

Mark Falcon

Head of Regulatory Policy and Strategy

European ATMs 2015, 16-17 June 2015

The new economic regulator for payment systems...





...Primary role
is to promote
competition...

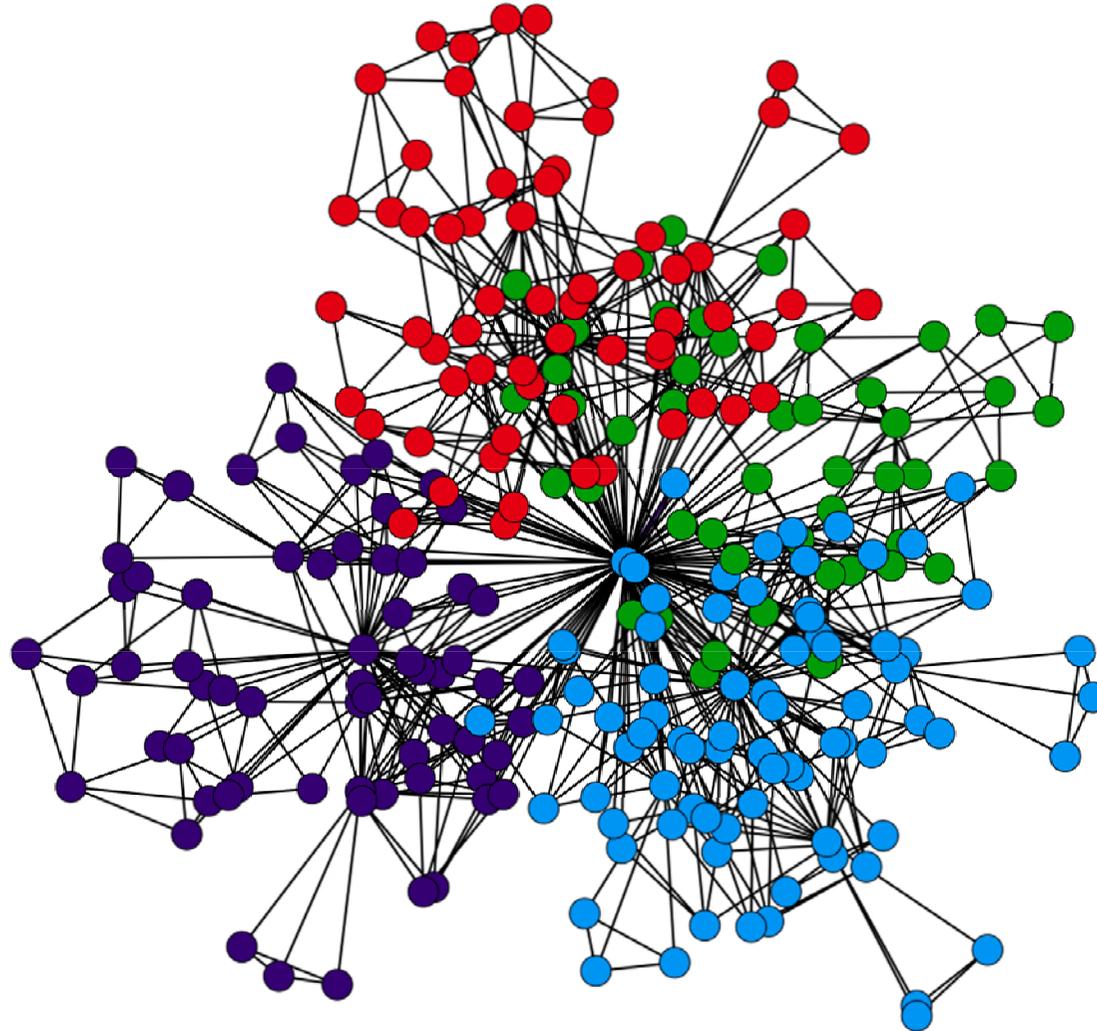
...But not a conduct regulator...



