

Pay. UK Limited**Minutes of a meeting of the Board of Directors held on 28 September 2022**

Members		Attendees	
Mark Hoban (MGH)	Pay.UK Chair	Graham Davies (GD)	Chief Risk Officer
Anna Bradley (AB)	Senior Independent NED	Michael Ellis (ME)	Chief Finance Officer
Diane Côté (DC)	Independent NED	Kate Frankish (KF)	Chief Business Development Officer
John Mountain (JM)	NED	Chris Greany (CGR)	Director of Security
Marc Pettican (MP)	NED	Dave McPhee (DM)	Director of Regulatory Engagement & Policy
David Pitt (DP)	Chief Executive Officer	David Morris (DMO)	Chief Technology Officer
Jean-Yves Rotté-Geoffroy (JY)	Independent NED	Jiggy Rawal (JR)	Director of Finance
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	Louise Rebeck (LR)	Company Secretary & Special Projects
		Externals	
		Nicole McManus (NM)	PWC observer for 2022 Board Evaluation Review

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

22/46 Opening Business

- 22.46.1 Quorum and welcome – The Chair confirmed a quorum was present and welcomed NM from PwC, who would be observing the meeting as part of this year’s Board evaluation, and with whom some of the Board had already had their interviews.
- 22.46.2 The Chair also confirmed this would be JY’s last meeting as he had taken up a new role and would be standing down as a Director with effect from 11 November 2022. The Chair took the opportunity of thanking JY for his contribution to the Board and commented on the work he had completed, particularly in the early years of his tenure, in supporting the development of the procurement function within the business.
- 22.46.3 JY commented that it had been his pleasure to work with Pay.UK and the Board and that whilst there had been some heavy lifting to do, it was unfortunate that he was unable to see the work through to fruition, but was pleased to see the progress being made across the organisation.
- 22.46.4 Conflicts of Interest – The Conflicts of Interest Register and Gifts and Hospitality Register were tabled and the Directors confirmed they had no other direct or indirect interest in any way in the business of the meeting.

- 22.46.5 Minutes– The minutes of the AGM held on 13 July were **Approved**. And, subject to the changes requested, including to the redactions to the minutes of the 13 July 2022 Board meeting, the minutes were **Approved**.
- 22.46.6 Approvals since last Board meeting – [Redacted – commercially sensitive]. Matthew Hunt’s resignation letter to the Board with effect from 1 August 2022 was accepted [Redacted – commercially sensitive] .
- 22.46.7 The Chair also asked the Board to consider JY’s resignation, which would be effective from 11 November 2022. The resignation from the Board tendered by JY was accepted and **Approved**.
- 22.46.8 Action Log – All actions from the previous meeting were either to be covered in the meeting or had been completed.

22/47 Committee Reports

Audit Committee

- 22.47.1 PW advised that the Audit committee had discussed three Audit Reports, from which there was nothing of note to bring to the Board, except to say further work was required to enhance the documentation of decision making within the business. The budget had been challenged and reviewed, which would be discussed later in the meeting. The development of the Annual Report process had also been discussed, with improvements planned for the 2022 Report.

PW left the meeting.

Nomination Committee

- 22.47.2 AB reported that PW’s current contract was scheduled to end on 31 December 2022 and the Committee (without PW being present) had discussed PW’s position on the Board. Further to that discussion and taking into consideration PW’s valuable contribution and understanding of Pay.UK’s history, AB recommended his re-appointment to 31 December 2026.
- 22.47.3 CG advised that this would take PW to the full nine-year term as recommended for an Independent NED under the UK Governance Code.
- 22.47.4 The Board considered this recommendation and PW’s re-appointment to 31 December 2026 was **Approved**.

PW re-joined the meeting.

- 22.47.5 The Chair updated the meeting with the progress being made with the recruitment of an independent non-executive director and stated, given the refreshed composition of the Board and the future development needs of the business, it had been thought that an individual with sound retail and data experience would provide the additional skills mix required. Odgers had been engaged to commence this search, which was now underway.
- 22.47.6 Further to JY’s resignation Odgers had been asked to extend their search to individuals with technology focused procurement expertise.
- 22.47.7 A short list of candidates, which was encouraging, including two provided by JY, had been put together, which covered diverse backgrounds and a wide range of experience. The Board would be updated on progress as soon as possible.

