

Pay. UK Limited

Minutes of a meeting of the Board of Directors held on 20 March 2024

Members		Attendees	
Mark Hoban (MGH)	Pay.UK Chair	David Chandler (DCh)	Director of Finance
Anna Bradley (AB)	Senior Independent NED	Kate Frankish (KF)	Chief Business Development Officer
Diane Côté (DC)	Independent NED	Carolyn Gibson (CG)	Company Secretary
Helen Crooks (HC)	Independent NED	Gerry Mansey (GM)	Chief Internal Auditor
Michael Ellis (ME)	Chief Financial Officer	David McPhee (DM)	Chief Policy & Engagement Officer
Marc Pettican (MP)	NED	David Morris (DMO)	Chief Technology Officer
David Pitt (DP)	Chief Executive Officer	Shane Warman (SW)	Director of Change
Lesley Titcomb (LT)	Independent NED	Louise Rebuck (LR)	Deputy Company Secretary
Lars Trunin (LTR)	NED		
Ajay Vij (AV)	Independent NED		
Apologies		Externals	
Peter Wyman (PW)	Independent NED		

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

24/19 Opening Business

Quorum and welcome

24.19.1 The Chair confirmed a quorum was present. Apologies were received from PW.

Conflicts of Interest

24.19.2 MGH reminded directors that under the CA 2006 and Pay.UK’s Articles of Association (the “Articles”), they were required to declare their interests to the other directors in any proposed transaction or arrangement with Pay.UK. MGH highlighted the importance of directors ensuring their entries in the Register of Directors’ Interests were correct.

24.19.3 The Register of Directors’ Interests had been made available for members’ review and confirmation prior to the meeting.

Minutes

24.19.4 The minutes of the meetings held on 31 January, 8 February and 28 February 2024 were approved subject to a change to minute 24.03.10 and a review of redactions. **ACTION: CG**

24.19.5 MGH requested that the Redaction policy was made available. **ACTION: LR**

Matters approved since the last meeting

24.19.6 CG confirmed that the Ensono contract, previously discussed at the November Board meeting, had been signed by David Pitt, under the delegated authority, on 21 December 2023.

DP and DMO left the meeting.

24/20 Committee Reports

Remuneration Committee

- 24.20.1 AB provided an update on the Committee's discussion of the evaluation for CEO's performance against the 2023 performance period as part of the CEO's LTIP 2022 Grant.
- 24.20.2 The Committee also discussed the proposed LTIP 2024 Grant covering the period 2024 to 2026 and agreed five targets with a mixture of quantitative and qualitative measures. MGH requested that the measures be circulated to the Board. **ACTION: LR**

DP and DMO joined the meeting.

Joint Audit & Risk Committees

- 24.20.3 The Board noted the report.

Risk Committee

- 24.20.4 [Redacted – Commercially sensitive].
- 24.20.6 EY had attended the meeting to provide an update on its independent risk maturity review. EY confirmed risk maturity level 3 had been reached and highlighted the work required to reach level 4. Management across all 1LOD functions would need to fully embrace their risks, demonstrating consistent and clear accountability. DC added the Committee had been given comfort that risk maturity level 4 would be reached as expected.
- 24.20.7 DC provided a summary of the TPRM update received by the Risk Committee. She noted the assurance given that Pay.UK was compliant with the regulations introduced on 9 February 2024. DC noted a full oversight model would be required, including the upgrade of existing contracts with key vendors, as part of the contract renewal process, over the next two years.

Audit Committee

- 24.20.8 DC stated the Committee had received a number of audit reports and noted the control environment continued to improve.

GM joined the meeting.

- 24.20.9 DC commented that in respect of the Fraud audit report, the audit had primarily focused on programme management. At the time of the audit the Change framework was being developed, however the principles were not being followed. Since the audit report had been issued, SW had carried out a health check for the Fraud Programme, which identified improvements required for the Programme itself and also changes to the Change framework and its embedment. DC stated that the work undertaken by SW had given the Audit Committee more confidence on the future direction for how change was being managed, including accountabilities and assurance processes.
- 24.20.10 [Redacted – Commercially sensitive]

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Annual Audit Opinion

24.20.11 GM stated that as Chief Internal Auditor he was required to provide an annual audit opinion. He confirmed that the internal control environment was improving and highlighted the increasing maturity in understanding of operational resilience being seen across the organisation. Referring to EY's report GM noted that this provided an independent view of how risk was maturing within Pay.UK. A new director of risk had been appointed for the 1LOD functions and this would further support the positive and collaborative working between 1LOD and 2LOD.

24.20.12 [Redacted – Commercially sensitive].

24.20.16 LTR noted that no similar process existed for SEPA. He added that some customers were attributing the fact that FPS was more costly than SEPA to items such as the TSCoC assessment. GM advised that assurance of participants was now risk-based and that the self-assessment process was more proportionate to the size of the organisation, than it had been in the past. HC added that how the process was operated could have a significant impact on stakeholder perception and it was important to ensure the process was run efficiently.

