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Pay. UK Limited

Minutes of a meeting of the Board of Directors held on 30 November 2022

Members		Attendees	Role
Mark Hoban (MGH)	Pay.UK Chair	Sophie Bacheta (SB)	Business Management Support Officer
Anna Bradley (AB)	Senior Independent NED	Sam Cope	Head of Economic Regulation & Policy
Diane Côté (DC)	Independent NED	Elizabeth Darkens (ED)	Senior Policy Analyst
John Mountain (JM)	NED	Michael Ellis (ME)	Chief Finance Officer
Marc Pettican (MP)	NED	Kate Frankish (KF)	Chief Business Development Officer
David Pitt (DP)	Chief Executive Officer	Nigel Gosden (NG)	Chief of Staff
Lesley Titcomb (LT)	Independent NED	Chris Greany (CGR)	Director of Security
Lars Trunin (LTR)	NED	Georgia Hunter (GH)	NPA OpRes Lead
Peter Wyman (PW)	Independent NED	David McPhee (DM)	Director of Regulatory Engagement & Policy
		David Morris (DMO)	Chief Technology Officer
		Jiggy Rawal (JR)	Director of Finance
		Dave Rich (DR)	Head of Talent
		Sherree Schaefer (SS)	Chief People & Culture Officer
		Shane Warman (SW)	NPA Director
		Caitlin Wilkinson (CW)	NPA Competition SME
		Carolyn Gibson (CG)	Head of Corporate Governance
		Louise Rebuck (LR)	Company Secretary & Special Projects
		External	
		Nicole McManus (NM)	PWC

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

22/56 Opening Business

- 22.56.1 Quorum and welcome – The Chair confirmed a quorum was present.
- 22.56.2 Conflicts of Interest – The Conflicts of Interest Register and Gifts and Hospitality Register were tabled and amendments noted. The Directors confirmed they had no other direct or indirect interest in any way in the business of the meeting.
- 22.56.3 Minutes– The Chair stated that the minutes provided more evidence of board challenge and the move from operational to strategic discussion. As a result the minutes were more comprehensive and the nature of their content meant an increase in the number of redactions expressing commercial sensitivities whilst ensuring appropriate public disclosure.
- 22.56.4 The meeting agreed that where there was substantial redaction a summary would be provided in the minutes to ensure that the redacted minutes made clear what was being discussed. **ACTION: CG**

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22.56.5 The minutes of the meeting held on 28 September 2022 were **approved** subject to brief summaries being added prior to redactions.

22.56.6 Approvals since last Board meeting – The decision taken since the last meeting to appoint two new INEDs to the Board, subject to successful completion of Pay.UK’s vetting and FMID’s non-object, was formally confirmed, **approved** and ratified.

AB joined the meeting.

22.56.7 The Chair noted that it was anticipated that the non-objections would be given in time to enable appointments to begin in January 2023.

22.56.8 Action Log – Progress with the current open action items was noted.

22/57 Committee Reports

Audit Committee

22.57.1 PW gave a brief summary of the recent supervisory meeting that he and the Director of Internal Audit had attended.

Risk Committee

22.57.2 DC drew one item to the attention of the Board. [Redacted – commercially sensitive].

Remuneration Committee

22.57.3 AB confirmed that there was nothing to add to the report.

Nomination Committee

22.57.4 Changes to Committee memberships had been agreed to reflect the appointment of the two INEDs in the new year.

22.57.5 MGH highlighted that CG was looking at the role of guarantors in light of the evolution of Pay.UK

22.57.6 DP gave an update on the candidates for the role of IAC Chair noting that those who had been approached to put themselves forward had declined due to other commitments. AB queried whether the Council could be co-chaired by a member of the Pay.UK board. DP agreed to reflect and come back to the board with a proposal. **ACTION: DP**

22.57.7 MGH had considered how board could have a better line of sight to colleagues and thanked LT for agreeing to be the voice of employees in the boardroom.

End User Advisory Council

22.57.8 AB commented on the membership of the Council and advised there was some work to do to form the new Council in order to get the best possible value from it.

22/58 Executive’s Report

CEO Report

22.58.1 DP gave some feedback from PWC who had facilitated a number of executive team building events highlighting the increased element of trust and the positive atmosphere.

