

Pay. UK Limited**Minutes of a meeting of the Board of Directors held on 13 July 2022**

Members		Attendees	
Mark Hoban (MGH)	Pay.UK Chair	Dougie Belmore (DB)	Chief Payments Officer
Anna Bradley (AB)	Senior Independent NED	Charlotte Crosswell (CC)	Open Banking
Diane Côté (DC)	Independent NED	Elizabeth Darkens (ED)	Senior Policy Analyst
Matthew Hunt (MH)	Chief Strategy Officer & Deputy CEO	Michael Ellis (ME)	Chief Finance Officer
John Mountain (JM)	NED	Nigel Gosden (NG)	Chief of Staff
Marc Pettican (MP)	NED	Henk Van Hulle (HVH)	Open Banking
David Pitt (DP)	Chief Executive Officer	David Morris (DMO)	Chief Technology Officer
Jean-Yves Rotté-Geoffroy (JY)	Independent NED	David McPhee (DM)	Director, Regulatory Engagement and Policy
Lesley Titcomb (LT)	Independent NED	Shane Warman (SW)	NPA Director
Lars Trunin (LTR)	NED	Carolyn Gibson (CG)	Head of Corporate Governance
Peter Wyman (PW)	Independent NED	Aaron Gallagher (AG)	Assistant Company Secretary
		Louise Rebeck (LR)	Company Secretary

**Board members and attendees met using a hybrid meeting model with some attending in person and others joining remotely by video conference*

22/35 Opening Business

- 22.35.1 Quorum – The Chair noted that a quorum was present in accordance with the Company’s Articles of Association.
- 22.35.2 Conflicts of Interest – All directors present confirmed that they had no other direct or indirect interest in any way in the proposed transactions to be considered at the meeting which they were required by section 177 of the Companies Act 2006 and the Company’s Articles of Association to disclose
- 22.35.3 Minutes and Action Log – The minutes of the 11 May 2022 Board meeting and the minutes of the 27 May 2022 Committee of the Board were **approved**.
- 22.35.4 Progress with the current open action items was noted.

22.35.5 Approvals since last Board meeting – It was noted that the Modern Slavery Statement and the Modern Slavery Policy had been approved via email circulation to the Board since the last meeting.

22/36 Committee Reports

- 22.36.1 The reports from the various Board Committees had been circulated with the meeting papers.
- 22.36.2 DC noted the work underway to bring risks back within appetite and the progress being made with Graham Davies, the new interim CRO.
- 22.36.3 MGH, noting that two reports highlighted the non-provision of papers from the supplier, queried whether there was an issue with openness. DP confirmed that this would be raised at the next quarterly session with the supplier.
- 22.36.4 Referring to the Remuneration Committee report AB advised that phase two of the Organisational Design was underway and that it covered approximately half the organisational head count. DP noted that this was an important period for the company where the changes were taking place at the same time as ensuring that there was sufficient capability to deliver against the systemic risk challenges and to maintain operations. He added that further detail of the Organisational Design activity, organisational end state and the potential impacts of the changes would be discussed at a future Remuneration Committee meeting.

22/37 Open Banking

22.37.1 MH reflected on Open Banking's role as technology provider to Pay.UK with the provision of APIs for COP. When the issues with ClearBank and other customers with different business models arose the proposed solution design for COP did not meet the Open Banking rules.

CC and HVH joined the meeting.

[Redacted - commercially sensitive]

- 22.37.16 This conversation provided an opportunity to update Pay.UK on the project to review the future of Open Banking and the ways in which these organisations may engage, in considering the future direction of Open Banking.
- 22.37.17 MGH thanked CC and HVH for their openness and transparency noting that they were managing a situation with a high degree of uncertainty.

CC and HVH left the meeting.