22.47.8 AB asked for an update on the recruitment of the IAC Chair. The Chair stated he was due to meet with Becky Clements to discuss progress. CG confirmed a revised list of candidates, from a much broader range of candidates was being put together to be discussed at the Nomination Committee.

DP and ME left the meeting.

Remuneration Committee

22.47.9 AB provided a summary of the Committee's review of CEO compensation. [Redacted – commercially sensitive]

DP and ME re-joined the meeting.

EUAC

22.47.12 AB commented on the expanded membership of the Advisory Council which was promising and at its first session had discussed important items related to Mobile Payments System Co Ltd. ('Paym') and Request to Pay ('RtP'). AB advised that the Chair of the Board had also attended this session.

22.47.13 There had been pushback from the Advisory Council to the proposal to make an RtP rule change that would make a number of response options discretionary. Members had felt that there was an increased need for flexibility in the options available with RtP, especially in the context of the cost of living crisis.

22.47.14 LTR queried whether RtP would be brought to the Board as a topic for discussion. Having worked closely with Pay.UK on the introduction of RtP LTR observed that it was technically complex and this could make it more difficult for organisations to implement given the current level of change within the industry such as Target2 and NPA.

22.47.15 Considering the points raised at EUAC, LTR asked whether the take up for RtP was relatively low owing to its design. The Advisory Council had agreed that the options not to pay, to part-pay or to request additional time to pay were clearly articulated as needs and should be available to end users via RtP or variable recurring payments, an alternative to RtP.

22.47.16 Market reluctance to take up RtP was discussed and AB asked why RtP would remain in place as a product if the options it provided for end users were removed. DP agreed that the points raised by EUAC would be considered and brought back to the Board. **ACTION: DP**

22.47.17 AB invited members of the Board to EUAC's meetings if they wished to hear the discussions first hand and requested that meeting dates be circulated to members. **ACTION: CG**

DMO joined the meeting.

22/48 Executive Report

CEO Report –

22.51.1 The CEO Report was taken as read and DP commented on some key points including recent regulatory engagement. He gave a brief summary of his recent supervisory visit with FMID and discussions with the FMI Supplier's new interim CEO. The FMI Supplier relationship was also discussed.

[Redacted – commercially sensitive]

NPA

- 22.51.6 The programme remained broadly on track and communications had been shared across a number of fora. There appeared to be a general appetite or acceptance of the need for the NPA.
- 22.51.7 DP stated the commercial structure of NPA had been discussed at the recent Co-ordination Group, which having followed this up with FMID, was now attended by both regulators. This helped to signify a change in approach by FMID, which was a positive way forward.

[Redacted – commercially sensitive]

- 22.51.16 DP referred to Lisa Mellor's appointment as Chief Risk Officer and the recruitment underway for a Chief Policy and Engagement Officer.
- 22.51.17 A letter had been received from FMID acknowledging the work carried out by Pay.UK to ensure that the payment systems appropriately handled the bank holiday for the Queen's funeral. An industry debrief would take place at the next Customer Engagement Forum. DP advised that there had been some issues with CASS as some companies had not acted quickly enough. It was likely that there would be an additional bank holiday for the coronation and whilst the date was not yet known DP considered that there would be more time to prepare.
- 22.51.18 DP highlighted the work carried out to attain a silver for Pay.UK's first CSR accreditation.
- 22.51.19 The meeting discussed the status of Pay.UK relationship with FMID. The Chair stated that FMID was less concerned than they had been previously. A strategy was being built for working with the regulators which would be discussed further at the Board Strategy Day. DP advised that he would be meeting with Justin Jacobs at the upcoming Sibos event.

KPIs

- 22.51.20 The meeting considered the KPIs and DP highlighted that there were no areas of concern and the availability of subject matter expert resource was considered. The recruitment of skills and experience in Operational Resilience would form part of the discussions at the forthcoming Board dinner. DC observed that having sufficient subject matter expert resource was an issue and the Chair advised that he had already raised this with KF and the Chief People & Culture Officer.

