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Pay. UK Limited

Minutes of a meeting of the Board of Directors held on 29 March 2023

Members		Attendees	
Mark Hoban (MGH)	Pay.UK Chair	Michael Ellis (ME)	Chief Finance Officer
Anna Bradley (AB)	Senior Independent NED	Kate Frankish (KF)	Chief Business Development Officer
Diane Côté (DC)	Independent NED	Carolyn Gibson (CG)	Head of Corporate Governance
Helen Crooks (HC)	Independent NED	Georgia Hunter (GH)	Operational Resilience Lead
Marc Pettican (MP)	NED	Dave McPhee (DM)	Director of Regulatory Engagement & Policy
Lesley Titcomb (LT)	Independent NED	Lisa Mellor (LM)	Chief Risk Officer
Lars Trunin (LTR)	NED	David Morris (DMO)	Chief Technology Officer
Ajay Vij (AV)	Independent NED	Shane Warman (SW)	NPA Programme Director
Peter Wyman (PW)	Independent NED	Louise Rebuck (LR)	Company Secretary & Special Projects
Apologies		Externals	
David Pitt (DP)	Chief Executive Officer	Simon Eacott (SE)	SPG Co-chair Head of Payments, NatWest

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

23/10 Opening Business

23.10.1 Quorum and welcome –The Chair confirmed a quorum was present and noted apologies from DP. MGH added that he had spoken to DP regarding his return to work and passed on DP’s thanks for the support he had received from members of the Board.

[Redacted – commercially sensitive]

23.10.2

23.10.11 [Redacted – commercially sensitive]. The members were unanimous in their opinion that it was in the best interests of the business to have industry perspective as part of the decision-making discussion and process and therefore, **IT WAS RESOLVED** both MP and LTR were approved to participate in all aspects of the NPA deliberations.

23.10.17 Minutes– Given the commercial sensitivities of the activities and decisions being made with regard to NPA the Board agreed that the NPA sections of the minutes would be redacted. This would apply to the minutes of the January 2023 meeting.

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23.10.18 The minutes of the meeting held on 23 January 2023 were **approved** subject to the discussed redactions being applied.

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

23.10.20 Approvals since last Board meeting - The Chair stated that he had signed and issued the regulatory response letter to FMID regarding the closure of all s82 actions.

23.10.21 Further to email correspondence the Board had **approved** full delegation of CEO authority to ME during DP's absence.

23/11 Committee Reports

Audit Committee

23.11.1 The Audit Committee report was taken as read and no questions were raised.

Risk Committee

23.11.2 The Committee had received an update on the risk maturity model developed by the CRO and the outcome of the self-assessment using the model. DC summarised the Committee discussions regarding the stretching target risk maturity levels set by the CRO and the associated timelines. Attaining these levels would require the combined efforts of all three lines of defence and DC asked how this would be reflected in staff's performance assessments.

23.11.3 ME observed that the company target recently agreed by the Remuneration Committee included risk management and culture and would be tracked and monitored across the organisation.

23.11.4 DC commented that a positive message had been received from FMID regarding the regulatory response to s195 and they had posed no further questions.

23.11.5 [Redacted – commercially sensitive].

23.11.6 The Committee had received a detailed NPA programme risk assessment from both first and second line, which would be a regular agenda item at future meetings.

23.11.7 [Redacted – commercially sensitive]

23.11.9 The meeting considered the reduction in discretionary spending, seen in sectors of the financial market, as an emerging risk, particularly as this had resulted in some programmes, including regulatory programmes, being deferred. [Redacted – commercially sensitive]

Joint Audit & Risk Committees

23.11.10 PW observed the joint meetings on topics of shared interest were working well in terms of committee time and also for the authors of papers. He added that the differing memberships of both committees was proving beneficial.

Remuneration Committee

23.11.11 The Committee had approved the company targets and this included risk maturity as part of 'Managing Risk and Systemic Risk supported by a Risk Culture'.

23.11.12 AB advised that the committee had discussed the INED fees and, reflecting on the partial benchmarking presented, had identified that Pay.UK's fees were out of step with those of other organisations in relation to an allowance for committee Chairs. The INED guidelines agreed in

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2022 made provision for an allowance for committee Chairs, and for the Senior INED, had not yet been implemented.