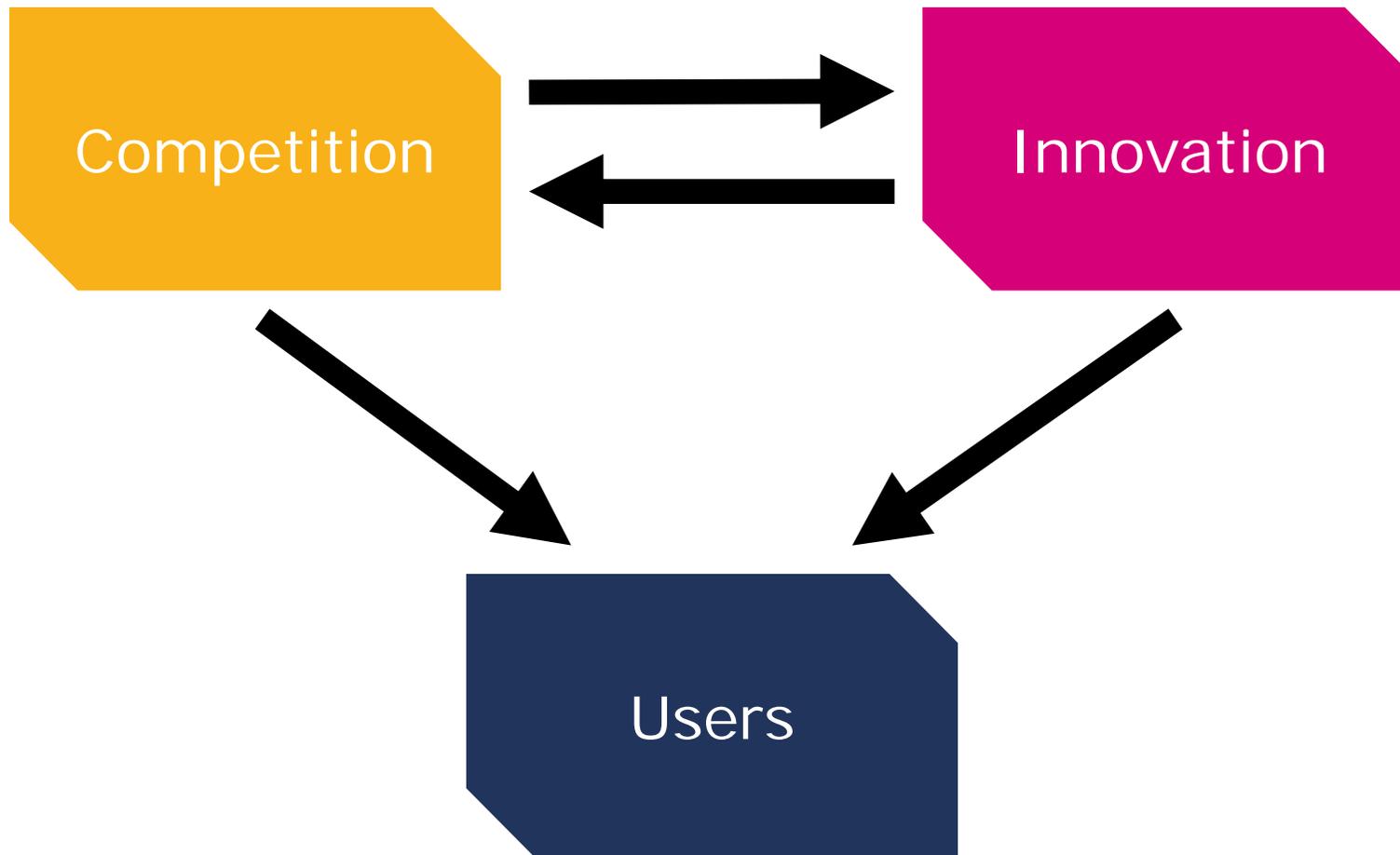
**...Nor a
stability/
prudential
regulator...**



