

Payment Systems Regulator

Governance Workshop

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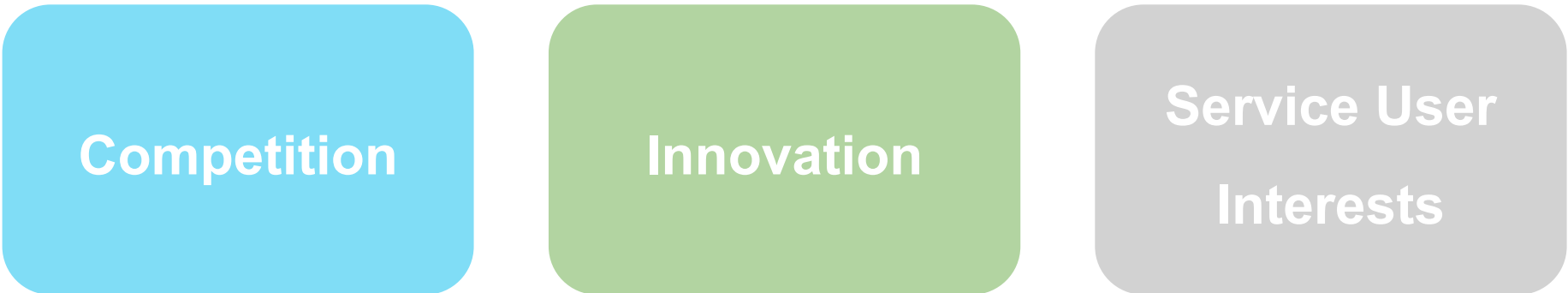
Overview

- Background
- Scope
- Approach and Workshop Objectives
- Findings so far:
 - Recent Successes
 - Initial Findings
 - Key Observations
 - Key Differences
- Case Studies
- Summary of Key Findings
- Breakout Overview

Background

PSR have asked Accenture to provide a review of the governance and ownership arrangements within UK payments systems.

The review will support the PSR with documentation and factual information on the current arrangements and support subsequent work on the following PSR objectives:



Competition

Innovation

**Service User
Interests**

Scope

This workstream aims to understand:

- What governance arrangements apply to the membership and usage of each relevant payment system
- How those arrangements operate in practice (e.g. the potential implementation of changes to the services offered)
- Stakeholders' views and experiences on the governance of payment systems
- The impact current governance arrangements have on innovation

Scope

The review to date has been based on the following payment systems*:

- Bacs
- CHAPS
- Cheque and Credit Clearing
- Faster Payments
- LINK
- Amex
- MasterCard
- Visa

*Ahead of any formal designation from HM Treasury

Approach



Workshop Objectives

Building on the evidence and commentary from our research and interviews to date, this workshop today aims to:

Gather initial feedback on review findings and emerging themes

Allow payments stakeholders to raise any areas of concern relating to governance

Identify additional case studies that highlight governance successes / issues

Provide an open forum to discuss emerging issues

Recent Governance Successes

FPS has been separated out successfully from CHAPS

CASS and Paym services have been launched successfully within the past year

Appointment of independent directors and chairpersons has strengthened some scheme boards

Simplification of FPS governance models to remove barriers for new entrants

Tiering requirements successfully implemented in CHAPS

Initial Findings

The following initial findings emerged from our interviews:

- Three different governance models exist – Scheme, PLC and Council
- Governance across the payment systems is complex
- Collaboration and strategy development processes need attention
- General representation of indirect participants and service users is limited
- Often successes in governance change has needed to be externally generated

Key Observations

- Payment systems in the UK operate in a complex and evolving governance landscape
- Same banks nominate directors to each payment system board
- Potential conflicts of interest:
 - Individuals can be found that sit across multiple payment system boards within the payments landscape
 - Board directors work for customers / owners of payment systems
 - Board directors within an organisation often have same internal reporting lines
- Overlapping ownership arrangements between schemes and infrastructure providers
- Schemes don't employ majority of their staff directly
- Large volume of payment system meetings
- Strategy setting currently excludes cards
- Lack of indirect members representation within board structure

Key Differences

Examples of different governance arrangements in practice:

- **Voting:** Bacs vote is based on volume, majority of other schemes operate one vote / one director
- **Voting:** voting rules rarely used – instead, consensus is sought
- **Ownership:** not all schemes are wholly owned by their members
- **Fiduciary Duties:** LINK council members represent their organisations and don't have fiduciary duties
- **Board Director vetting:** proposed board directors undergo varying levels of scrutiny and vetting
- **Indirect and end users representation:** well established within some schemes / lacking in others
- **Alternates:** alternate directors removed from CHAPS but still exist within other schemes

Case Study 1: CASS Funding

The case study illustrates that the governance arrangements for funding change and the division of operating costs for collaborative industry initiatives can be open to challenge.