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- 22.58.2 DP highlighted the focus on the s.195 and the work done by Lisa Mellor. DP outlined the enhanced closure process and advised that work was on schedule to complete by 16 December.
- 22.58.3 DP provided an update on the work underway with Vocalink. [Redacted – commercially sensitive.
- 22.58.4 FMID's non-objection on Cloud service provision had been received and DP noted FMID's observations on the quality of the papers submitted.
- 22.58.5 The PSR and Pay.UK had both been called to the Treasury Sub-Committee on Financial Services Regulations on 13 December and the focus of the meeting would be APP reimbursement.
- 22.58.6 A summary of the key highlights on the NPA programme was given. DC queried why the NPA KPI was green while the programme status was red. ME stated that the KPIs were specific to targets achieved by the programme in 2022 and were not forward-looking indicators. DP confirmed that the programme was on plan to deliver its milestones for 2022 and that the impact of providing the requested 20 days to the vendors to respond to the RFP would be on 2023 milestones. AB observed that making a decision in 2022 that would impact in 2023 and not having it reflected in the 2022 KPIs would seem to be incongruous.
- 22.58.7 The Chair noted the external dependencies covered in the NPA programme update that were beyond Pay.UK's influence, such as the timetable for EBA, SWIFT and RTGS 2. He queried whether KPIs dependent on these external factors should be included.
- 22.58.8 The meeting requested that additional detail was provided on the customer satisfaction KPI as there was a difference in feedback received from direct and indirect customers. DP agreed to look at the points raised on the KPIs. **ACTION: DP**

NG joined the meeting.

22/59 Strategy Update

- 22.59.1 NG highlighted the four workstreams in place to define what would be required to deliver the strategic roadmap. The capability, cost and resource and the revised strategic roadmap with timings would be brought to the strategy day on 30 March 2023.
- 22.59.2 The meeting confirmed that the notes provided accurately reflected the discussion, decisions and actions from the strategy day held on 30 September.
- 22.59.3 LTR observed it had been agreed at the strategy day that how the end user would use products and what problems those products would solve would be at the heart of the strategic roadmap. He queried how the feedback had been addressed. NG advised the end user was at the core of the work being undertaken.
- 22.59.4 NG added that the Insights team was looking at how to obtain a profile of the end user and MGH proposed that a number of personas were developed that reflected the different end users such as those who were financially excluded, government banking services and mainstream users. As the products were worked through the personas could be used to discuss what each aspect of the product would mean for each of the personas. This would also give a more rigorous framework for how Pay.UK's products related to end users. ME noted that an understanding of each persona would also provide a view on the number and value of payments.

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- 22.59.5 The meeting agreed that the personas would be developed and used as a framework for product strategy and the strategic roadmap. The strategic roadmap would be updated to make the focus on end users more overt. **ACTION: NG**
- 22.59.6 Security and resilience would always be at the core of Pay.UK's strategy and DMO stated that these could be measured against industry standards. DC added that ambition would be needed to ensure that Pay.UK and its products remained relevant. It was observed whilst some of the language would mean that the goal could not be measured, for example 'being the smartest' the goals would provide beacons against which Pay.UK could check its direction of travel. It was agreed security and resilience would be the basis and, that whilst Pay.UK should not aim to be average and aspirational goals were needed, the language of the strategy should be both realistic and ambitious. **ACTION: NG**
- 22.59.7 AB asked for an update on the recruitment of the Chief Policy & Engagement Officer. DP confirmed that a number of candidates had been seen and an update would be provided at a future meeting.
- 22.59.8 The Chair noted positively the evolution of the strategy since the strategy day.

NG left the meeting.

JR joined the meeting.

22/60 Finance

- 22.60.1 Uncertainties around future funding and calls on customers had been discussed when the budget was presented to the Customer Engagement Forum. Funds would not be collected from customers via price per click for potential project work. ME stated that this had been discussed with customers to give them confidence that costs for projects were fairly allocated.
- 22.60.2 As the strategy developed and overlay requirements were looked at the funding for future work would need to be considered. MGH added that the further exploitation of COP should be discussed. Future funding for products where there would be no regulatory requirement would need to be thought through.
- 22.60.3 ME noted the flexibility given by the development and change funding already in place that would enable strategic initiatives to be taken forward in 2023. Only when more material decisions were reached, would this approach potentially impact the strategy.
- 22.60.4 MP observed that the PSR expected future innovation to be considered and it would be difficult to do this as schemes worked as an incentivisation model. Pay.UK wished to price very keenly at the launch of some of the future services, however there would be costs for end users and payment service providers (PSPs) to make these services a reality. Customer consensus would be needed upfront for any innovation.
- 22.60.5 Pots of funding for 2023 had been identified and it was agreed when the strategic roadmap had been agreed that a way forward for funding innovation would need to be discussed. ME advised that the first part of this discussion would be the NPA funding model which was being worked on and would be brought back to board in Q1 2023.
- 22.60.6 The board **approved** the 2023 budget.

