

PSR Strategy: Call for Evidence

LINK's response PSR Consultation paper - Our proposed PSR Strategy - June 2021 - CP21/7

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Contact: John Howells, CEO

e-mail: jhowells@link.co.uk

Mobile: 07974 326 390

Web: www.link.co.uk

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Introduction

1. Link Scheme Holdings Ltd (LINK) manages the UK's main cash dispenser (ATM) network and is central to the operation of the UK's cash infrastructure.
2. LINK's network connects the vast majority of ATMs (both free and charging) in the country and allows customers of banks and building societies (card issuers) that are LINK Members to make cash withdrawals and balance enquiries with their payment card at almost all ATMs. All major card issuers and ATM operators currently choose to become Members of LINK. This helps to ensure that consumers in the UK have the choice of using cash should they wish to.
3. The LINK network is based on a highly resilient real-time high-volume infrastructure, currently supplied by Vocalink. LINK is the operator of the network and the systemic risk manager.
4. LINK is regulated by the Payment Systems Regulator (PSR) and by the Bank of England as a systemically important payment system. LINK is therefore especially interested in the PSR's strategy.
5. Cash is in long term decline in the UK. Since the Government announced in March 2020 its intention to legislate to protect access to cash, that trend has accelerated as a result of COVID-19. Until legislation is introduced, there are no requirements that give consumers the right to access cash (free or otherwise). LINK has therefore chosen to set itself the objective of ensuring that communities throughout the UK have satisfactory free access to cash while policymakers consider a longer-term strategy.
6. LINK works closely with the members of the Joint Authorities Cash Strategy (JACS) Group which is the Government's vehicle for developing a longer-term strategy. This includes the PSR.
7. LINK is also working with the industry Access to Cash Action Group (CAG) to develop industry-led solutions while legislation is pending.
8. Part of LINK's objective is to support the orderly transition of the UK from cash to digital payments. Hence, LINK is active in supporting digital transition and has a broad interest in the successful development of an inclusive digital payments approach while ensuring access to cash remains available for consumers who remain reliant on cash. Therefore, the PSR's approach to the development of digital payment systems is relevant to LINK's work.

Executive Summary

9. LINK welcomes the PSR's proposed Strategy and is generally in agreement with the contents. In particular, we think that the document sets out a much broader and strategic perspective of how to develop the UK's payments market than previous PSR Strategies. This is helpful and appropriate given the major changes that are underway as a result of how society is embracing technology (accelerated by the coronavirus crisis) and the vital role that a well-functioning payments sector has to the economy. LINK looks forward to assisting the PSR as it works on these important matters.
10. In our responses to the specific questions, we have highlighted a number of areas of potential development that we hope that the PSR will find useful.
11. LINK also notes that other areas of Government and regulators are developing areas of work that the PSR's Strategy is heavily dependent on. We recommend that strong engagement mechanisms and ways of coordination are put in place by the PSR to maintain alignment across all of this work. In particular, the Treasury's Payments Landscape Review, the Bank of England's work on Operational Resilience and the Treasury's work on Access to Cash have strong interdependencies with the PSR's Strategy. LINK's analysis of these other areas is not repeated here but our responses to the relevant consultations can be found at: <https://www.link.co.uk/publications/link-consultation-responses/>.
12. In addition, LINK does question the PSR's current thinking with respect to the tenders of FPS and BACS infrastructures. In broad terms, LINK sees the need for the much faster development of digital infrastructure in the UK than is currently underway. This is to enable the inclusive migration from cash to digital payments, much needed better management of digital fraud, and consumer-focused innovation in areas such as Central Bank Digital Currencies (CBDCs). LINK's response to the PSR's consultation on tenders and the New Payments Architecture can be found at: <https://www.link.co.uk/media/1719/new-payments-architecture-link-response-final.pdf>.

Questions related to Chapter 3: Payments and Payment Systems in the UK

1. *Do you think the key trends we have identified adequately capture the most important system-level changes payments and UK payment systems are likely to experience over the next five years? If not, please explain what we have missed and why it is important.*

The PSR's analysis rightly highlights the rapid migration from cash to digital that is underway as a key trend. There is a need to maintain inclusive access and choice for all consumers across cash and digital payments systems to support this migration and the PSR helpfully prioritises both of these.

There is also a valuable analysis on the benefits of encouraging competition *between* payment systems rather than the previous focus on competition at the level of infrastructure provision which LINK considers was incorrect.

LINK thinks that the current pace of development of digital systems in the UK is too slow and it is possible that the opportunities and market forces will change the current mix of suppliers and schemes within the timeframe of the PSR's Strategy before existing providers are able to develop their own solutions. However, the PSR appears focused on a fairly narrow set of existing providers fixed in their current roles. It would be useful if sufficient flexibility is built in to be able to consider changes to this.

In addition, technology and consumer behaviour continue to evolve and develop at an accelerating pace and is not within the control of Government and regulators, for example digital currencies. It may be helpful to build a broader view of these developments and the ability to flex to changes driven by them into the approach.