- 23.11.13 The Committee recommended to the Board that the INED base fee remain at £73k and an additional £10k be paid to recognise the additional responsibilities of the Audit committee and Risk committee Chairs, and those of the Senior INED (SID). AB added that most members of the Committee were compromised by the discussion and so had brought the decision to the Board.
- 23.11.14 AB stated that the Committee had previously requested a full market comparison should be carried out for the Chair of the Board, and at the meeting in March had requested this be extended to the INEDs.
- 23.11.15 The Board, except for DC, PW and AB who abstained, **approved** the Committee's recommendation that the INED base fee remain at £73k, and an additional £10k be paid to the Audit and Risk Committee chairs, and the Senior INED.

Nomination Committee

- 23.11.16 MGH confirmed that he and DP and met with Lorraine Brady, the preferred candidate recommended by the Executive. Following this successful meeting, he was pleased to confirm Lorraine's appointment as Chair for the Industry Advisory Council (IAC). Lorraine had recognised the need to build consensus across the industry and MGH considered she would make a positive contribution in this role.
- 23.11.17 At its March meeting the Committee had discussed a refresh of the skills and capability matrix. The Committee had made two changes to the matrix adding 'data' and condensing capabilities relating to different sectors of the ecosystem down to 'understanding of an ecosystem'.
- 23.11.18 The updated matrix would be circulated to members to update to their skills and capabilities.

End User Advisory Council (EUAC)

- 23.11.19 PW asked for clarity on the EUAC's view of the future of Bacs and the offering around the Direct Debit guarantee. He emphasised the need to ensure that any future offering would not require the end user having to set up and agree their bank mandates again. AB replied that this was also the view expressed by EUAC which now included a much wider end user and ecosystem membership.

23/12 Chief Executive Officer Report

CEO Report

- 23.12.1 Reflecting on DP's absence ME provided a brief update on the mood of the organisation and the willingness of colleagues to pull together to ensure the continuing delivery of Pay.UK's priorities. He highlighted both KF and DMO in particular, for their support, especially on the NPA programme.
- 23.12.2 ME provided an update on the Co-ordination Group meeting that he and MGH had attended with the regulators, highlighting the point raised by the PSR, regarding the impact of the NPA programme, on the pace of the implementation of the PSR's strategy. MGH commented that discussions held at the meeting had been straightforward and supportive.
- 23.12.3 ME provided an update on APP reimbursement and the impact of the decision made by the PSR to direct all PSPs who initiate payments across FPS to comply with new rules put in place by

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Pay.UK relating to APP scam reimbursements, and to direct Pay.UK to put those rules in place. Work was underway to ensure there would be a level of specificity in the rules that meant Pay.UK did not receive challenge.

- 23.12.4 The meeting agreed there was a clear boundary in place that Pay.UK had sought to achieve where the rules were in Pay.UK's rule book and the direction was the responsibility of the PSR. At present it was difficult to enforce Pay.UK's rules and changes took time to introduce. MGH reminded the Board that the responsibility for enforcement rested with the PSR and we would be providing them with the data they needed. ME highlighted the need for a clear vision in the future on how Pay.UK managed its rules and responded to market needs.
- 23.12.5 The enforcement of rules in the card industry and the level of regulatory intervention was discussed in relation to schemes that set rules and had empowerment under their own ruleset to fine non-compliant customers.
- 23.12.6 The Board considered consumer protection as a more challenging use case. The long term benefits would need to be part of the NPA conversation regarding the customer agreements and how flexibility could be built in to enable Pay.UK to manage its rules in the future. MGH highlighted that consumer protection would need to be built into future NPA products and services and not retrofitted.
- 23.12.7 ME advised that as the team went through negotiations with the PSR as part of the work on the responses to the consultation on APP scam reimbursement a written update would be provided to the Board. **ACTION: ME**
- 23.12.8 The Strategy Day was scheduled for 25 May and ME confirmed that end users would be at the centre of thinking about how the strategy would be described.
- 23.12.9 [Redacted – commercially sensitive]
- 23.12.18 ME gave a brief update on the recruitment for the Chief Policy & Engagement Officer.
- 23.12.19 MGH queried whether any significant changes would be required to ensure compliance with BoE's new guidance on outsourcing and third-party management for FMIs. ME stated changes would be needed principally within the risk management framework. The challenge would be the transparency of the relationship with Vocalink and having a full view of both Pay.UK's risks and those Vocalink was managing for Pay.UK. He commented it was not expected that changes would be needed to the contract at present. DC noted this would be discussed in more depth at the July Risk Committee meeting.
- 23.12.20 DC queried why the Critical Third Party (CTP) Aggregator Project had an end date of December 2023 and was showing as at risk in the KPIs pack as a June 2023 end date was expected and had been communicated to FMID. DMO confirmed the June date for the completion of the s195 actions and advised that there were a number of BAU activities rolled out throughout the year relating to aggregators. As there had not been a top down view showing how the activities in the project stitched together the project was showing as at risk. However, this view was now available.