Investment Policy

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- 22.60.7 ME stated that Pay.UK's reserves needed some protection from erosion caused by increased inflation and work had been undertaken to identify options that would provide a better outcome than leaving funds on deposit.
- 22.60.8 JR provided some background to the relatively conservative portfolio that had been chosen to provide an acceptable return at low risk.
- 22.60.9 The meeting agreed that the duration of six months documented in section 2.13 of the Investment Policy was too restrictive and that the common definition of 'short dated' would be two years. PW observed that over time as the treasury function matured it would be possible that part of the risk capital would not need to be accessed quickly and could be safely invested for longer than six months.
- 22.60.10 FMID would be informed of the intent to invest and would not need to approve the Policy. JR confirmed that Pay.UK's investments would need to fit within the guidelines set by FMID and the low risk bonds and gilts that Pay.UK intended to invest in were within the regulator's tolerance. PW requested that FMID be informed of Pay.UK's intent. **ACTION: JR**
- 22.60.11 The meeting agreed that customers would expect Pay.UK to protect its capital and to minimise the eroding impact of inflation. The challenges of communicating the decision to invest were recognised however there was a need for continued openness and transparency.
- 22.60.12 The meeting considered exposure to foreign bonds, and associated hedging, and agreed that the complexity of investing in foreign bonds outweighed the value for money.
- 22.60.13 It was agreed that only UK government and corporate debt would be included in the policy. PW stated in practice funds would be put into a corporate bond portfolio and not invested in individual corporates. The meeting agreed the policy would reflect practice and incorporate the key principles that capital would be protected without taking unnecessary risks and erosion be minimised. Pay.UK's balance sheet should be protected to avoid the effect of liquidity and credit risk and a reasonable and proportionate position be taken.
- 22.60.14 The meeting **approved** the delegation of authority to PW, MGH and DC to agree the Investment Policy.

JR left the meeting.

KF, GH, SW and CW joined the meeting

22/61 NPA

- 22.61.1 ME provided an overview of the key topics to be covered and highlighted the approvals that had been brought for the board's consideration. KF stated that the PSR had been asked to confirm whether all aspects of NPA scope over and above push payments would require specific non-objection.
- 22.61.2 Having further analysed the scope of NPA, including multi-day products, and discussed file submission options with organisations such as ACI and Bottomline the conclusion had been reached that the scope was too wide and that Pay.UK would be procuring functionality that the market could deliver itself. As a result of this KF confirmed that the requirement for the multi-day product had been removed and instead the vendor would need to be able to support multi-day volumes in the future which would also require the ingress layer. It was too early to state

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definitively which products would be required in the future and it was possible that there would be no future market or user need for multi-day.

- 22.61.3 KF added that when the bulk and debulk capability was reviewed rather than having this capability in the centre instead an ingress layer should be procured that would allow files to be submitted into the centre. This would enable the market to choose for itself to debulk outside the core system or to send file-based submissions.
- 22.61.4 KF advised an external assurer had been engaged to look at the competition aspects of the procurement scope and a small number of findings was outstanding. KF also highlighted that the Programme team had discussed its approach to stakeholder engagement with the PSR a few weeks ago, and no red flags had been raised in those discussions. A further discussion with the external competition expert would take place in the coming days.
- 22.61.5 An industry consultation would be run to seek to inform the Bacs Strategy in 2023.
- 22.61.6 Reflecting on the scope signed off by the PSR in 2021 MGH queried why it was necessary to go beyond that scope. KF highlighted two key factors, the continuing need to provide Direct Corporate Access (DCA) and File Input Module (FIM) capability and the need to de-risk the migration from FPS. The market had articulated that it needed the core to ingest single push payment type files. The meeting agreed that there was a clear commercial reason and customer appetite for NPA to provide the file ingress capability.
- 22.61.7 DMO confirmed that the file ingress was a surface layer on the central infrastructure that would be delivered as part of the core. It was noted that there were resilience advantages important for specific use cases where certain customers should be connected to the central infrastructure, utilising file ingress, rather than relying on an overlay provider.
- 22.61.8 In this context the pricing of the build of NPA was discussed. DP confirmed that it was estimated at £300 million. ME noted the working assumption that the incremental cost of additional services would not be material to the overall cost of the NPA platform. One of the principles for the scope was to make the core narrow enough so that it would allow existing services to continue at a single price for all.
- 22.61.9 The composition of costs in driving the ingress capability was discussed and DMO expected a more granular level of detail to be available when the final version of the response to the RFP was provided by the vendors. This would make clear the actual cost of the file ingress capability that had been roughly estimated or whether it would already be enabled by the build. MGH stated that a clear commercial rationale would be needed for the file ingress capability and an understanding of whether it would be needed to support resilience.
- 22.61.10 The meeting requested a taxonomy that made it clear what would be considered as part of the NPA core. **ACTION: DP/ DMO**
- 22.61.11 The meeting agreed that a more granular breakdown of the costs of NPA and what customers would be asked to fund be provided. DP supported this as there was a need for crispness and clarity with the messaging on costs. **ACTION: DP/ ME**
- 22.61.12 The removal of provision of multi-day functionality was agreed.