24.20.17 [Redacted – Commercially sensitive].

24.20.21 Members commended the quality of the paper.

GM left the meeting.

Nomination Committee

24.20.22 MGH stated that AB and LT had led the recruitment panel in the search for an independent Chair of the Switching Services Customer Committee. As a result, Wanda Goldwag was recommended to the Nomination Committee, and her appointment approved subject to the successful outcome of appropriate vetting checks. Throughout the process, Wanda had demonstrated a high level of experience, credibility and presence and was a former chair of the Financial Services Consumer Panel.

24.20.23 AB reflected that it was important to ensure there was appropriate senior management attention given to CASS and the SSCC and that this would be expected by the new Chair. LT highlighted the need to ensure alignment of CASS to Pay.UK and, in particular, strategy and governance.

24.20.24 AB confirmed that Helen Parker would continue in her role as independent member of the SSCC.

24/21 Chief Executive Report

CEO Report

24.21.1 [Redacted – Commercially sensitive].

24.21.3 The Fraud Proof of Concept had been successful with a substantial reduction in false positives. DP added that the POC would be discussed further at the Board Strategy Day.

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KPIs

24.21.4 [Redacted – Commercially sensitive].

24.21.6 Members asked what metrics were shared with customers. DP confirmed some data regarding capacity and payment volumes were shared and DMO added that information was shared with customers at the Customer Engagement Forum (CEF). DC queried whether the metrics could be shared on Pay.UK's website as this would have a wider visibility than sharing at specific meetings. DP agreed to consider sharing metrics more widely. **ACTION: DP/ ME/ DMO**

DCh joined the meeting

24/22 Finance report

CFO Report

24.22.1 [Redacted – Commercially sensitive].

24.22.4 DCh noted that the £17m deferred CASS and CISA income would be returned to customers in March.

Financial Recovery Plan

24.22.5 DCh provided a high level summary of the three scenarios that had been modelled to evidence a more immediate financial impact. Across the scenarios, the retained earnings and risk capital required to absorb the impact of the combined scenarios, was £26.9m. It had been proposed to increase the risk capital by £1m for inflation with the retained earnings (risk capital) increasing in line with this being calculated as a percentage of volume, with volume having grown over the last year. This would result in risk capital of £34m.

24.22.6 DC stated that the Joint Audit & Risk Committees had reviewed the recovery plan, additional retained earnings and increased risk capital and recommended these to the Board for approval.

24.22.7 The Board **approved**, the financial recovery plan, the holding of £27m Risk Capital, resulting in a Total Capital held of £34m.

Non-audit Services Policy

24.22.8 DCh stated the policy had been developed with regard to the UK Corporate Governance Code which set out the best practice restrictions placed on services that an external auditor could provide to Pay.UK.

24.22.9 DCh drew members' attention to the exception, as BDO would continue to provide tax compliance services.

24.22.10 DC stated the policy had been reviewed by the Audit Committee and was recommended to the Board for approval. The Non-Audit Services Policy was **approved**.

Lease Update

24.22.11 [Redacted – Commercially sensitive].

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Third Party Risk Management (TPRM)

- 24.22.14 ME stated that TPRM had been discussed at the recent Risk Committee meeting. The Criticality Assessment Tool was being used to assess the risk profile and tiering of Pay.UK's end to end supply chain. ME confirmed it was actively in use with all new suppliers.

DCh left the meeting.

DM joined the meeting.

24/23 Stakeholder Engagement

- 24.23.1 DM stated that the recent appointment of Mark Nalder from Nationwide as co-chair of CEF was to provide an element of independence and transparency. DM added that he was working to provide a two-way communication, between the Board and Pay.UK's four most senior stakeholder engagement fora – End User Advisory Council (EUAC), CEF, Industry Advisory Council (IAC) and Senior Participant Group (SPG). The aim being to develop a continuous feedback loop between the Board and these senior customer groups.

EUAC report

- 24.23.2 AB provided an update on the recent EUAC meeting and reflected on the importance of ensuring the right items went to EUAC, especially those that were still at an early stage of their development, enabling EUAC members to engage in a much more meaningful way.
- 24.23.3 AB observed that when stakeholders were engaged properly, not only was their confidence in Pay.UK built, there were also better outcomes for all. These benefits were not yet being seen from the stakeholder engagement framework.

- 24.23.4 [Redacted – Commercially sensitive].

DM left the meeting.

SW and KF joined the meeting.

24/24 Strategic Programmes

- 24.24.1 [Redacted – Commercially sensitive].

Fraud

- 24.24.10 KF stated that Pay.UK was on target to fulfil the PSR's Specific Direction 19 from 7 October 2024 with Pay.UK's platform providing the capability for all PSPs to provide their compliance data directly, or manually, from Day One.

- 24.24.11 KF added that approximately 80% of the claims from the 900 PSPs were expected to be handled using the BPS case management capability from Day One. Pay.UK's case management functionality would be ready in June 2024 in time for testing, in time for launch on 7 October.