JR joined the meeting

DMO left 09:40

22/49 Finance

2023 Pricing & Draft 2023 Budget -

- 22.49.1 ME confirmed that the usual approach had been followed with a proposed price range shared with customers in May for the 2023 price per click for the payment services. The draft budget for 2023 had been created and the next step would be to confirm 2023 pricing for the core services and to share this with customers. ME added that this also provided an opportunity after the Strategy Day to determine where internal resources would be directed for 2023.

The current financial position was in line with the plan with revenues down slightly and costs below plan. ME stated that this was due to change initiatives and the timing of filling vacancies.

The meeting discussed the pricing for 2023 including the key drivers for pricing and considered the impact of a UK recession on forecast volumes.

- 22.49.2 Looking forward to pricing for 2023 a 10% uplift to costs was being proposed so that the pricing would be in the middle of the range shared earlier in the year with customers. The key drivers for the uplift were the continuous investment in systemic risk and an estimated increase for payroll. The systemic risk investment was driven by the Cloud risk, the associated project work and the ongoing monitoring for aggregator, concentration and cloud risk. This also allowed for investment in capability to improve third party risk management. ME confirmed that money would be set aside for payroll with an estimated increase of 7% which would not be confirmed until January 2023.
- 22.49.3 ME added that the budget included some funding for initiatives and seed capital that would enable fraud products to be taken to market. It was possible that customers would be reimbursed for those services in development, being priced separately.
- 22.49.4 LTR queried whether consideration had been given to decoupling services from their associated revenue. Giving COP as an example, he noted that it could be utilised for payment systems, that were not within Pay.UK's remit and that this utilisation would de-risk the single source of revenue and provide diversification. LTR queried whether diversification and its potential impact on pricing was considered when determining item price.
- 22.49.5 The impact of a diverse source of revenue was being looked at, as part of the work for NPA pricing. ME confirmed that the team was looking at different methodologies including what income streams could be generated and how to keep the price for NPA. It was important to be careful and transparent whilst ensuring that the item prices was not overburdened with additional services.
- 22.49.6 The meeting considered that a more market-based approach to pricing could be looked at in the future and DP observed that the pricing for 2023 needed to be simple and straightforward. He reflected that as Pay.UK was a not for profit organisation that additional income generated would ultimately be given back to customers through better innovation that resulted in better services or a lower item price.
- 22.49.7 ME stated that in May 2022 it had been agreed that Pay.UK would hold the funding level required for NPA in order to support the item price range. MGH asked what this meant for the NPA programme. ME stated that the contingency from this year's budget would be carried over to 2023 and this with the forecast £45 million would cover the programme costs for the year and the initial work with the vendor. The model being followed for NPA would mean that Pay.UK could draw down on debt funding to fund the programme for the second half of 2023. DP added that debates were taking place such as whether fraud solutions would be ringfenced through NPA.

[Redacted – commercially sensitive]

- 22.49.9 The Chair queried what the impact would be to the 2023 forecast volumes given the increased risk that the UK would be in recession. ME advised that the impact was likely to be relatively minor and referred to the volumes in 2008. Some regression analysis modelling had been carried out and externally assured and during the Covid-19 pandemic the long term trend had barely moved. As a result of this modelling a more cautious view on FPS growth had been taken. DP advised that the risk of lower volumes was being monitored.

22.49.10 Referring to NPA volumes LTR commented that if it was assumed that volumes would increase by 11% over the next fourteen years the UK population was not expected to increase at the same rate. The number of clicks per person would need to increase 11% year on year and LTR queried why this would be the case. The meeting considered the payments that would come through NPA, such as instant payments, that would change the balance from payments for essential items to include those for discretionary items and their impact. It was agreed that although the percentage may initially look low that it had a potentially significant impact.

22.49.11 Further to this discussion, the issue of the 2023 pricing to customers was **Approved**.

JR left the meeting.

