

Cards & Payments Innovation Summit

12 MAY 2015

Hello. Thank you for inviting the Payments System Regulator – the PSR – to be here today. It is a pleasure to join you.

You have asked us to tell you about the PSR: what type of regulator we are, what our objectives are and how we're starting to carry them out.

I'd also like to focus specifically on innovation.

In short: the PSR is the new independent economic regulator for UK payment systems. We've been building the PSR behind the scenes for the last year, but came into formally into operation at the beginning of April.

And we're the first dedicated payments regulator in the world. Nobody else has done what we are doing so far, which is why we know there's a lot of interest.

I joined the PSR from the largest foreign investor into the UK, Hutchison Whampoa – present across multiple regulated industries – so I know the importance of good regulation for supporting investment, and with that, competition, innovation and economic growth.

So what is economic regulation – and what does it mean for payment systems?

The Government's principles for economic regulation highlight that in certain sectors of the economy, network effects or other economies of scale can lead to market power and monopoly. This creates large barriers to entry and limits effective competition. In these sectors, economic regulation is needed to protect consumers while at the same time creating incentives to invest and innovate in reliable and sustainable services.

Primarily, the job of economic regulators is to promote effective competition where this is possible, and where it's not, to provide a proxy for competition, with protection of consumers' interests at its heart.

For example, in the traditional utilities, such as energy and water, regulation caps the prices that dominant companies can charge, in order to promote efficiency and fairness, while providing firms with a fair return on their assets and investments. In doing so, this regulation has delivered significant benefits to consumers and the economy.

So what about payment systems. Payment systems have been around since economic activity began. Ancient Turkey was the first place to use coins, as far as we know. The Chinese invented banknotes. And the Romans were the first to use cheques.

But the most important feature of a payment system is its need for widespread, if not universal, acceptance. This is the definition of a network effect: where the value of the network depends on how many other users are also connected. This makes payment

systems like other network industries, such as mobile telecoms or the internet. It's no coincidence that there aren't two internets: because its value is that we're all connected.

But these network effects can create very large barriers to entry and market power in the underlying infrastructure, systems and technology. And without regulation, competition wouldn't happen and consumers and other users would suffer.

Predictable, transparent and consistent regulation is also critical for infrastructure industries, with need for long-term investment. This is why economic regulators are set up to be accountable to parliament, but independent of direct political control. Hence, regulators can act as a welcome buffer between industry and sometimes short-term political demands.

But payment systems are of course also subject to other regulators, in the UK:

- the FCA, primarily a conduct regulator, concerned with direct consumer protection, but also now with competition powers
- the Bank of England and Prudential Regulation Authority, charged with ensuring financial stability, and also a supplier of central bank settlement services
- the Competition & Markets Authority, the UK competition agency, which has concurrent competition powers with the PSR and is also currently conducting a market investigation into retail banking
- HM Treasury, which has overall responsibility for UK financial services regulation.

We realise that this number of overlapping regulators is challenging for industry, especially where some regulatory objectives can appear to conflict. It is therefore our job to explain our respective roles – and to stay joined up with and where necessary challenge our co-regulators.

So, what are the PSR's specific objectives and what are we currently focusing on?

Our statutory duties are to promote competition, innovation and the interests of users of payment systems. The last of these is always our ultimate objective.

By competition, we mean

- competition between payment systems
- competition between payment services providers
- competition in supply of payment systems infrastructure.

Of these, our main immediate focus is on access to payment systems – direct and indirect – to ensure that access is not a barrier to competition in relevant downstream markets, for example, personal or business bank accounts, or e-money services.

We are doing this by putting directions on the major payment systems for their access criteria to be objective and transparent. We are also starting a market review into indirect access to payment systems.

Our other big focus is innovation. Innovation and competition go hand in hand: strong competition drives innovation, along with lower prices, investment and all the other benefits of competition. Our role here is to remove barriers to competition and otherwise get out of the way.

But much of the innovation that's needed in payment systems can only happen collaboratively, with industry working together. For example, the creation of a new payments system, such as Faster Payments, or development of greater inter-operability between payment systems. Unfortunately this has been the frequent criticism of payment systems: that industry has been slow to innovate collaboratively.

But collaborative innovation is difficult in any industry: because there's little competitive advantage and because it's hard to coordinate. This means that both end-users and industry can lose out.

This is why we are creating the UK Payments Strategy Forum: to be a partnership between regulator and industry to make collaborative innovation happen. Not innovation for innovation's sake, but innovation that will benefit payments users, but might not happen otherwise or with much delay. We are soon looking to appoint an independent chair and members of the Strategy Forum to work with us in this venture.

Finally, other workstreams we have started include

- becoming the competent authority for the European Interchange Fee Regulation for credit and debit cards
- helping to develop the Future Clearing Model for continued use of cheques in the UK
- a market review into UK payment systems infrastructure.

So thank for your interest in the new Payment Systems Regulator and we look forward to working with you.