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- 22.61.13 Subject to the assurance of the competition findings being satisfactorily addressed the board delegated authority to MGH and DP to approve the final scope position and submission of the scope non-objection request to the regulators.
- 22.61.14 Noting that the contract for the Bacs service finished in 2028 KF stated that the future of Bacs would need to be considered. Bacs was significantly more complex than FPS with over 120,000 direct users of which Government Banking Services was the largest customer. KF highlighted a large number of payments for particularly vulnerable users were processed by Bacs.
- 22.61.15 KF added that the initial analysis phase had begun and it would take time to collate a full set of options. The organic movement of credit traffic would continue to migrate away from Bacs and KF confirmed that the objective would be to move the remaining traffic flowing across Bacs before the end of the contract for the current service.
- 22.61.16 The meeting agreed the functionality of Bacs and the outcomes for end users would need to be maintained. Achieving this would need to be worked out through the consultation.
- 22.61.17 DC had been told on joining that the plan was to deliver both FPS and Bacs functionality by 2024. She queried what had changed as it now appeared that it would take the same length of time to replace Bacs as it would to deliver the NPA.
- 22.61.18 KF confirmed that a number of products had been designed in the past that would bring traffic onto NPA. It would likely take longer to migrate traffic from Bacs than the period of two to four years originally envisaged. The industry consultation process that the PSR conducted a year ago changed assumptions and a more pragmatic approach was now being taken. The PSR had told Pay.UK to look at Bacs once NPA was in place however speaking to customers it had been determined that the work to understand the future of Bacs was required sooner rather than later.
- 22.61.19 [Redacted – commercially sensitive].
- 22.61.20 The meeting considered there was an opportunity to improve aspects of what was recognised by consumers and end users as direct debit. Engagement with different categories of end users, would enable the identification of what they valued so that Pay.UK would be able to deliver that same value. AB proposed that end users should also be asked what they wanted that was not currently available as providing this should be a core part of Pay.UK's plan. She observed that this would give high quality data and it would be helpful to have done this work prior to the consultation.
- 22.61.21 KF confirmed that a plan to take to the PSR and an outline of Pay.UK's consultation would be brought to the meeting in March 2023 as part of the approach to obtain a set of answers to set the strategy for Bacs as a product. **ACTION: KF**

Operational Resilience

- 22.61.22 DMO highlighted the requirement to determine the Important Business Services (IBSs) and Impact Tolerances for NPA and to provide FMID with the Operational Resilience Self-Assessment (SA). MGH stated that Operational Resilience was important for Pay.UK and the board as well as important to the regulator and he noted that the Self-Assessment paper was the vehicle by which Pay.UK's workings would be communicated to the regulator.
- 22.61.23 GH noted that the approach to Operational Resilience used in BAU had been enhanced for setting the NPA Impact Tolerances and that this approach would be utilised for the next review cycle of

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BAU. It was noted that the BAU IBS and Impact Tolerances had been included in the paper for comparison purposes only.

- 22.61.24 Six IBSs had been identified for NPA with four of those mapped back to BAU IBSs. A number of assumptions had been made given the early stage that NPA was at in its lifecycle. GH stated that the team had looked at each of the stakeholder groups that would be impacted if the IBS was impacted and had the types of harm that could suffer. The Recovery Time Objectives (RTOs) had been reviewed to ensure that they were within the Impact Tolerances. The SA was the first iteration of the team's thinking and would be reviewed and updated with additional user cases and further information as they became available.
- 22.61.25 The Impact Tolerance for Instant Payments was set at four hours and GH confirmed that the team had focused on retail and the payments commerce use case and the account to account (A2A) use case was still being worked through. Once this work was complete then the Impact Tolerance would be reviewed and potentially updated. UK Finance data had been leveraged to support the development of the Impact Tolerances along with the FCA Financial Lives Survey. Utilising this information the team had determined that approximately 14.2 million vulnerable customers could be significantly impacted by a four hour disruption to Instant Payments. The Risk Committee had requested that the Impact Tolerances for card schemes were better understood to ensure that those for Instant Payments would support competition between Instant Payments and cards.
- 22.61.26 The meeting considered the impact of a four hour disruption to Instant Payments on an end user wishing to buy food in a supermarket. MGH queried whether four hours was acceptable for an extreme but plausible scenario when it could actually be closer to five minutes.
- 22.61.27 KF reminded the meeting that these were the initial Impact Tolerances for a vanilla Instant Payment product. There were a number of use cases for the product including the need for faster corporate or business payments as well as the much more complex A2A in retail use case where a scheme-like wrapper including an economic model would need to be developed. She added that there was not enough data on the A2A use case to inform the Impact Tolerance and this would be looked at as the use case developed through 2023.
- 22.61.28 It was confirmed that the platform was not being procured on the impact tolerance but on a 99.99% availability SLA. DC questioned what the consequences of breaching both RTO and Impact Tolerance would be. DMO confirmed that discussions about A2A were being held alongside the procurement process and that if there was a requirement for a greater level of resilience then this would be built into the NPA SLA.
- 22.61.29 MGH stated that it was clear from the conversation and the perspective that MP brought that what was going to be procured for NPA would be significantly more resilient than an Impact Tolerance of four hours. AB noted that the relationship between the Impact Tolerance and the vulnerable customer in retail markets was not clearly described although it was used in the rationale for developing the Impact Tolerance. It was clear that four hours was unacceptable.
- 22.61.30 MGH reflected that a product, when launched, would be used by a wide range of people and the expectation was that the service would have a single Impact Tolerance regardless of who the customers would be. MGH observed that the meeting was trying to reflect this reality to what would be procured and the scenarios that could occur. The Impact Tolerance was documented in a hypothetical way and it was not clear whether intolerable harm occurred at four hours or before.