Post meeting note: The statement made at the Board meeting on 8 February that Pay.UK's non-mandatory case management capability, would not be available on Day One, was incorrect.

- 24.24.12 KF summarised the work in progress on the Fraud programme noting that PSPs were required to declare whether they were in scope by 31 July 2024, in line with the PSR's direction. KF added that Pay.UK would be contacting PSPs proactively.

- 24.24.13 LTR queried how the PSPs that were not expected to use Pay.UK's case management would deal with claims, noting that the 18% would impact all other PSPs including large customers. KF stated that although a full process was not in place today, PSPs were communicating between

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themselves already, in order to repatriate funds. She added that the PSPs were aware there would be additional case management work required, from Day One of APPR going live. A session had been scheduled with PSPs, to go through this in greater detail. LTR highlighted the need to ensure that customers were ready to meet the deadline. DMO agreed and noted that the complexities of the hierarchies within customer organisations were being addressed and conversations had been held at working level with the detail to be provided at SPG level.

24.24.14 In response to a question from HC, that the Fraud Plan on a Page covered up to 7 October and not beyond SW observed that the primary focus was on delivery on 7 October. The plan for the multi-phase delivery would evolve to include customer migration.

24.24.15 [Redacted – Commercially sensitive]. Members discussed customer frustrations with case management and the potential use of BPS and agreed that these needed to be routed to the right source to ensure they were dealt with appropriately.

24.24.16 MGH added that Pay.UK's website should be utilised to drive clarity on APPR as well as utilising customer engagement fora. **ACTION: KF**

24.24.17 [Redacted – Commercially sensitive].

Confirmation of Payee (CoP) Expansion

24.24.21 KF summarised the key milestone dates for CoP customers, noting the single switchover date of 8 September, and the plans in place to de-risk onboarding to the service, ensuring continuity of service for end users. This included the automation of testing and working with aggregators that would enable PSPs to join CoP indirectly.

24.24.22 [Redacted – Commercially sensitive]

Enhanced Fraud Data

24.24.23 [Redacted – Commercially sensitive].

Next Gen

24.24.25 [Redacted – Commercially sensitive].

LM joined the meeting.

KF and SW left the meeting.

24/25 Risk

Risk Maturity

24.25.1 LM advised that at the end of 2023 she had carried out a self-assessment of Pay.UK's risk maturity after the first stage of the plan designed to reach a target maturity level of 3 across five of the six risk pillars.

24.25.2 Achieving level 3 had been driven by 2LOD and LM advised that the work required to attain level 4 would be carried out primarily by 1LOD. A 1LOD Risk and Resilience team had been set up to progress risk maturity. LM noted that the benefits that were being seen from the increasing risk maturity levels were improved culture and stakeholder relationships. Board would also gain assurance that controls worked as intended.

24.25.3 [Redacted – Commercially sensitive].

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24.25.4 Referring to EY's independent risk review report LM said there had been no surprises. EY had made five recommendations, two to support meeting risk maturity level 3 and three recommendations already in plan for 2024 to meet level 4.

24.25.5 Members considered whether there was anything they could do to help and agreed that it would be to ask questions of the business risk owner rather than of the CRO. DP said that checkpoints had been put in place and a scorecard would be created at the end of each quarter identifying the progress made to meet risk maturity level 4.

Operational Resilience Self-Assessment (ORSA)

24.25.6 LM highlighted the key changes in the ORSA as a result of its annual review. There were now 8 Important Business Services (IBS) compared to the previous 11. She reflected that this demonstrated Pay.UK's maturity of its methodology of measuring the importance of a business service. The business services, ICS and UTSP, would still be managed in the same way as when they were IBS. LM added that the feedback received from FMID on the previous year's ORSA had primarily focused on the need for alignment between Pay.UK and Vocalink. This year the operational resilience scenarios had been developed in collaboration with Vocalink and discussed at both CEF and PIRF. LM added that a catastrophic Bacs failure scenario would be run with Vocalink and the industry with KPMG acting as facilitator.

24.25.7 DC stated that the Risk Committee had reviewed the ORSA and recommended it to the Board for approval.

24.25.8 [Redacted – Commercially sensitive].

AV left the meeting.

24.25.11 The Board **approved** the ORSA.

Wind Down Plan (WDP)

24.25.12 DC advised that the WDP had been reviewed by the Risk Committee and following a small amendment, the Risk Committee was now recommending the WDP to the Board for approval.

24.25.13 ME observed that the risk capital had been calculated so that the amount required to carry out wind down was always held.

24.25.14 The Board **approved** the WDP.

LM left the meeting.

AH and DM joined the meeting.

24/26 National Payments Vision (NPV)

24.26.1 MGH stated that strategic priorities including NPV would be discussed in depth at the Board Strategy Day.

24.26.2 [Redacted – Commercially sensitive].

AV re-joined the meeting

24.26.7 [Redacted – Commercially sensitive].

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AH and DM left the meeting.

24/27 Any Other Business

24.27.1 As there was no further business MGH thanked everyone present and closed the meeting.

24.27.2 A private session was held with the INEDs and NEDs only.