

Rt Hon. Mel Stride MP
Chair of the Treasury Select Committee
House of Commons
London
SW1A 0AA

4 July 2022

Dear Mr Stride

Thank you for your letter of 20 June, which followed on from our evidence session on 25 May 2022. Charles Randell, our outgoing Chair, and I were pleased to have the opportunity to provide an outline of our work and set out how this is shaping the industry and protecting consumers and businesses.

Thank you for the further opportunity to clarify several points discussed at the hearing, I hope you find the following responses helpful.

1. Card payment fees

In your oral evidence you noted that the PSR is undertaking a piece of work investigating card scheme and interchange fees (Q6), although you were unable to provide a timeframe for completion. Could you set out for the Committee any initial findings from this work, and what direction you expect the investigation to take? How are you going to provide updates on this work, and how regularly?

Since appearing before the Committee, we have published for consultation our draft Terms of Reference (ToR) for two market reviews. These two reviews – one looking at [scheme and processing fees](#), and the other at [cross-border interchange fees](#) – provide stakeholders with a clear outline of the purpose and proposed scope of our inquiry. Once we have received responses to our consultation, we will be able to finalise both ToRs. Our work to collect and continue to assess evidence continues throughout this period.

This publication also sets out more information about the questions we are seeking to answer. In summary, for scheme and processing fees, we want to understand whether the market(s) in connection with scheme and processing fees are working well, in line with our statutory competition, innovation and service-user objectives. We are reviewing whether there are factors that mean Visa and Mastercard have market power and face weak constraints in setting scheme and processing fees, and the impact of this.

For cross-border interchange fees, we want to understand the impact of and rationale for the increases in interchange fee levels for UK-EEA cardholder-not-present (CNP) consumer debit and credit transactions. We are concerned that Visa and Mastercard's ability to increase these fees is an indication that the market(s) or aspects of market(s) is not working well for service users, which could result in higher prices paid by UK merchants and consumers. Although the scheme operators have already provided some explanation for the increases, we wish to explore the reasons for them further.

You will know that these are complex matters. By their nature, the progress and timings of investigative processes are difficult to set out in advance. For both market reviews, we expect our thinking will develop over the course of the review, including the possibility that our potential concerns (regarding potential harm to competition, innovation or service-users) may be revised, not pursued further or new ones added.

These reviews will take some time to complete. Other PSR market reviews have taken at least a year, and can take longer. We are moving at pace, but the investigation process that we follow needs to be thorough. As a regulator, we must act in accordance with the statutory framework that sets out our powers and processes and comply with our public law duties to deliver robust, evidence-based policy decisions.

We are engaging with stakeholders to help identify and address issues to ensure that card payments work well for merchants and ultimately consumers. Reflecting this, our preliminary work-programme includes a series of workshops and bilateral meetings during our 6-week consultation.

We intend to maintain regular dialogue with affected parties and other interested stakeholders throughout this work, providing written updates as and when we have key developments to report (rather than being to a set frequency).

Is the PSR considering an interim cap on card scheme fees or cross-border interchange fees while the investigation is ongoing? If so, what sort of timeframe can we expect for a decision on the cap?

During the course of these market reviews, we will investigate potential concerns as outlined above. Given the complex nature of this work and the need to be thorough in our analysis of any potential issues, we would not anticipate the imposition of an interim cap in the immediate future. Nevertheless, should the evidence and/or analysis indicate that early intervention may be necessary, interim measures (such as interim caps) remain something that we would potentially consider, if appropriate.

In your oral evidence, you told us that the PSR had responded to the British Retail Consortium in writing regarding their complaint about “the recent surge in [UK payment card] scheme fees and other charges for processing credit and debit cards”¹ which they raised with you back in 2017 (Q18-20). Could you please provide the Committee with a copy of that response?

I can confirm that our records show that we responded to the complaint in 2017 and that senior colleagues corresponded and met with the BRC. Since the hearing we have reshared a copy of the correspondence with the BRC. Annex A: is a copy of the correspondence between a PSR Policy Manager and BRC Policy Adviser.