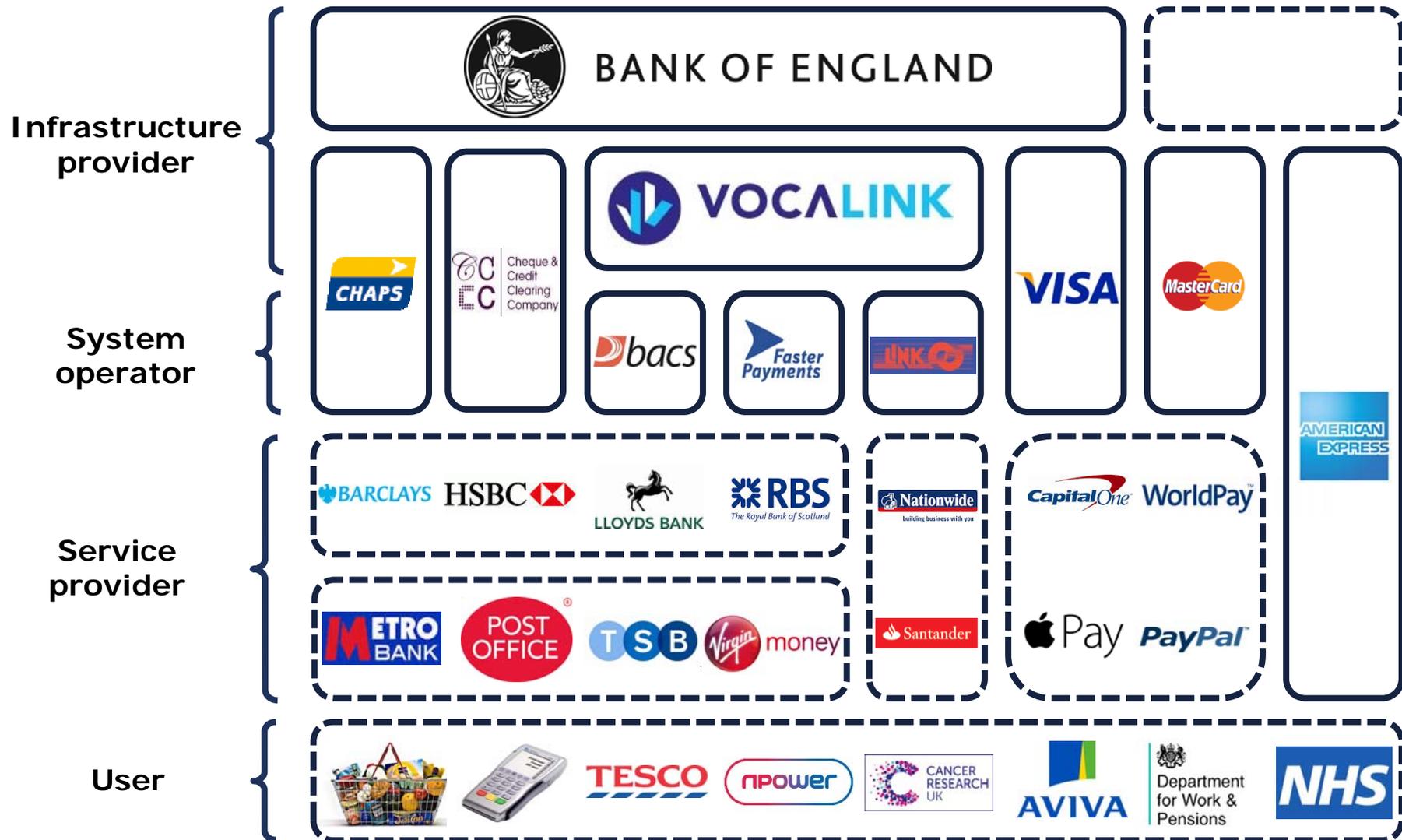
...Payment systems driven by network effects...



...The PSR has three primary objectives...



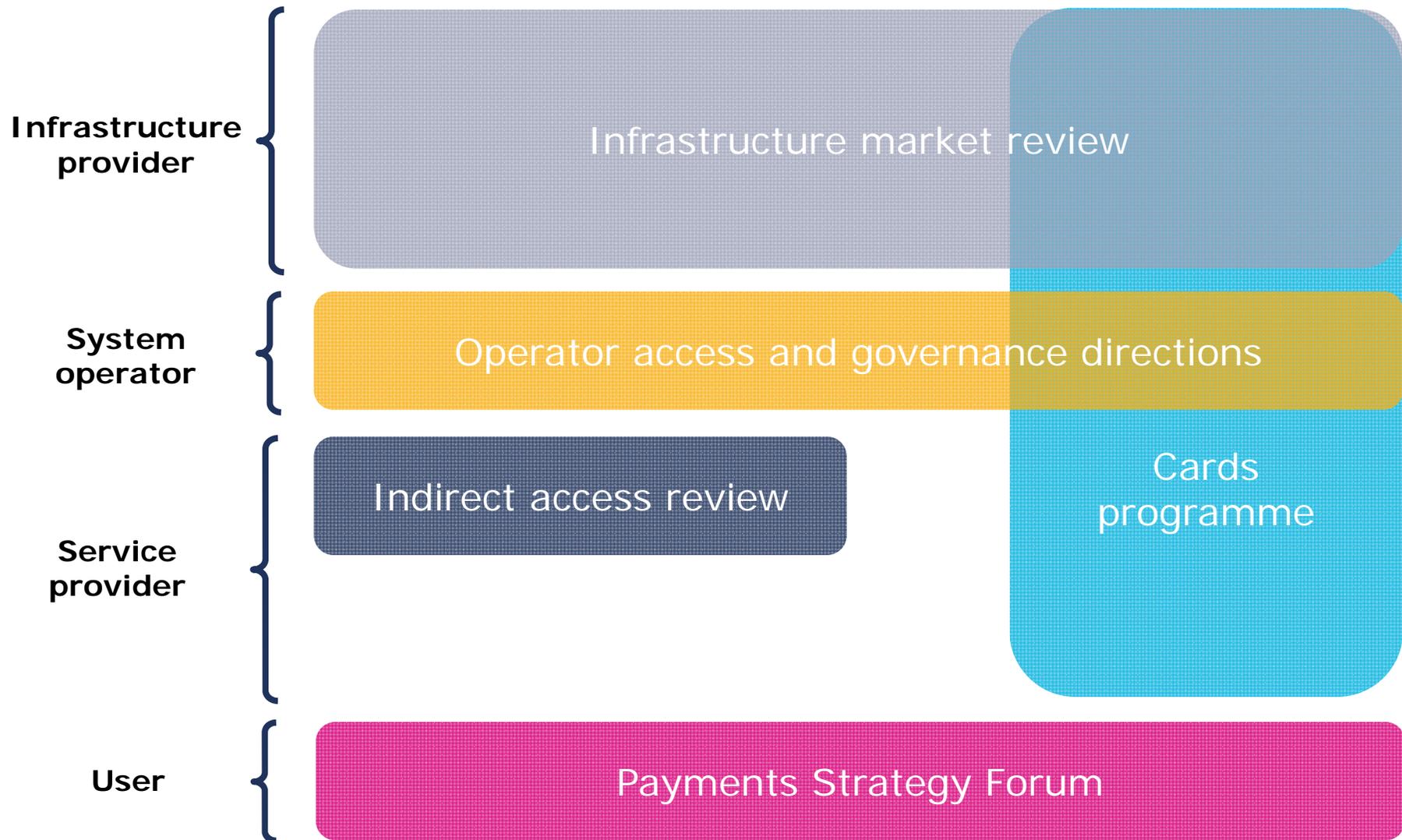
...Promote competition thru' the payments value chain...