Background:

- Original funding decision agreed by the programme board (ASPB) with costs apportioned to the receiving bank
- Option selected challenged by a challenger bank who commissioned a report into potential costs and charging models
- Report considered by APSB and followed up by PC's own report on options and further industry debate. Charging option put forward and unanimously agreed by PC board
- The challenger bank also challenged this second decision and asked OFT and HMT to assess on the basis they believed switch costs were a barrier to entry
- Final mechanism only agreed once HMT stepped in

Key governance points:

- Whilst agreed governance processes had been followed to gain agreement on the funding arrangement, the challenger bank challenged the governance process to bring external pressure on the Account Switching Programme Board.
- Lengthy and convoluted process (although didn't cause a delay to project delivery)
- Highlights governance is open to challenge and agreed outcomes can be changed by stepping outside of standard escalation routes
- Raises general questions on "who pays" (development, operations and cost recovery) of collaborative initiatives

Case Study 2: Paym

Example of governance success in delivery of collaborative project

Background:

- PC / schemes / suppliers and participants all worked together to deliver successfully
- Delivered within compressed timescales, meaning collaboration was key
- Solution delivered for non FPS members

Key governance points:

- Separate Paym delivery team established to deliver cross industry programme
- Delivered and live without having to go at the pace of the slowest
- Key learnings from CASS brought forward into Paym
- New board set up to manage roll-out and decision making

Case Study 3: Strategy Setting

Example of inefficient governance processes around scheme collaboration and strategy setting

Background:

- A number of interviews have identified that there is no clear owner of strategy across the full range of UK payment systems
- Payments Council own and publish the National Payments Plan and Roadmap
- Payment systems set their own strategies with some subject to PC sign off

Key Governance Points:

However, it is not a complete roadmap for UK payment systems as it:

- does not include all payment systems such as Visa / Mastercard / Amex
- isn't agreed with the payment systems themselves
- doesn't include non-member generated innovation

Summary of Key Findings

- Focus is on stable operations of UK systems – less on competitive provision or new service innovation
- Large stakeholders are well represented – although pressure to attend meetings is great
- Smaller or indirect customers are less well represented, and sometimes are blindsided by decisions that don't represent their interests
- Innovation is slow and long in the planning – often by consensus agreement to achieve majority buy-in – risk appetite is low.
- Strategy development process can be slow and doesn't include all payment systems
- The industry is willing to change, and responds positively to suggestions for change.

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Breakout Overview

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Emerging Themes and Focus Areas

The following breakout sessions will be used to discuss the findings and key issues identified to date by posing a number of issues / questions to the stakeholder group and inviting feedback within a group discussion.

Key findings and focus areas have been summarised in five key emerging themes that will form the basis of our next sessions:

- Service User Interests
- Governance Complexity
- Governance of UK Payment Systems
- Industry Collaboration
- Payments Strategy

Session Overviews

Service User Interests:

- Are service users currently well represented within the governance of UK payment systems?
- What examples are there of service users being listened to and responded to?
- Have independent directors improved service user representation?
- Does the payments industry engage with service users sufficiently when making decisions?

Governance Complexity

- Do separate Operators, with separate boards and separate decision making processes result in unhelpful silos?
- Does the requirement on members to engage with multiple Operators and their committees prevent a level playing field for smaller banks with less resource to engage?
- Should Operators share common governance practices?

Session Overviews

Governance of UK Payment Systems:

- What are the pros and cons of the different governance models? E.g. board vs. council
- Has the introduction of independent directors improved the governance of individual Operators?
- Is there a better way to manage inherent conflicts of interests for individuals appointed as directors?

Industry Collaboration

- How valuable is collaboration in the payments industry?
- How is industry collaboration affected when some Operators are publicly listed, profit generating entities?
- What examples are there of industry collaboration working well in practice?
- Is a central collaborative function required to bring Operators together to deliver change?
- Is a central collaborative function key to enabling innovation across the payment systems?