It is important to put our work on card fees into the context of our other work aimed at improving how payments work for businesses. Last week we [published](#) our provisional decision on remedies for the card-acquiring market review (CAMR), which is aimed at helping merchants switch providers and secure a better deal for these services. In addition, a key part of our Strategy is to unlock greater choice in payments; notably the potential for account-to-account payments to be a realistic alternative to credit and debit cards in shops and for online purchases. Over time, this would increase the competitive pressure on payment firms to deliver new services, put downward pressure on the cost of payment acceptance and promote innovation.

2. New payments architecture

In oral evidence, you described the role of the new payments architecture (Q77) and noted that improvements had been made by Pay.UK, the organisation responsible for its delivery (Q79). Can you please provide the Committee with details on when the programme is expected to be delivered and whether any challenges exist in the programme's delivery going forward? (Q80)

The renewal of the UK's retail account-to-account infrastructure presents a significant opportunity to deliver improved resilience, meet the growing demands for digital payments and strengthen competition, to benefit people and businesses across the UK. In addition, there is an opportunity to build in fraud mitigation as the NPA continues to develop.

An outline of the timeline for delivering the NPA based on Pay.UK baseline plan is provided in Annex: B. We ask the Committee to treat this information as confidential at this stage.

Delivering the NPA is a major undertaking for the payments industry. It is intended to replace the existing central infrastructure for Faster Payments and potentially Bacs, which process millions of payments per day and are critical to the UK economy. Key challenges for Pay.UK to manage as the NPA delivery body include:

- ensuring the NPA design is fit-for-purpose, resilient and supports competition and innovation
- running an effective and robust procurement of NPA central infrastructure that delivers value for money
- securing funding from Payment Service Providers (PSPs) to build and operate the NPA
- migrating transactions from Faster Payments to the NPA safely and securely

We will continue to monitor Pay.UK's work to deliver the NPA, working closely with the Bank of England. Where appropriate, we'll use our powers to ensure an outcome that supports competition, innovation and the interests of service-users. Last year, for example, we intervened swiftly to lower risks to NPA delivery. Our intervention simplified the NPA programme and gave time for Pay.UK to build its capabilities so it is better placed to manage the challenges above.

3. Resourcing

In oral evidence, you identified recruiting from a tight market as a challenge (Q36). Does the PSR have sufficient resource and expertise across the organisation to fulfil its objectives and manage its various projects?

We have the budget, resources, and expertise to fulfil our objectives and deliver our projects. However, our delivery is made more challenging by the current, competitive job market. This inevitably affects our ability to take on new work and affects our ability to progress some of our projects at the speed we would like.

We run a relatively lean resourcing model with very few discretionary activities. In response, we use consultancy spend to balance our resourcing and to bring in specialist skills on a short-term basis. This does come at a cost, but it enables us to deliver on our Annual Plan commitments (and in turn, our Strategy). Our resourcing strategy is to continue to carefully balance our mix of permanent and flexible resources so that we can offer value for money.

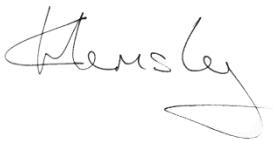
We continuously review the skills and capabilities of our people and actively support their development. Over the last two years, we have significantly increased our in-house payments expertise, and continued to recruit other specialists, notably economists. We have also set up a new division, which will improve how we monitor and analyse the markets we oversee.

What approach do you take to fill more specialist roles where it might be more challenging to attract the right expertise?

To fill our more specialist roles, we use our direct sourcing capability to seek specialist skills. We also advertise across a wide range of media, make extensive use of LinkedIn, and use our networks to attract the skills needed from a diverse candidate pool. Where appropriate we also engage with a number of specialist recruitment consultants who are fully briefed on our requirements and are able to search the market for the necessary skills.

Thank you for your continued interest in the work of the PSR. I am proud of the work we have achieved since our last hearing in 2019. There is always more to do, and I am confident that with the dedicated PSR team we will continue to work towards protecting people and businesses and create the conditions that lead to payments working well for everyone.

I hope the Committee finds this additional information helpful. We look forward to keeping the Committee updated on the progress of our work.



Yours sincerely

Chris Hemsley
Managing Director

See Annex A & B