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- 22.61.31 DC added that the Impact Tolerance needed to have purpose and to be practical with clear reasoning. If the scenario was set out as the most challenging use case, a vulnerable customer at a retail outlet, then there were questions that could be explored with that user group that would give a better sense of when intolerable harm would occur.
- 22.61.32 The meeting queried what information was already available in the public domain regarding Impact Tolerances for schemes. GH stated that some banks set their card Impact Tolerance at 24 hours however this was not the Impact Tolerance of the card scheme itself. Pay.UK's customers had been asking about NPA's operational resilience and the assumptions made would be shared and feedback taken onboard. AB requested that any reference to the end user consultation was removed from the SA as it related to A2A and not Instant Payments and could cause confusion.
- 22.61.33 JM queried whether the Impact Tolerance should be set to reflect the point at which Pay.UK would fail as a business. GH advised that the regulator had provided feedback on the previous SA that it was seeking the Impact Tolerance for end users and that Pay.UK should focus on market and customer impact. Impact Tolerance should be considered through the lens of impact on the firm but primarily through the impact on customers.
- 22.61.34 The meeting was not confident that an Impact Tolerance of four hours was appropriate or reflected the use to which Instant Payments would be put. MGH requested that the Impact Tolerance for Instant Payments were revisited and supporting context was provided. He added that an extension to the Self-Assessment submission date be requested from FMID. **ACTION: DMO/ GH/ SW**
- 22.61.35 LT reflected on the difficulty of providing Impact Tolerances at this stage and that the thinking behind the Impact Tolerances could be shown to FMID although setting them would be extremely challenging. Being transparent with FMID, sharing the IBS and the framework with them and talking them through would be valuable. PW added that the Impact Tolerances were not about Pay.UK but the products and that one of the reasons behind NPA was to supply the UK With a UK-owned alternative to cards.

CW and LTR left the meeting.

- 22.61.36 An extension to complete the s.195 third party management framework action had been requested however the NPA programme update showed that the action was complete and embedded. SW informed the meeting that the action had been implemented for KPMG and other programme third parties. It had not been completed fully for the FMI supplier and DP confirmed that the new framework was still evolving as very specific activities were required for managing the FMI supplier and Pay.UK was following these to the letter.
- 22.61.37 MGH asked how he would know that the third-party management framework had been embedded. SW responded that a number of artefacts had been created, such as minutes of meetings collated and independently assured with embedding being defined as the point in which the actions had been carried out for three months in a row. PA Consulting provided the independent assurance reporting to the executive and the board through the Risk function.

GH left the meeting

s.82 Assurance

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- 22.61.38 MGH clarified that the regulator had requested the board confirmed the necessary s.82 actions had been taken, completed and embedded. Management had advised the actions were embedded and the final step would be for the CRO to confirm that the assurance work carried out by PA Consulting had been completed.
- 22.61.39 The meeting agreed that it required assurance from the CRO before MGH wrote to FMID confirming that the necessary s.82 actions had been taken and were embedded.

Programme Update

- 22.61.40 SW stated that one of the vendors had asked for additional time to respond to the RFP and that both vendors had been given an additional twenty working days. The impact of this would cause early 2023 milestones to be missed, changing the programme status to red.
- 22.61.41 Cognisant more information would be available in the vendor RFP responses work was underway to minimise the impact of the additional time so that the signing of the vendor contracts in June 2023 could be maintained. SW expected to be able to provide further detail at the next meeting.
- 22.61.42 The SWIFT and ECB ISO 20022 migration dates had been moved to March 2023 and the impact on RTGS2 would be announced in the coming days.
- 22.61.43 Conversations at an NPA customer forum regarding either borrowing money to spread the cost of NPA or paying upfront had given a clear view that customers wished to spread the cost. ME stated that the detail was being worked through and that the consequence of spreading the cost would be that customers would be required to underwrite the bank loan that Pay.UK would take out.
- 22.61.44 The meeting discussed the challenges of obtaining customer commitment and the impact this would have on getting a loan. PW observed that, whilst bilateral conversations with customers were positive, customer commitment conversations in a group environment, such as SPG, brought out blockers. He added that without formal commitment from customers by the end of 2022 it would be difficult to achieve the June 2023 date.
- 22.61.45 ME confirmed that the programme team was working to identify whether the timelines would be under challenge if there was a delay to commitment. DP added that there appeared to be some confusion as to the costs of the NPA although these had been presented to customers. He reflected on the clarity of message and why it did not appear to be consistently clear to all customers and the impact this was having on progressing to customer commitment.