22/38 Follow-up Discussion on Open Banking

- 22.38.1 It was agreed that whilst the scenario was challenging it also offered an opportunity to consider the synergies and clear reliance that Open Banking and Pay.UK had on each other. A good test case for working together would be for both organisations to put forward a clear proposition that fell outside the Order.
- 22.38.2 CC's openness regarding disaggregation of Open Banking's functions and establishing the right future entity for them was appreciated. MH added that in response to a previous CMA consultation that Pay.UK had expressed an interest in taking up some responsibilities and that that broad enthusiasm had now been renewed. It was agreed that understanding the focus of the

new entity would be important. DP highlighted standards as one of the synergies noting that further thinking was required and that Open Banking should be discussed at Strategy Day once conversations had been held with HVH. **ACTION: DP**

- 22.38.3 The meeting agreed that this was an opportune time to look at the crossovers between Open Banking and Pay.UK and to formally and concisely articulate the opportunities presented. The support from customers and regulators was discussed and it was agreed that considerable work would be required to determine the benefits for the UK economy and end users of Pay.UK taking on additional responsibilities.
- 22.38.4 Account to account payments were already a part of Open Banking and a different approach, with the right consumer protection in place, could be positive. It was agreed that carrying out the work and the strategic thinking to understand the right answer for Pay.UK should go ahead. MH requested that the topic was brought to the Strategy Day so that the strategic thinking could take place and the practicalities of timing, capability and cost could all be taken into consideration.

22/39 CEO's Report

- 22.39.1 The CEO report was taken as read and DP commented on some key points.
- 22.39.2 This meeting marked DP's one year as CEO and he reflected on how much the business was doing, with activity focused on priority areas. Despite the challenges presented, the business response continued to be positive, robust and energetic.
- 22.39.3 Pay.UK's role as systemic risk manager had come into sharp focus, as evidenced by the Cloud paper, and although the relationship with regulators was improving there was more work to be done in this area, needing a more proactive approach, taking a more forward look at the risks in the ecosystem.
- 22.39.4 This improvement in regulatory confidence was echoed in meetings with customers and from UK Finance. The latter's support in respect of our work on APP scams highlighted the need for the business to respond to this challenge.
- 22.39.5 Work on the NPA programme continued, supported by regulatory approval. The programme was at a critical stage which included gaining customer commitment, being clear on the value proposition and the funding options. There was a clear need to get these out in the open to give customers the chance to understand what it meant for them commercially.
- 22.39.6 This also linked into our strategy and whilst the NPA would support this, there was also a need to be clear on our strategy; what Pay.UK wanted to be and why. What was going on in the wider economy would also influence Pay.UK's thinking and there was a need to be clear on the skills and capabilities needed to deliver on the strategic intent.
- 22.39.7 An Executive strategy day, facilitated by KPMG, the following day would be looking at these points, prior to bringing them back to the Board strategy day in September.
- 22.39.8 In terms of the top team effectiveness, as noted in the paper in the BoardEffect Reading Room, good additions to the team were Graham Davies, interim CRO, and David Morris CTO, both of whom were already making a difference.

22.39.9 During Q2 there had been a significant improvement in Pay.UK's risk profile, with eight risks previously outside risk appetite now moved to within appetite. Further improvements to the risk profile were expected in the coming months.

[Redacted - commercially sensitive]

22.39.13 DP also commented on the D&I Committee's work and reiterated management's open invitation to all Board members to attend. He agreed to provide an update on D&I to the Board. **ACTION: DP**

CFO Report

22.39.14 ME presented the CFO report which was taken as read. The key points to note were where the business was in terms of trading for year. The business was on track against the forecast, with spending c.£2m less than originally planned, which would feed into next year's pricing. Overall volume levels were in line with plans. The data team considered there could be some improvement to volumes by the end of the year.

[Redacted - commercially sensitive]

22.39.16 PW asked if the NPA funding model was being made over complicated as there really were only two options and we were at the point where clarity to the model was required.

22.39.17 PW noted the report stated there would be further discussion at the Strategy day but, for the NPA, this needed to move forward.

22.39.18 DP confirmed this topic would be discussed in the NPA Commercial Group on 21 July, the output would be covered in the following SPG meeting and then brought back to Board.