Finally, LINK thinks that the growth of digital payment fraud is a serious concern that will specifically need addressing within the timescale of the Strategy if the inclusive migration to digital is not to be undermined. We are glad to see that this is considered in the PSR's work and are keen to see it as a high priority.

Questions related to Chapter 4: Outcomes we'd like to see in payments

- 2. Do you think the key outcomes we want to focus on provide the right balance between promoting competition and innovation and doing so in a way that benefits all the businesses and consumers that make payments in the UK? Please explain why or why not.*

The PSR's analysis rightly prioritises consumer protection, choice and inclusion and LINK agrees that these are vital for a healthy payments market.

LINK is also in general agreement with the PSR's analysis that competition is a key driver to achieving good outcomes for consumers. Independence of the various payments systems in terms of governance from their participants is correctly confirmed as an important part of that. LINK itself has made great strides in putting in place such governance arrangements over the last ten years and this has led to a strengthened outcome for consumers and participants in areas such as financial inclusion and effective systemic risk management.

However, there are some elements of the payment systems, such as central clearing and settlement, that do not lend themselves well to competition. In particular, the enormous costs of setting up the extensive networks involved, and the systemic risk of making changes, limits competition in this space. As set out in LINK's response to the PSR's approach to mandated tenders (referenced in the Executive Summary), LINK is not convinced that this is an area where competition is the best driver of change. A consumer-focused central regulation of a utility structure is probably more appropriate. LINK would like to see this issue more strongly identified for exploration in the PSR's Strategy. Similar intervention and structures may also be needed to sustain declining areas such as wholesale cash infrastructure and a stronger consideration of this would be helpful.

LINK also considers that other enablers such as strengthening the approach to increase diversity and inclusion and to sustainability issues such as ESG, should be included in the PSR's Strategy.

Questions related to Chapter 5: Our Priorities

- 3. Do our strategic priorities provide the coverage, focus and flexibility we need to achieve the outcomes we want to focus on over the next five years? Please explain why or why not.*

The four outcomes (broadly access/choice, safe use, effective competition, and innovation) are clearly very sensible, and LINK agrees with them. Within these, LINK suggests a stronger focus on the themes of:

- Inclusive migration from cash to digital.
- Digital fraud control.
- Balanced consideration of the benefits of competition, with recognition of those parts of the system which are more “utility” in nature.

4. *Do these strategic priorities provide clarity on the choices we make, and especially on why and when we choose to intervene? Please explain why or why not.*

LINK’s general view is that strategic interventions, such as encouraging transparency and good governance, increasing access and inclusion, and strengthening resilience are helpful and there are numerous examples of this in the PSR’s Strategy.

There are also a number of quite detailed interventions which seem to have the PSR acting more as an operator than a regulator. Examples include the very direct oversight of specific initiatives in areas such as digital fraud (such as the code of conduct approach to authorised push payments fraud) and involvement in the detail of LINK’s Financial Inclusion Programme through Specific Direction 8 (on this last point, please refer to LINK’s separate response to the PSR’s review of Specific Direction 8, which can be found at: <https://www.link.co.uk/publications/link-consultation-responses/>).

LINK believes that the strategic interventions should be prioritised over more tactical work and that operational interventions should be avoided.

LINK also notes the watching brief in areas such as sustainability. LINK believes that wide adoption of digital payments on an inclusive basis is a key enabler of a more sustainable society. It therefore recommends an even stronger focus on this in the PSR’s Strategy.

Questions related to Chapter 6: How we will measure whether we are achieving our strategic priorities

5. *Do you think the measures we propose will help us to assess whether we are achieving our strategic priorities? Please explain why or why not.*

LINK supports the general approach to measuring progress.

There are a large number of proposed measures and there is merit in prioritising a subset that will remain relevant over the five-year period and give a clear focus on consumer and economic outcomes.

For example, the access to cash measures include useful and strategic concepts such as the use of cash for payments by consumers. There is not, however, a measure of the changing national cash access footprint (LINK is happy to provide one if desired). There are some proposed measures such as the number of Protected ATMs and ATM uptime which seem very detailed and not appropriate for a national payments strategy. Other areas, such as governance effectiveness, seem focused on one scheme (Pay.UK) which may not reflect the structure of the market in five years’ time.

6. *What other criteria do you think are central to measuring our effectiveness and should those complement or replace those we propose in this document?*

LINK has used consumer survey work to gain insights into issues such as consumer behaviour change, consumer confidence and unmet consumer needs. This has proved very useful to support decision making during the coronavirus crisis and more broadly. Use of such a survey over the lifetime of the PSR's Strategy and with a consistent set of relevant measures could provide a valuable single picture of progress. YouGov, for example, can provide such a service and has done so for LINK.

7. *Do you know any existing sources of data we can use to assist our metrics?*

LINK notes that a number of other markets across the globe have well developed payments regulators willing to share learning and data. Examples include Sweden's experience in relation to cash access protection, Canada's and Australia's approach to central infrastructure, and China's approach to digital currencies. The PSR may wish to consider establishing a proactive programme of liaison and information sharing to help ensure that its strategy is well-informed.