LTR re-joined the meeting.

- 22.61.46 [Redacted – commercially sensitive].
- 22.61.47 MGH noted the challenge of how to shape the agenda of the SPG and whether decisions regarding customer commitment should be taken away from the forum so that they could be achieved bilaterally as the deal itself would be signed bilaterally.
- 22.61.48 The meeting requested that details of the timeline for customer commitment and what would happen if the deadline was missed be brought to the next meeting. **ACTION: DP**

Colehouse Contract

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22.61.49 The board **delegated authority** to DP to sign the statement of work enabling the extension of Colehouse resources from 1 January to 30 June 2023.

SW and KF left the meeting.

DM, ED and SC joined the meeting.

22/62 APP Reimbursement

22.62.1 DM noted that the board was being asked for its support on the baseline initial implementation model and underpinning assumptions, key messages for the response to the PSR's consultation and the approach to ongoing engagement with the PSR and board over the coming year.

22.62.2 Pay.UK wanted to fulfil its role whilst being careful not to overcommit in areas such as enforcement where there were limits to Pay.UK's existing powers. DM stated that when engaging with stakeholders they had been largely focused on the design of the regime, which was for the PSR. In relation to Pay.UK's role, stakeholders wanted Pay.UK to play its part and to reflect on its capacity and capabilities light of other important projects. He added that external legal advice had also been taken which supported Pay.UK's position.

22.62.3 In developing the implementation model, the focus had been on what could be put in place to support better consumer outcomes in 2024. DM added the questions on the PSR's long term vision for Pay.UK were complex and would need to be worked through, these were highlighted in the paper.

22.62.4 It was also hoped that a collaborative view with the PSR would be shared at the Treasury Sub-Committee meeting which DP would be attending.

22.62.5 ED confirmed an effective reimbursement model that supported Pay.UK's overall policy position had been developed and discussed with the PSR at a working level and there was strong alignment.

22.62.6 In this proposed model, the PSR would create a new liability for Payment Service Providers to pay out to end users and direct Pay.UK to introduce an FPS rule requiring direct participants to comply with the reimbursement obligation, probably as a condition of participation. ED added that all firms would be required to provide data demonstrating their compliance to the rule. If monitoring revealed non-compliance then this would be escalated by Pay.UK to the PSR. Individual disagreements would be dealt with by the Financial Ombudsman Service.

22.62.7 The team had focused on enforcement and recognised that there would need to be a suitable incentive for compliance. ED observed that with the PSR taking the enforcement role its ability to fine organisations up to 10% of their turnover would provide a strong incentive.

22.62.8 After discussions with the PSR, assumptions had been made as to what Pay.UK's role in implementation would be expected to look like. Discussions continued with the PSR about the assumption that they would direct all firms: The PSR had indicated that it was open to the idea of directing indirect participants, but still preferred the obligation to be put on direct FPS participants by Pay.UK rules. Pay.UK continued to advocate that the direction should extend to all firms, including FPS direct participants as this would be effective, consistent and legally watertight. The external legal advice supports this position.

22.62.9 ED added that there would be ongoing engagement with the PSR and the model would be brought back to the board if any assumptions were found not to hold.