KPIs

22.39.19 The KPIs were noted.

DM and ED joined the meeting.

22/40 APP Reimbursement

22.40.1 MH commented on the developments within the industry and considered that it was timely for APP Reimbursement to be brought to the Board. He requested guidance on what Pay.UK's role should be and how to engage with the PSR in terms of its broader consumer protection agenda. It was noted that HM Treasury's position on the required legislation was now clearer.

22.40.2 In discussions with the PSR it had been highlighted that in the medium term they envisaged a wider ranging role for Pay.UK on consumer protection than an FMI would normally be expected to have. This broader role could align with Pay.UK's strategic focus and MH added that before this could be said with certainty that there were two key areas that required further work. The first of which were the practical considerations of how the reimbursement arrangements would work and secondly, what the impact on Pay.UK would be. MH advised that DM and ED were working through these areas with the PSR.

22.40.3 MH noted that the PSR's approach was helpful as an interim model was being proposed where the PSR would establish the liability model, with the potentially wider impact on Pay.UK taking place in the medium term. He advised that the PSR had received significant feedback from industry which would need to be addressed in its consultation. There was also a risk that the PSR

could publicly declare its long term vision for Pay.UK before Pay.UK had had the opportunity to work through the various issues and the impact model. MH added that this was a strategic discussion that needed to take place with the PSR and was wider than APP scams.

- 22.40.4 DM stated the PSR's September consultation would have two parts: the first would consider what the reimbursement framework would look like; and the second would focus on how the framework would be implemented, including the role for Pay.UK. DM noted that Pay.UK was actively engaged with the PSR ahead of the consultation and wished to satisfy itself that Pay.UK could carry out the role envisaged as effectively as possible. At this stage, the PSR had not provided enough information to enable any change to Board's current policy position to be recommended. A further update would be presented later in the year and would be dependent upon the timing of the PSR consultation.
- 22.40.5 It was noted that a meeting with HMT was scheduled at which the detail of the legislative change would be discussed.
- 22.40.6 Recent engagement with the PSR had been positive and DM confirmed that a good understanding of the preferred immediate or interim approach had been gained, of which the Executive was broadly supportive.
- 22.40.7 LTR stressed the importance of the division of responsibilities in the reimbursement model being clear and ensured that the parties funding reimbursement were those closest to the creation of fraud. He reflected that the current model, based on volume, penalised those with lower APP scam rates than the average. MGH noted that it was important that the PSR designed the liability framework and not the PSO.
- 22.40.8 MP urged caution as it was important that all aspects of the reimbursement model were considered to ensure that Pay.UK was fully aware of any liabilities that it would be expected to assume if, for example a major player failed.
- 22.40.9 It was noted that some customers were linking their concerns with the reimbursement model with their readiness to commit to the NPA. It was also observed that during conversations regarding APP scam reimbursement that the terms 'commercial model', 'economic model' and 'funding model' were all being used interchangeably and both clarity and consistency were required.
- 22.40.10 AB observed that enforcement had not been mentioned during the discussions on the framework and its management. Pay.UK's role was to carry out assurance and not enforcement. The proposal implied that the regulator had a different view of enforcement. It was important that Pay.UK was clear on what its enforcement model looked like as to what was proposed. AB also noted that the model was a very different construct to that currently operated by Pay.UK. MP agreed and remarked on the scale and significance of the task to transform in this way. DM confirmed that the issues raised by these questions were what was being worked through with the PSR. He added that the PSR was looking to Pay.UK's more active role to include carrying out checks and setting fines, which was a step change from the existing arrangements. The meeting considered whether Pay.UK could instead provide the data that would enable the PSR to enforce.
- 22.40.11 MGH queried how the Lending Standards Board (LSB), responsible for the Contingent Reimbursement Model Code setting out consumer protection standards to reduce APP scams, was involved. ED confirmed that the LSB currently had a team of nine compliance people working

on this. She added that the CRM code was less stringent than the model proposed by the PSR and applied only to the ten banking groups that had adopted the Code.