DMO joined the meeting 10:32

22/50 IT Update

22.50.1 DMO gave an overview of the overall position of IT within the organisation. Productivity was improving and costs were reducing. He added that discussions at the forthcoming Strategy Day could have a significant impact on the direction of travel for IT and a further update would be brought back to the meeting in due course. **ACTION: DMO**

22.50.2 The meeting discussed Pay.UK's IT estate and the centralisation of the IT budget under the CTO. The implementation of new tooling within the organisation to increase efficiency and productivity. DMO gave an overview of FMI supplier management through the lens of Pay.UK's role as systemic risk manager. [Redacted – commercially sensitive].

SW and KF joined the meeting 11:15

22/51 NPA Update

22.51.1 SW provided an update on the status of the overall NPA programme.

[Redacted – commercially sensitive]

22.51.6 The meeting considered the customer journey and discussed the challenges being faced and how these were being worked through with customers. AB asked for an update on the status of the commitment conversations taking place with customers. SW stated that there had been some confusion in the industry as a number of organisations had thought they needed to sign up to NPA by November 2022 when this was not required until June 2023. In March 2023 the programme would be able to demonstrate where they were on the customer commitment journey. He added that work was also underway to enable early adopters.

22.51.7 Commercials and volume projections were being discussed with customers to provide as much information as possible to assist them with their own business cases, for internal approval. ME added that the pricing approach for NPA was similar to that in place today enabling customers to project costs. Complexity was introduced when considering the potential risk should the use of the NPA platform decrease, to a level where the price per item became unsustainable. ME was asked to provide further information on the revenue risk, resultant from any material drop in NPA volumes. **ACTION: ME**

[Redacted – commercially sensitive]

- 22.51.9 AB asked if there was a sense of confidence that customers were moving on the journey with Pay.UK so they would agree to the commitments needed. ME stated that from an overall perspective, larger customer were keen to move ahead, and more positivity was being seen within the industry, that Pay.UK would deliver NPA. It was recognised that there were challenges and DP advised that the programme was mapping a list of the issues raised across customers. It was recognised that those who would secure customer commitment would be DP, ME, DMO, KF and members of the Board. It was agreed that the challenge was to understand where customers were within their own processes, as this would provide insight into what more Pay.UK needed to do to support customers in order to gain commitment needed.
- 22.51.10 At a recent SPG meeting a discussion had taken place on how commitment would be achieved, and how to keep this at forefront of everyone's minds. This was a topic to be discussed at the next SPG meeting.
- 22.51.11 Key discussions were taking place at senior levels in customer organisations, whilst the NPA programme team was assisting customers' project teams. No significant issues were currently identifiable that would prevent customer commitment.
- 22.51.12 SW considered there was a realisation now within the industry that NPA would be delivered. JM asked how many customers needed to sign up and whether there was a threshold that made NPA viable. For those that did not sign up to NPA the costs for FPS would increase and DP highlighted that increased resilience, sustainability, ability to build new products and availability of ISO 20022 would be significantly more costly to implement on the FPS infrastructure than in NPA. A full cost recovery model to be paid later by those customers moving to NPA would be too costly.
- [Redacted - commercially sensitive]
- 22.51.14 The meeting received an update on NPA procurement. [Redacted – commercially sensitive]
- 22.51.18 Mixed messages were being received from the industry regarding both commitment and timeline. MP observed that some customers wanted to move more quickly, whilst many were dealing with other significant programmes of work, some regulatory. SW confirmed that the same messaging was being relayed to the programme and he acknowledged that delays to those programmes of work could cause issues as resource would not be available to move onto NPA-related work.
- 22.51.19 A clear scope was laid out for NPA that was now being shared in-depth with customer groups. KF stated that an end user focus group had looked at the unintended consequence of the design of products and what implementation would mean for customers. The output from the group had identified some large pieces of work which KF confirmed did not change the scope.
- 22.51.20 Considerable industry consultation had taken place on standards and the level to which they should be mandated now needed to be agreed. KF added that customers were interested in the Bacs strategy. As Bacs volumes organically moved to NPA there would be a minimum cost for the Bacs platform. Work was being carried out on the trigger points and scenarios for Bacs.
- 22.51.21 The Chair commented that what Pay.UK had gone out to procure was wider than the scope of the PSR's SD3. AB commented that EUAC's views would be sought on the scope extension when the Bacs strategy was brought to the Council. KF confirmed that the Bacs strategy was outside the non-objection that was being sought. The PSR was heavily engaged in the process and SW stated that taking competition into consideration was key. DP confirmed that he had written to both the

PSR and FMID to confirm what would be provided to them. The Chair stated that in the past non-object submissions had not been framed to meet the PSR's objectives of competition and innovation.