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- 22.62.10 PW observed that an obligation could not be accepted without the corresponding enforcement power. He noted there would be a cost to Pay.UK which could be significant for an organisation of Pay.UK's size. This would need to be understood and an indication provided as part of feedback to the PSR and also made public. PW gave an example of the support that Pay.UK would need to provide, for example data collection. He added that Pay.UK's obligations would need to be reflected in its rules. The team noted that the model and underlying assumptions looked to address these concerns.
- 22.62.11 The meeting agreed that thinking should be carried out on how to communicate Pay.UK's role sooner rather than later so that the market did not reach its own conclusions. Pay.UK should drive the narrative and set the tone so that it could be clearly communicated to and understood by end users. DM thanked members for their feedback and confirmed that Pay.UK's model had been socialised informally with key stakeholders as Pay.UK had developed its thinking and it would be more formally socialised with the PSR and externally once agreed by Board
- 22.62.12 MP recommended that UK Finance be asked how they intended to implement their model and DP noted that there had already been feedback from them. The PSR had also committed to keeping Pay.UK informed.
- 22.62.13 ED confirmed that the team had asked the PSR how these proposals would interact with the FCA consumer duty, but they had not responded and no information had been received directly from the FCA. LT noted the risk that the consumer duty could require changes to the PSR's framework.
- 22.62.14 DP highlighted that Pay.UK was mindful of any unintended consequences that could arise from implementing its model, including the potential for payments to be slowed or stopped by PSPs or impacts on access and competition. As these were market wide it was agreed Pay.UK should continue to raise these to the PSR but it was for the PSR to consider. Recognising that the consumer needed to be protected MP queried whether it would be possible for liability for fraud to be placed on Pay.UK if its customers failed.
- 22.62.15 AB proposed that customer performance could be made public before enforcement action was taken and Pay.UK should be clear if it intended to use this as an early enforcement tool. ED confirmed that PSR had separately announced proposals that it would publish reimbursement data.
- 22.62.16 LTR asked whether the reimbursement ratio could be weighted to reflect individual customers' fraud rates. It would create the right conditions for banks to bring down fraud as it would impact their pay-out rates. DP reflected on how the value in the data that Pay.UK would see could be utilised and assist with prevention and detection as well as reimbursement.
- 22.62.17 DC observed that a better understanding of Pay.UK's surveillance role and how it would be managed should be provided. MGH requested that the legal risk that powers would not be made available to support Pay.UK's role and responsibilities were clearly articulated in the response.
- 22.62.18 LT observed that the PSR's long term vision, including enforcement through Pay.UK's rules appeared to be non-statutory regulation and reflected whether the PSR would come under pressure to use its own powers for reinforcement.
- 22.62.19 The board supported the proposed model, the underlying assumptions and the key messages for the consultation response. AB thanked the team for their efforts, noting how far the discussion had progressed since this topic was first discussed with the board.

22.62.20 It was agreed that the team would provide a further update during the consultation period, depending on progress made by the PSR.

ED, DM, SC and KF left the meeting.

CGR joined the meeting.

22/63 Scenario Analysis Approach

22.63.1 CGR advised that the scenarios that could pose strategic threats to Pay.UK had been identified in the paper. DC asked for the paper to be updated so it was clear what the scenarios would be used for and that most of the scenarios should have a financial impact. The meeting agreed at least five scenarios should be executed and considered whether a reverse stress test that looked at how many times the worst financial results would need to be achieved in order to burn through the regulatory cap could be run.

22.63.2 LT proposed the economic scenarios be aligned with those prescribed by Bank of England for the rest of the market and noted that any requirement for specific institutional requirements were clearly set out. **ACTION: CGR**

22.63.3 CGR confirmed that five of the scenarios presented were for the financial recovery plan and that the others were for systemic risk. MGH observed that this was the first time that the scenarios had come to the board and that there was some work to do to ensure that the scenario execution would not overload the organisation.

22.63.4 The meeting gave **approval** to progress with the execution of the scenarios subject to its feedback being taken into consideration for the scenario objectives and execution.

22.63.5 MGH thanked CGR for his work, and the work of the Security team more broadly.

CGR left the meeting.

22/64 Enterprise Risk Management Framework (ERMF)

22.64.1 DP summarised the key changes to the ERMF noting that a number of risk management documents had been collated into a single document. This included improvements made and approved throughout the year as part of the s.195 work. He noted the benefits of a single document and how the ERMF would be used throughout the organisation and embedded into key decision-making.

22.64.2 The ERMF was also being built into mandatory e-learning and DP invited the board to participate. He added the revised Risk Assessment Matrix had also been included into the ERMF.

22.64.3 DC confirmed that the feedback provided by the Risk Committee had been integrated into the latest version of the ERMF and this was the first step in the simplification of the risk framework. It was likely that as the ERMF matured through 2023/ 2024 that further iterations would be brought back to board, having first gone to the Risk Committee. DC highlighted the importance of embedding the ERMF throughout the organisation and how it would help management to understand how to define and manage risk. The ERMF also defined the limits of risk appetite and the timelines within which any risk outside appetite must be brought back within appetite.

22.64.4 The Board **approved** the ERMF.

SS and SB joined the meeting.

22/65 Apprenticeship Presentation

- 22.65.1 SB explained her qualification which was equivalent to a foundation degree but also provided professional membership of the PMI and that would enable her to progress into project management type roles giving her the career progression that she was seeking. She added that she had a further two months of her apprenticeship to complete. SB described the support that she had received from Pay.UK.
- 22.65.2 PW asked if SB was starting her apprenticeship again if she would do anything differently. SB observed that she had completed a level apprenticeship at a previous employer and so was aware of the time commitment and also the benefits of the work.

DR joined the meeting.