Session Overviews

Payments Strategy

- Should there be a central strategy development function?
- What role should Operators have in setting UK payments strategy?
- How should the PSR's objectives be reflected in industry strategy?

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Breakout A – Service User Interests

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Service User Interests

One key measure of success for UK payments systems is meeting the needs of the service user.

Within the current governance arrangements of UK payment systems, a number of organisations have raised concerns that whilst members themselves have an input into the decision making process, the service user is often not consulted or considered in full.

Key Questions

- What examples are there of service user needs being listened and responded to by schemes and payment systems?
- Are service users treated fairly where they find themselves subject to rules (e.g. card scheme rules) which they cannot negotiate – what alternatives are there?
- Do we feel service user needs are currently well represented within UK payment systems?
- How do we feel service user needs are best introduced to each scheme board?
- Do we feel the independents do enough to represent the public interest?

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Breakout B – Governance Complexity

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Governance Complexity

The complexity of current scheme governance arrangements has been raised as an issue as it creates a strain on participating organisations with both large and small organisations often finding them hard to resource.

Key Questions

- Is there scope to simplify current payment system operations to simplify governance arrangements?
- Has the purchaser / provider split proved effective, i.e. the division between the scheme boards and VocaLink?
- Within the current payment systems, could governance arrangements be simplified?
- Should schemes share common governance practices?

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Breakout C – Governance of UK Payment Systems



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Governance of UK Payment Systems

The governance arrangements of each of the schemes appear to have grown through a combination of organic and regulatory need. The questions below give examples of some of the themes we will look to cover within this session:

Key Questions

- Under what circumstances is governance of UK payment systems effective and valued?
- Which model for each scheme creates a more robust decision making process – a formal board model or a member council model?
- Has the introduction of independents improved scheme governance?
- Are all scheme participants (direct and indirect) adequately represented in the decision making process?
- Should voting on payment systems boards be based on member processing volume or one vote / one individual?
- Does having the same individual on multiple scheme or infrastructure boards cause conflicts of interest?
- How should schemes ensure value for money in their infrastructure provisioning?
- Does a nomination review and veto process create a more robust board?
- Fiduciary duties – is the viewpoint that these are sufficiently maintained by individuals currently? Should all Board directors be fully independent to prevent conflicts of interest?
- The role of alternate board directors – do they de-value board representation and effectiveness?
- Should resource aligned to schemes be employed by schemes directly?
- If competition between infrastructures is difficult (given the cost, complexity and risk of switching infrastructures), is there a case for changing the governance arrangements of VocaLink?

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Breakout D – Industry Collaboration

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Industry Collaboration

A number of key recent examples have highlighted the need for cross scheme collaboration to deliver a desired end consumer result. This discussion topic will seek feedback on the relative successes of recent examples of payments industry collaboration in addition to exploring any alternatives.

Key Questions

- How successful is current industry collaboration? What examples are there of industry collaboration working well in practice?
- Is a central body required to bring schemes together to deliver change?
- Should schemes be viewed as competitive or complimentary – even if existing schemes address different market segments with little overlap, hence little competition, is there a case for new schemes to be encouraged to compete with existing schemes within these segments - how would this affect the delivery of cross industry change?
- If schemes are to compete, does that mean they should be run as commercial, profit-making organisations and not on a cost recovery basis?
- How should cross industry innovation be initiated and managed – if at all?
- Are there any best practice funding arrangements for cross industry programmes? What are the views of the funding arrangements in place for CASS?
- How is industry collaboration affected when some schemes are publicly listed, profit generating entities?

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Breakout E – Payments Strategy

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Payments Strategy

One area of interest for the PSR is in strategy setting and management at a cross scheme level.

Whilst there already exists a level of strategy setting with the creation of the National Payments Plan / Roadmap, questions have been raised as to its effectiveness and coverage. In particular:

Key Questions

- Should there be a central strategy development body? If so, how should this body operate – should it set strategy or merely collate?
- What should the PSR's role be in strategy development? Should it set objectives, or should it “sign off” industry strategy?
- Which payment system operators should be included in creating a UK Payments Strategy?
- How and should innovation from non-traditional players be included in the strategy development process?
- How should end users be involved in strategy development?
- How would conflicts in the strategies of individual payment system operators be resolved?
- Does the UK payment industry need a strategy, particularly given the current pace of change?– is an industry roadmap approach doomed to go the same way as a soviet-style five year plan?