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CFO Report

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23.13.01 The report was taken as read and ME confirmed that an update on financials would be given at the May Board meeting and this would include indicative participant billing for 2024.

Risk Capital and Recovery Plan

23.13.02 ME stated approval was sought for the Risk Capital and Recovery plan which had been updated as a result of their annual review and PW confirmed the Joint Audit and Risk Committees had been supportive.

23.13.03 [Redacted – commercially sensitive].

23.13.04 The Board **approved** the Risk Capital and Financial Recovery plan.

KF, SW and DM joined the meeting.

23/14 NPA

[Redacted – commercially sensitive]

SE joined the meeting.

SE left the meeting

[Redacted – commercially sensitive]

KF, SW and DM left the meeting.

GH and LM joined the meeting.

23/15 Risk

2023 CRO update

23.15.01 Positive feedback had been received from FMID on the s195 submission made in February 2023 and LM commented that this would enable the organisation to focus on planned work.

23.15.02 LM provided an update on the progress of the organisational design underway within the Risk Directorate.

23.15.03 Referring to the risk maturity self-assessment she had conducted, and that had been discussed at the March Risk Committee meeting, LM stated that the timelines for achieving the risk maturity levels were ambitious. The organisational KPI put in place for risk reflected that the advance in risk maturity would require the efforts of the organisation, supported by Board and the Executive.

23.15.04 MGH queried what the target risk maturity level would mean for Pay.UK. LM stated that Pay.UK would be moving from a level of developing to one where roles and responsibilities were clear across all three lines of defence. This would lead to fewer incidents and an uplift in culture enabling the first line of defence to focus on the key risks.

23.15.05 Reflecting on the effort needed to change culture MGH asked how the culture would be changed in the first line of defence functions as these would play a fundamental role in maturing risk management. LM observed that the Risk Committee had asked her to present what would be required to bring Pay.UK's risk maturity to a level four by the end of 2024 for all pillars other than the 'Data & Technology' pillar target, which should be 'Evolved' (level three) for end 2024. She added that a strong second line of defence would be needed and a training and communications plan developed and implemented to enable colleagues to understand what would be expected

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of them. Dedicated risk personnel were already part of first line of defence functions and a risk champions network was in place.

- 23.15.06 LTR asked how a change in culture would be reflected in decision-making. Using the cloud risk as an example, LM stated that first priority would be to change behaviours ensuring that it was clear how to raise emerging risks seen and heard across the industry and to whom. LM added that she was working with the Extended Leadership Team (ELT) to ensure they felt sufficiently empowered to make decisions regarding risk.
- 23.15.07 MP observed that if colleagues believed mitigating risk would create a better outcome for customers and for themselves they would be more willing to help.
- 23.15.08 The Board agreed that management needed to take greater ownership to ensure risk analysis was properly conducted, and to develop scenarios that would facilitate better informed decision-making. DC added that consistency of language between all three lines of defence was required as this would give a common understanding of risks across the organisation. In turn, this would enable an understanding of what was critical that could be translated into the Board's willingness to take risk and prevent the wrong decisions being made.
- 23.15.09 AV asked LM if she was heard and what she needed from Board members to support the delivery of the risk maturity model. LM confirmed she was heard and had strong support from both the Executive team and colleagues. LT highlighted the plan in place for members of the Board to create vlogs for colleagues and proposed utilising this to promote risk maturity.
- 23.15.010 The Board challenged the timeline for achieving risk maturity level four and HC queried how the first line of defence's level of understanding would be measured. LM confirmed the risk maturity level provided metrics and clear outcomes to be achieved.
- 23.15.011 HC asked whether a focus on achieving such high levels of risk maturity could detract from other work. It was agreed that this question should be discussed at the Risk Committee. **ACTION: LM**
- 23.15.012 The Board considered what it would see from a level four organisation and agreed that this should be apparent in behaviours seen across the business and in the detail of papers provided to them.
- 23.15.013 LM and DC had met with FMID to understand their feedback on Business Continuity management. LM advised that FMID's feedback on Operational Resilience had been taken onboard with the number of Important Business Services (IBSs) being reviewed and work carried out to reduce the number of vulnerabilities.
- 23.15.014 LM observed that Pay.UK was working to build FMID's confidence and added FMID had pushed back on the pace of change of risk transformation work.