- 22.40.12 AB stated a discussion needed to be had on what the business was prepared to take on in this space and not wait to be told. PW considered this went back to the earlier conversation that if agreement could be reached on what needed to happen then it would be possible to agree roles and responsibilities. He added that alignment across the regulators was imperative.
- 22.40.13 DM noted that the long term solution proposed by the PSR would generate some of the concerns raised around the table and that these could be discussed with the PSR separately from the immediate pressure to introduce a reimbursement model for FPS. These were strategic issues for Pay.UK. There was a window of opportunity afforded by the interim model that would enable Pay.UK's concerns and views to be fed into the PSR's longer term vision to demonstrate the benefits and improvements that they would provide.
- 22.40.14 DM confirmed that the long-term vision would involve testing and formalising the model.
- 22.40.15 MH recommended a reference document in the BoardEffect Reading Room, which outlined the PSR's medium term vision.
- 22.40.16 MGH stated the landscape was moving, such that this was a significant priority for government and regulators. It was necessary to continue discussions with the PSR, in a constructive and positive way, especially as this would be a recurring topic, requiring the Board's attention.

DM and ED left the meeting.

DB and NG joined the meeting.

22/41 Cloud Policy

- 22.41.1 DP advised that a taskforce had been put together at speed and that the team had done an excellent job over a short period of time.
- 22.41.2 The Cloud risk work sat within the wider systemic risk programme for which Graham Davies the interim CRO was the Executive Sponsor and Cloud was one of five projects within the programme, this also included the projects looking at both concentration and aggregator risk.
- 22.41.3 NG briefly described the key artefacts presented to the Board and talked through the task force approach and overview. DMO advised that FMID's letters referred mainly to risks to resilience and buried in the detail was a reference to a lack of understanding within the organisation of systemic risk, and cloud in particular. In his conversations with FMID it was clear that both governance and the workings that demonstrated how Pay.UK had arrived at its policies and decisions regarding cloud risk were also required.
- 22.41.4 DMO noted that cloud risk had been looked at from an industry perspective as well as addressing FMID's concern regarding risks to resilience. Fourteen risks were articulated which formed the basis of the risk statement. The Policy described how Pay.UK responded to those fourteen risks and the Code of Conduct provided the detailed execution. DMO added that on reviewing the Policy with a subset of customers the feedback was that 70-80% of the fourteen risks were covered by the PRA. LTR reflected that all customers would not necessarily be regulated by the PSR.