**...key role to
promote collaborative
innovation...**

...to end: our current policy programme spans payments.



Thank you.

Questions?

European ATMs 2015

16-17 June 2015

1. Mark Falcon, Head of Regulatory Policy and Strategy

Hello. Thank you for inviting the Payments System Regulator – the PSR – to be at European ATMs 2015.

I am particularly proud to be here, as 16 years ago, in 1999, I advised LINK, the UK ATM network, on changes to its membership, governance and interchange arrangements. These arrangements have stood the test of time well, leading the UK to grow from 25,000 ATMs then, to 70,000 now, the great majority free to use. This has been a great success story for users and for the market.

This outcome also had a significant regulatory element. So it's great to be back involved in ATMs at the PSR, as the ATM market is certainly something that we're looking at closely.

Overall I'd like to tell you about the PSR, as a new regulator, touching on how our objectives will be relevant for the ATM market. I can also assure you that PSR is strongly committed to cash, as our colleagues at the Bank of England, so please don't start worrying just yet.

2. The new economic regulator for payment systems...

So, 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. We formally came into operation in April this year.

We're also the first dedicated payments regulator in the world and we look with interest to see if other countries will follow.

So, we'd like to think that we will regulate the supply of oxygen to the payment systems - but what will it mean for payment systems and ATMs in particular?

3. ...Primary role is to promote competition...

The primary job of economic regulation is to promote competition, where this is possible. This does not mean competition for the sake of competition, but competition to drive lower prices, better service, greater innovation and sustainable investment.

This is about safeguarding access to scarce resources, such as monopoly infrastructure, i.e. ensuring a level playing field between competitors. And we have the powers to do this, through directing the terms of access to payment systems or change of ownership of payment systems.

ATM networks are a clear example of this: where fair access is essential for both financial institutions and ATM operators, for example, challenger banks who may not have their own ATMs and independent ATM deployers bringing new innovation to the market.

Where competition is not possible, the role of economic regulation is to be a proxy for competition. For example, by direct regulation of prices, retail or wholesale. Interchange fees come close to this model, with credit and debit card interchange soon to be regulated across Europe. There is a strong case for similar model in ATM interchange.

Either way, regulation is there to protect consumers and promote economic prosperity.

Economic regulation must also be predictable and transparent, as this is what long-term investment needs.

It's also important to say what the PSR is *not* and our role versus other regulators.

4. ...But not a conduct regulator...

First, we are not a conduct regulator, responsible for consumer product regulation and rooting out bad practice. Conduct regulation is of course critical, not just for protecting consumers, but for protecting competition: by ensuring that competition remains fair and honest, that bad firms and practices do not drive out good.

In the UK, the Financial Conduct Authority – the FCA – is the conduct regulator for payment services as part of its wider financial services regulation responsibility.

5. ...Not a financial stability regulator...