- 22.51.22 MP observed that major customers were complex organisations and asked if the customer contact strategy was as effective as it appeared, as some of the individuals that Pay.UK was working with were not the decision-makers. DP emphasised the importance of KF's work in customer engagement.
- 22.51.23 The upcoming regulatory items that would be brought to the Board for its consideration were highlighted. [Redacted – commercially sensitive]

SW left the meeting.

GD, CGR and DM joined the meeting.

22/52 Risk

Risk Appetite Statements

- 22.52.1 The annual review had been used as an opportunity to enhance the Risk Appetite Statements ('RAS') and to take into account Pay.UK's role as systemic risk manager. GD stated that the core statements remained the same in terms of resilience and robustness whilst allowing appetite to be set around the ecosystem. The updated RAS tied into other work taking place in the systemic risk programme.
- 22.52.2 DC advised that the Risk Committee was pleased with the improved RAS as they now provided clarity of what Pay.UK's risk appetite was from a Board perspective and the additional information provided a trigger point, the amber zone, enabling management to take action before a risk went out of appetite.
- 22.52.3 The Risk Committee had discussed the Finance RAS which had led to the removal of the amber trigger point and establishing the appetite threshold at the point where there was a risk of breaching capital requirements and not when they had already been breached.
- 22.52.4 DC confirmed that the Risk Committee was happy to recommend the RAS to the Board for approval. She added that the Risk team was carrying out calibration work on the Risk Assessment Matrix to ensure that the RAS aligned with practical limits and trigger points and this matrix would be brought back to the Committee in due course.
- 22.52.5 LTR requested that the wording under Market Confidence and the Strategic Risk RAS was amended to put the emphasis on the substance of Pay.UK's vision rather than the optics of Pay.UK being a leading payments entity. JM observed that the KRIs reflected Pay.UK through the lens of the regulator rather than that of the industry. GD noted that the metrics and KRIs were being looked at as part of the calibration work.
- 22.52.6 The timescales over which the Uptime in the Operational RAS was applicable were queried and the meeting considered that this measure would be replaced by Operational Resilience Important Business Services and Impact Tolerances.
- 22.52.7 Following the discussion on the RAS, subject to the requested changes being made, the Risk Appetite Statements were **Approved**.

An update on Pay.UK's participation in a voluntary stress test, arranged and executed with other industry actors, was provided.

[Redacted – commercially sensitive]

- 22.52.20 LT added that the Committee had discussed emerging risk and she was looking forward to the Committee's future discussions and being able to demonstrate that Pay.UK was thinking sufficiently ahead. The Committee had requested that emerging risk be put at the beginning of the Risk report.
- 22.52.21 The meeting agreed that there was a shift in the approach to systemic risk management and requested that narrative was provided that illustrated the change in mindset and how it was reflected in the reporting and tracking of risk.
- 22.52.22 DP highlighted that with the evolution of the risk management framework the Executive was now having better discussions about risk, with the focus on mitigations, not process, and this was flowing through to the Risk Committee.

Winddown Plan

- 22.52.23 A light refresh of the Wind Down Plan (WDP) had been carried out and GD advised that no major changes had been made. The cost of wind down had been revisited with a prudent figure for the starting capital being used that was different to the actual capital.
- 22.52.24 The meeting discussed a more complex scenario for utilisation in the plan's next annual review. The Risk Committee had requested that the plan was updated so the Wind Down Steering Committee would have a direct link to the Board itself. The Committee had also considered the wind down scenario and that the inclusion of an FMI supplier should be considered, recognising the additional complexity that would introduce. It had been agreed that this would be looked at, as part of the next review. DC provided comments on the timeline and had agreed that the WDP could be triggered by a major financial incident and the WDP had been updated accordingly. The Committee was happy to recommend the WDP to the Board for its approval.
- 22.52.25 PW noted the amount of work that went into the WDP and questioned if it could be delivered in a more efficient way in the future. It was noted that the Risk Committee had asked for more information on the background to and stakeholder expectations of the WDP. Further to these discussions the Wind Down Plan was **Approved**.
- 22.52.26 The meeting thanked GD for his work noting the progress that had been made during his time as interim CRO.