- 22.41.5 DMO observed that customers were working on plausible failure scenarios as these were a key part of the payment systems' Codes of Conduct. PW queried whether the implausible scenarios would be listed for FMID and DMO advised that they would not be included as part of this work. The Narrative document available in the BoardEffect Reading Room made clear that it was understood that there would still be other risks yet to be recognised. DMO drew the meeting's attention to the SLAs and Recovery Time Objective that were clearly documented in the Code of Conduct to ensure that they were adequately implemented and controlled by customers.
- 22.41.6 DC asked if there was a risk in that everyone was using 2-3 providers, AWS for example and what priority did we have as a customer to recovery and what did this mean for the payment systems. DMO reflected that the larger cloud service providers, such as Amazon Web Services (AWS), gave a large multiplicity of routes for payments so that concentration risk was dispersed throughout the ecosystem. It was possible that other smaller cloud providers that customers could be using could present concentration risk. DMO also confirmed that contagion risk needed to be considered. The meeting discussed whether these risks were specific to cloud service provision and agreed that the risks were present in the current environment and how Pay.UK responded to the risks in an environment that included cloud needed to be addressed.
- 22.41.7 LT queried whether FMID was aware of the fourteen risks identified and it was confirmed that whilst the risks had not been specifically outlined to FMID, they would be included in the non-object letter. JM observed that the definition of systemic risk was quite limited and it was noted that this definition was derived from an FMID-approved document.
- 22.41.8 As a result of the work carried out over the last few weeks DMO advised that a much better view of the ecosystem was now available which was being fed into the systemic risk programme. LTR proposed that assurance should be technology-agnostic and DMO agreed noting that this was how the assurance would be designed. LT added that Pay.UK's mitigation was about the assurance of individual entities and also alerting FMID on wider systemic issues. DMO advised that assurance of these entities would be carried out proportionally based on their importance to what Pay.UK does.
- 22.41.9 AB asked if the response to FMID provided sufficient detail of what Pay.UK was doing regarding systemic risk. DP observed that part of Pay.UK's role was to state what risks were controlled by Pay.UK, which risks were not and who should put controls in place to manage them. This message needed to be embedded more clearly in the narrative document. **ACTION: NG/ DMO**
- 22.41.10 The assurance methodology as summarised in the presentation was described in detail. DMO stated that when reviewing customers' responses to the assurance questions Pay.UK had a sense of what a good answer looked like and if the response was insufficient could dig deeper and request evidence. In addition to these three aspects AB proposed that a further layer was needed to the Assurance Methodology where all individual responses were looked at holistically to ensure that the systemic risk was addressed. **ACTION: DMO/ DB/ NG**
- 22.41.11 NG noted the key milestones from the plan, adding that a baseline exercise would be conducted with direct customers specifically on cloud only. These would then be included in subsequent years as part of the annual assurance process.
- 22.41.12 DP confirmed that customers currently in the change plan would be risk assessed before the non-objection was received from FMID and before assurance was carried out using the revised approach. It was noted that a wholesale rewrite of the assurance questions had not been

undertaken, instead the questions had been updated. It was agreed that the systemic risk perspective needed to be clear in the cloud risk documentation.

22.41.13 After further consideration the Board **approved** the following artefacts:

Risk Statement and Approach Final

Cloud Risk Policy Scope v1.0

Cloud Risk Policy v1.0

Revised Assurance Approach v1.0

Post meeting note: The titles of the artefacts changed post ExCo and Board to the following:

- *Cloud Risk Statement & Approach*
- *Cloud Risk Policy*
- *Cloud Code of Conduct*
- *Cloud Risk Policy, Cloud Code of Conduct and Assurance – scope*
- *Implementation Plan*
- *Project Quality Assessment & Approach*

DB and NG left the meeting.

SW joined the meeting.

22/42 NPA Update

[Redacted - commercially sensitive]

22.42.3 ME referred to the questions being raised by customers as to whether the commercial model for NPA would be both equitable and future proof.

22.42.4 SW observed that queries regarding the scope of NPA were being raised and confirmed that it was the scope as set by the Board with six payment types, with the multi-day payment type not being available on day one. He questioned whether the language used with customers to describe scope could have been muddled and confirmed that that a clear statement on scope would be made available in the coming weeks.

22.42.5 Whilst the basic payment type capability needed to support Bacs was within the scope of the NPA programme MP observed that questions from customers interested in Bacs were emerging. The scope of Bacs functionality within NPA, and the value propositions that this would enable, would impact customers' commercial models. DP observed that now a long term commitment was being sought that the points being raised by customers needed to be clarified.

22.42.6 The meeting agreed that the day one capabilities of NPA and the strategy for making functionality available beyond that should both be made clear. SW queried whether a change in language would help bring about consensus amongst customers on the scope, strategy and therefore the commercial model. AB proposed that whilst Pay.UK committed to deliver a scope and strategy for NPA that were clear and for which it was accountable that the other side of the commitment, that needed from customers also needed to be made clear.

22.42.7 SW noted that the scope that non-objection was being sought for was different to the scope that would go live on day one. It was agreed that clarity was required so that customers understood the costs to them and what they would have to build.

22.42.8 Feedback from customers had identified the need to accelerate progress with the commercial model. ME confirmed that the model previously shared with the Board had been communicated to customers. He noted that a run costs for NPA were expected to be significantly lower than

those of the current systems and highlighted the savings that could be made from the early decommissioning of the current payment systems.