The PSR is also not a financial stability – or prudential – regulator. This is primarily the role of the Bank of England.

Payment systems certainly create systemic risk to the financial system, which is why all the largest retail and wholesale payment systems are regulated by the Bank of England. We also do not want to see payment systems falling over.

Overall, we recognise that having multiple regulators of payment systems risks confusion. Which is why it is our job to stay joined up across the regulators and explain our different roles as clearly as possible. We also have a formal Memorandum of Understanding between the PSR, the FCA and Bank of England.

So why is economic regulation relevant to payment systems more than any other industry?

6. ...Payment systems driven by network effects...

Everyone in the payments business knows that payment systems are driven by network effects: that the value of a payment system depends on how many other users are also connected to the same system.

This creates the standard chicken and egg problem for any new payment system wanting to set up: namely, payment systems are large entry barriers. This can limit competition and mean that established payment systems have a high degree of market power and opportunity for monopoly. Moreover, the existence of large network effects in payment systems is the UK Government's underlying reason for creating the PSR.

Before the PSR, I was most recently in the mobile industry, at Hutchison Whampoa, the largest foreign direct investor into the UK. And the mobile internet is particularly relevant for payment systems:

- first, because the same powerful network effects are present at the centre of telecoms and the internet
- second, it entails similar long-lived investment, and
- third, it now involves much of the same underlying technology and innovation.

These are all relevant to the PSR.

So, what are the PSR's specific objectives and what is our current work programme?

7. ...the PSR has three primary objectives...

The PSR has three primary objectives – our statutory duties – to promote competition, innovation and the interests of users of payment systems.

Promoting innovation is a unique objective among economic regulators, but entirely appropriate, as innovation is what drives the greatest user benefits, rather than lower prices alone.

Moreover, the PSR's objectives are not three independent goals, but intimately related.

Our ultimate aim is the interests' of users of payment systems. Competition and innovation are our chief tools for achieving this. But competition itself drives innovation: and innovation in turn drives greater competition, so a virtuous loop. These are all highly relevant to ATMs.

So, where do we want competition to get better in payment systems?

8. ...Promote competition thru' the payments value chain...

The PSR has a duty to promote competition through the payments value chain, in particular:

- competition in supply of payment systems infrastructure
- competition between payment systems, and

- competition between payment service providers.

This slide illustrates, at a high level, the relationship between payment systems infrastructure providers, payment systems operators, payment service providers and payments users. This is not supposed to be a complete representation of the UK payments system.

By users, we mean all payments users, so for example:

- consumers
- small businesses
- large retailers
- utilities

and organisations that make a lot of payments, such as:

- insurance companies
- the Government
- every employer.

HM Treasury has designated that we should regulate all of the payment systems on this slide (except for American Express). The PSR nevertheless has regulatory oversight for all payment systems and their participants.

9. ...key role to promote collaborative innovation...

The PSR also has a key role to promote collaborative innovation. This follows from the large network effects in payment systems, where innovation needs to happen from the centre.

The same is true in any industry where common standards and interoperability are important. This innovation can happen in a number of ways, for example:

- *private* development and licensing of proprietary technologies
- *shared* development and distribution of open source technologies, e.g. by trade associations or other bodies
- *public* development of common standards and industry strategies, such as standards setting bodies, industry forums and regulation.

The development of telecoms and the internet is full of examples of this, from:

- the creation of the 19th century global telegraph system
- the development of the World Wide Web protocols
- the standardisation of fixed and mobile broadband network equipment and devices
- the design of mobile spectrum auctions.

These have all contributed to the ease with which I can make a call, send an email, text, photo or video around the world in seconds, which sadly is not yet quite so easy in the world of payments.

This is where we would like to play a role. We will soon be launching the UK Payments Strategy Forum, a partnership between industry and regulator. The prime purpose of this is to drive collaborative innovation in payment systems and we look forward to telling you all about this.

10. ...to end: our initial policy programme spans payments.

So, to end, our initial policy programme spans the payments market.

First, our 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.

Second, as I have mentioned, our other big focus is innovation. The Payments Strategy Forum is about collaborative innovation across payment systems from the perspective of users.

Third, the PSR is likely to become the competent authority for the new European Interchange Fee Regulation for credit and debit cards. Our Cards Programme is intended to consider this, in the wider context of the card payment systems and relevant cards markets.

Last, the PSR is also planning a market review into payment systems infrastructure, to support our statutory duty to promote competition in infrastructure provision.

So, to conclude, thank for your interest in the new Payment Systems Regulator. Our job in being here is to make sure that you that we're open for business and for us to learn more. So I really look forward to the rest of PayExpo.