22/53 Governance & Policies

Capital and Liquidity Policy

- 22.53.1 ME noted that following the annual review of Pay.UK's capital reserve requirements the policy had been created to formalise and document the scope, approach, calculation principles and definition of how capital and liquidity were measured. PW confirmed that the Audit Committee was happy to recommend the policy to the Board for approval.
- 22.53.2 Further to this recommendation, the Capital and Liquidity Policy was **Approved**.

Health and Safety Policy

- 22.53.3 CG advised that in accordance with Health and Safety Executive guidance the Board set the direction for effective health and safety management and for establishing the Health and Safety Policy.
- 22.53.4 The meeting considered the policy and ME confirmed that an accident log was held, that near misses were recorded and a Health & Safety Manager was in place. He added that there had been an enthusiastic take up on health and safety throughout the organisation. Whilst the policy did not focus on issues related to remote working DP stated that colleagues were advised on the approach to safety, whilst working remotely, upon joining the Company. In response to a query from LTR, it was confirmed that the policy applied to all consultants, contractors and all visitors to the premises. Further to this discussion, the Health & Safety Policy was **Approved**.

Meeting Dates for 2023

- 22.53.5 Referring to the meeting dates previously circulated, CG confirmed that invitations for 2023 committee meetings would be sent out shortly. Further discussion would take place to decide whether the Board Strategy Day should take place earlier in the year and Audit Committee members would be consulted to see if an alternative date for the proposed February meeting was required.
- 22.53.6 Meeting dates for 2024 would be published in the near future.

22/54 Post-meeting Feedback

- 22.55.1 It was noted that the whilst there was considerable detail within KPI pack, the information was used by Board members to support understanding and challenge where appropriate. LTR considered there could be more linkage to risks, within the KPIs. DP was requested to provide a summary of the key metrics within the CEO Report, which would support the use of the KPI information. **ACTION: DP**
- 22.55.2 DC proposed that the Risk Reports presented to the Risk Committee should be made available in the BoardEffect Reading Room and presented to Board twice a year. LTR asked for the format of these reports to include a simple overview of risks, showing the mitigating actions, activities and strategic initiatives. **ACTION: DP**
- 22.55.3 Members noted that the meeting pack as a whole had become easier to read and navigate and that the summary papers and availability of supplementary materials in the Reading Room made it easier to prepare for meetings.
- 22.55.4 Papers were more focused and facilitated discussion, which made it easier to understand the key areas of concern. DC requested that she would like to understand the governance journey for policies. CG confirmed this work was already underway and would be brought to the Risk Committee for discussion.
- 22.55.5 DC queried whether diversity was monitored as part of the KPIs. DP confirmed that colleagues had been asked to provide the relevant data and once 60% of the organisation had provided this information, reporting and monitoring of diversity would commence.
- 22.55.6 The NPA paper was highlighted for its clarity of language and order of key focus points. The meeting agreed that it facilitated good debate and acknowledged the work by the team and the executive to improve the information coming to the Board.

- 22.55.7 MP reflected on the improvement of the overall pack from the 600 plus pages received a year ago. A shorter more focused pack enabled members to have better control.
- 22.55.8 It was agreed that DMO's feedback was particularly useful and MP queried whether DMO should be a regular attendee. MGH acknowledged the breadth of DMO's work and responsibilities and reflected that the executive should attend for their agenda items rather than having all Executive Committee members attending the entire meeting.
- 22.55.9 The Committee agreed that reports (rather than PowerPoint presentations) made preparation easier in terms of both understanding the subject matter and digesting the narrative for pre-reading and discussion at the meeting. DP agreed to share this feedback with the Executive.

22/55 Any Other Business

- 22.55.1 As there was no further business the Chair thanked everyone present, closed the meeting and invited the NEDs and INEDs to remain for a private session.

Chair