BAU Operational Resilience Self-Assessment

- 23.15.015 GH provided a summary of the structured approach that had been taken when carrying out the first annual review of Operational Resilience. The number of Important Business Services (IBSs) had been reduced from 18 to 11 with some being reclassified as a business service rather than an IBS due to the lesser impact a prolonged disruption to the service would have. GH stated that other IBSs had been combined into a single IBS as they had the same impact tolerance and shared the same infrastructure.

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- 23.15.016 AV queried whether the number of IBS could be reduced further and LM confirmed it was possible and the number would likely be small and this was currently under review.
- 23.15.017 The Board received an update from GH on the activities the Operational Resilience team would be carrying out during 2023 including the piloting of a more detailed approach to asset mapping, a review of the rationale that supported the impact tolerances and an uplift to the complexity of the scenario tests that would be conducted with Vocalink, customers and an aggregator.
- 23.15.018 GH stated that a more structured approach would be used to identify vulnerabilities. He provided an update on the Operational Resilience vulnerabilities raised noting that 21 had been closed to date.
- 23.15.019 LTR queried how many of the incidents that occurred in 2022 were related to known vulnerabilities, and how many vulnerabilities Pay.UK had previously been unaware ,were revealed as a result of those incidents. LM stated the Operational Resilience team would be meeting with Vocalink to improve reporting and to set expectations of the data Pay.UK wanted to see, to enable its monitoring of incidents against the IBS.
- 23.15.020 The Risk Committee had commented positively on the reduction in IBSs and the distinction between the vulnerabilities relating to delivery of the Operational Resilience programme and those identified through scenario testing. DC confirmed the Committee recommended the ORSA to the Board for formal approval.
- 23.15.021 The Board **approved** the BAU Operational Resilience Self-Assessment.

GH and LM left the meeting.

23/16 Governance

Update on 2022 Annual Report

- 23.16.01 CG provide a verbal update confirming that work on the 2022 Annual Report was going well, a first draft of the 2022 Annual Report had been created and would be shared with DP for his review.
- 23.16.02 The Committee sections of the Report would be sent to the Committee Chairs for review and then to the relevant committees with the full report coming to the Audit Committee and, finally, the Board for approval in May.
- 23.16.03 PW requested Audit Committee members had early sight of the draft Report so initial feedback could be provided. **ACTION: CG**
- 23.16.04 PW confirmed good progress was being made by the external auditor with the audit.

Board Effectiveness

- 23.16.05 CG stated that the work underway to implement and embed the PwC recommendations was business as usual, with the Corporate Governance team working with colleagues across the business. Progress was being tracked against the success factors agreed at the January meeting.
- 23.16.06 The Chair advised that he and PwC would be meeting FMID to discuss the results of the 2022 Board Effectiveness report. He identified the key activities required to further develop the maturity of the Company's governance, which included further development of Pay.UK's strategy and the appointment of the Chief Policy & Engagement Officer.

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Post meeting feedback

23.16.07 CG asked for feedback on the papers, the content and structure of the meeting. Some discussion centred on the use of the board portal and some formatting requirements, it was that agreed that papers supported open and strategic discussion and sufficient data had been provided.

23/17 Any Other Business

23.17.01 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