- 22.65.3 SS added that the apprenticeships programme had been launched during the pandemic and all apprenticeships had been internal so far. From next year Pay.UK would be looking to recruit apprentices. SS reflected that of the three colleagues who had initially joined the programme that SB was the only one who had continued. It was difficult to balance a job with 20% of time committed to the apprenticeship and other apprentices had not initially realised the academic commitment required.
- 22.65.4 SB recounted the shadowing work she had carried out in the NPA programme and also in the change team.
- 22.65.5 The apprenticeship programme was part of Pay.UK's entry level offering. She added that apprenticeships had been tested whilst the learning and development offering was stabilising and being established.
- 22.65.6 DP highlighted the online training tool that had been launched as part of the learning and development offering. DR provided some usage statistics, gave a brief summary of the breadth and depth of the content and how the different formats such as webinars, videos and tech lab sessions accommodated different learning styles. There had been a good uptake across the organisation. SS stated that learning could be clustered into a curriculum so that customised courses could be built in-house and made available to all colleagues.

SB, DR and SS left the meeting.

22/66 Governance and policies

- 22.66.1 CG gave a brief summary of the work undertaken in response to FMID's P20-01 noting an assurance framework and success factors had been requested and subsequently presented to the board in March and May 2022.
- 22.66.2 An assurance update had been provided in Q1 2022 followed by an Internal Audit review. Both had demonstrated that the governance improvement work was in line with the reporting to FMID. CG noted the final assurance piece of work was the Board Evaluation report carried out by PWC. She proposed that the 2022 board assurance work was closed and that the recommendations in the PWC Board evaluation report were taken forward. The Board **agreed** the closure of the 2022 assurance framework and supported the alignment of the focus required in 2023 in line with the success factors maturity matrix.

Redaction Policy

PUBLIC

22.66.3 The policy enabled Pay.UK to be open and transparent without inappropriately sharing commercially sensitive or legally privileged information.

22.66.4 The board **approved** the Redaction policy.

NM joined the meeting.

Board Evaluation

22.66.5 NM stated that she had been pleased to see the considerable progress made and the uplift of both board and executive. Governance had been rated as effective and NM had set out a maturity framework that could be used as Pay.UK continued to evolve towards its target maturity state. She added that the goalposts for effective governance had moved and would continue to move. The activities highlighted in the report generally mirrored those already being considered.

22.66.6 A significant culture shift at both board and executive level had been driven by a strong tone from the top. NM also observed investment had been made to uplift skills and that there was a better understanding of roles and responsibilities that had enabled the executive to move forward. She stated that there was work to do on shifting the culture throughout the organisation to enable timely and quality delivery.

22.66.7 NM understood the challenge of producing quality information to the board and added that the uplift needed to be sustainable. She stated that further coaching and training for management would be required to achieve this. An enhanced relationship between the company secretary and the executive committee would also facilitate the production of quality papers.

22.66.8 NM had observed the increased connectivity between the board and the executive and that members felt that all voices and opinions were now heard and challenged. She thanked everyone for being open and honest in their interviews.

22.66.9 DC requested that the recommendation in the report regarding the composition of the Audit and Risk committees was updated to reflect that it was about the overlap of membership. **ACTION: NM**

22.66.10 The Chair asked NM for her view of the top two or three items for the board to focus on in the coming year. She observed that having a clear strategic roadmap, clearly set out stakeholder pain points and identification of critical decisions regarding stakeholder engagement would allow timely challenge and decisions by the board.

22.66.11 MGH thanked the PWC team for their careful work and its socialisation. NM emphasised that it was important to recognise the progress that had been made and that governance was effective. The right people and relationships were in place to enable the maturity of governance to continue to move forward.

NM left the meeting.

Terms of Reference

22.66.12 The Board **approved** the Terms of Reference for the Board, Remuneration, Nomination, Risk and Audit Committees.

Post-meeting feedback

PUBLIC

22.66.13 It was agreed the formatting of the papers would be reviewed to ensure they were easier to read.

ACTION: CG

22.66.14 Reflecting on the NPA update LTR noted the difference between the tone of the NPA programme update paper regarding customer-specific concerns and the conversation that took place at the recent SPG meeting. It was clear that the narrative at SPG was different to that of bilateral customer conversations and he queried how board could support DP, ME, DMO and KF. DP added that board had given direction to the executive to have clear, well defined and easily understandable house lines that could be shared consistently with all audiences.

22.66.15 The meeting requested the formatting of the KPIs was looked at as the presentation made the paper difficult to read and that the risk perspective was reflected in the KPIs. **ACTION: DP**

22.66.16 Whilst the pack was just over 300 pages long it was agreed that the quality of the information provided had supported good discussion and challenge.

22.66.17 LT highlighted the short and snappy presentation given by SB who had brought the learning and development opportunities available to colleagues to life.

22.66.18 LTR complimented the NPA team on the scope paper adding that it was well structured and set out logically.

22.66.19 Noting that the FCA would be introducing consumer duty in 2023 the meeting requested that a paper was provided to support a board discussion on what this would mean for Pay.UK. **ACTION: DP**

22/67 Any Other Business

22.67.1 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