to operate in continental jurisdictions. That is something that lies beyond any UK regulator's jurisdiction to require.

We have identified, first, the risk that when people go abroad and use their cards they will not get the interchange fee protection. They will not get the cap on the interchange fee unless the European authorities choose to prolong it for UK consumers.

Q229 **Chair:** Has that decision been taken?

Charles Randell: As far as I know, that decision has not been taken.



HOUSE OF COMMONS

Q230 **Chair:** So it could be more expensive for people to use their cards abroad.

Charles Randell: It could be more expensive for people to use their cards abroad, and we obviously would not have jurisdiction that would enable us to do anything.

Q231 **Rushanara Ali:** Do you know when that decision might be taken? When do you expect some clarity on that particular point?

Charles Randell: As with quite a lot of issues, it is on the European side of the withdrawal negotiation, where I cannot give you any clarity.

Q232 **Chair:** What about the other way through, which is the UK payments infrastructure being clear that there will not be increased fees for European travellers using their cards in the UK? Has that been clarified?

Hannah Nixon: Again, we are as prepared as we can be and we do not have that clarity at the moment.

Q233 **Chair:** As you say, there has been the temporary permissions regime. In a different context, UK regulators have said, "We are not going to charge this. We are not going to increase our prices". Are you saying that the UK payment system has not made that decision about the interchange fee?

Hannah Nixon: The interchange fee regulation has been translated into UK law. We will continue to enforce it in the UK. Those caps have been moved across and so would apply in the UK.

Q234 **Chair:** So the UK is ready and has made a decision about what to do about the fees, but we have not had that decision made by the EU.

Hannah Nixon: Yes. Sorry, I misunderstood the question.

Charles Randell: Just to continue the answer, the other element of this is the Single Euro Payments Area. This is a scheme that enables you to make payments in continental Europe with a lower fee than you would normally expect your bank to charge you. It is a difference of probably half the fee that your bank might charge you for some other type of transfer. It has not been finally determined that the UK will remain within that agreement.

Q235 **Rushanara Ali:** We are looking at higher costs and the mitigation is going to be down to how quickly any agreements can be made in both dimensions. What has been made available to the public by banks in terms of these frequently asked questions and concerns? Time is running out. Is there material available to people about what they should expect and how things will change in the event of a no-deal situation?

Hannah Nixon: There is information on our website. Clearly, it is important that the messaging is clear and joined up, and so, as Charles mentioned, the majority of this is going through the GOV.UK website.

Q236 **Rushanara Ali:** Will that include information and precision about what



HOUSE OF COMMONS

extra costs they can expect to pay?

Charles Randell: It has been a feature of this negotiation that quite a lot of the detail seems to have been left to quite a late stage in the process.

Rushanara Ali: You can say that again.

Chair: Not just in relation to interchange fees and payments, I have to say.

Charles Randell: Therefore, we concluded that a communication programme now saying, "We cannot give you any answers" was not particularly helpful. At some point, answers will emerge to these questions. At that point, it is important, first, that firms communicate effectively with their customers.

Ultimately, their relationship with their customers includes levelling with them and explaining to them how these things work. They are the best able to communicate with their customers. They understand their customers' circumstances and so, from an FCA point of view, we have been engaging with firms to make sure that they understand our expectations about the quality of customer communication on some of the points that are entirely predictable that customers will want to know.

The other priority has been to have a single set of information. The last thing we want is a situation where slightly different messages are coming from slightly different regulators. This is why there is a cross-PSR/FCA/Bank/Treasury group that is ensuring that those messages are clear.

Q237 **Rushanara Ali:** I have one supplementary. When do you expect some sort of comprehensive guidelines on the site to be provided? I know I am asking you to answer a very difficult question, but given we are heading towards the end of March, people are going to be looking for much more detailed and joined-up advice.

Charles Randell: We will continue to review our plans as we watch events both here and in broader European negotiations, to try to work out when we have a settled position that we can communicate to people.

Q238 **Chair:** One of the settled positions is no deal. If it happens, presumably there must be some decisions being taken, so definitive advice can be given on a no-deal situation.

Charles Randell: Yes, it can be, if it is necessary for people to make extensive preparations for it.

Rushanara Ali: They would still want to know what it would cost. If they are booking a holiday or travel into other countries when we leave, they will want to know to be able to make plans.

Chair: It might affect how much foreign cash they are going to take as opposed to relying on paying with your cards.



HOUSE OF COMMONS

Rushanara Ali: Or whether they should get some euros out now.

Charles Randell: Absolutely, so those timing considerations need to be borne in mind. It is my sense that somebody booking a summer holiday now probably does not need, at this stage, a warning from us about a possible—

Q239 **Rushanara Ali:** If they are going for an Easter holiday, they would.

Charles Randell: If they are going for their Easter holiday, they may need it quite soon.

Chair: We might follow this up by letter in the course of the next few weeks.

Q240 **Rushanara Ali:** It would be helpful to know that work is underway and when something is going to be made available to people, so they can make any plans that they were going to make, or not.

Charles Randell: We have given broadly the information out that there could be an increase in costs. There is an interesting balance to be struck between sending messages to consumers that they may act on unnecessarily and sending messages to consumers that are sufficiently timely to enable them to act.

Q241 **Rushanara Ali:** Sure. We just need to be assured that the work is underway.

Charles Randell: Yes, the work is very much under way.

Chair: Good.

Rushanara Ali: You are doing better than the Government are on other matters.

Chair: On that note, thank you both very much indeed for your evidence this morning. Ms Nixon in particular, very best wishes with your future endeavours. We will look forward to seeing your successor or successors before us in due course. There are various points that we are going to follow up by letter, or information you are going to send to us, so we will make sure that that happens. Thank you for your time.