22.42.9 ME highlighted the need to help customers build their own business cases and noted that these could be impacted by other value propositions and capabilities, such as fraud, that would be made available by NPA.

22.42.10 It was agreed that clarity of communication and scope with customers was required.

DB re-joined the meeting

DMO and SW left the meeting.

22/43 Product Strategies

Paym

22.43.1 DB advised that Paym was in year on year decline and that two customers, one with a significant share of the volume, had formally given notice that they would be exiting the service. A further customer was also expected to give notice in the very near future.

22.43.2 Given the declining volumes the recommendation was to give notice to Customers and Vocalink of Pay.UK's intention to close down Paym within the next twelve months. The MPSCo Board had made clear that a consistent message should be shared with the industry. DB noted that the PSR was aware. He added that there was a requirement to see whether the functionality of Paym could be built into the broader scope of the NPA to maximise the system to provide proxy-based overlay services.

22.43.3 The meeting considered whether Paym could remain in place until a replacement service was available. This would provide continuity for end users but give a disproportionate cost base for those remaining customers and it was likely that this option would see more customers leaving. DB confirmed that an alternative funding model could be investigated.

22.43.4 It was agreed that additional end user engagement would be carried out and the scale of the end user impact of closing Paym explored. AB added that EUAC could be used as an additional forum to gain feedback and views. The meeting agreed it was supportive of the proposal to close Paym that the end users of Paym needed to be understood with any vulnerable communities clearly identified prior to any wider communication. **ACTION: DB**

22.43.5 The value in making the intellectual property in Paym available to the market for it to deliver was discussed. It was agreed that the proxy look up table was the key deliverable and should not necessarily be run as a scheme.

22.43.6 MGH advised that HM Treasury needed to be sighted and to understand the reasoning behind the closure of Paym. **ACTION: DB**

22.43.7 It was also agreed that communications should be shared with the Access to Cash Group. **ACTION: DB**

ICS

22.43.8 The meeting noted the findings of the ICS product review, that the decline of cheques had accelerated and that although per item costs were increasing they could continue to be absorbed over the next few years.

- 22.43.9 DB outlined the challenge faced to ensure that a new solution for processing cheques, using NPA, would be in place before the current contract ended. He advised that customer workshops had been scheduled to develop and validate the proposed NPA overlay solutions and noted that no engagement with end users was envisaged as the change in solution should be invisible to them.

22/44 Governance and Policies

Capital and Liquidity Policy

- 22.44.1 It was noted that the Capital and Liquidity policy had been withdrawn and would be brought back to the Board once it had been recommended for approval by the Audit Committee

UK Payments Administration Ltd (UKPA) Articles of Association

- 22.44.2 CG stated that as the sole shareholder for UKPA the Board was asked to consider the new Articles of Association for UKPA commenting that following the completion of the pension scheme winddown the company had transitioned into a non-trading entity and as such only required standard 'Table A' articles.
- 22.44.3 The new Articles of Association were considered by the meeting and it was resolved that the Articles as presented were APPROVED, and CG was authorised to submit these to Companies House.

Post meeting feedback

- 22.44.4 Owing to time constraints it was agreed that feedback would be sought offline after the meeting.

Post meeting note: Feedback received confirmed the continued improvement in papers and discussion coming from these papers. There had been good discussions on each paper, with some topics needing to be continued during the Board Strategy day. There had been strong participation from all members of the Board. The meeting was well chaired, keeping topics to time, whilst allowing sufficient time for good debate.

Consideration was needed to ensure detailed discussions that may require Committee input prior to the meeting, such as the Risk Committee, should be factored in, even if at relatively short notice, to support the Board with the detailed work of the subject being discussed.

Further consideration was also needed to ensure papers that required to be read before the meeting were in the pack, rather than placed in the Reading Room.

22/45 Any Other Business

- 22.45.1 There being no further business the Chair declared the meeting closed.

.....
Chair