

Payment Systems Regulator

Review of Board Effectiveness

The Board commissioned Advanced Boardroom Excellence to conduct an evaluation of the Board between May and September 2021. The Board discussed the Board Evaluation at a meeting in September 2021.

The Board welcomes the review which it considers reflects positively on the Board's and the organisation's development. The Board has since had further discussions around how the outcomes from the evaluation can best be taken forward in the context of a change in Chair in Spring 2022, focused in particular on its interactions with other regulators and further enhancing its oversight of the PSR strategy.



PAYMENT SYSTEMS REGULATOR

INDEPENDENT EXTERNAL BOARD REVIEW

Prepared By:

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INTRODUCTION

This Independent External Board Evaluation of the Payment Systems Regulator (PSR) was conducted by Advanced Boardroom Excellence Limited, an independent Board Effectiveness consultancy, against the principles set out in the Board Effectiveness framework shaped by the Financial Reporting Council (FRC) in their Guidance on Board Effectiveness.

The PSR is an independent subsidiary of the FCA, and as an independent economic regulator, it has its own statutory objectives and management structure.

SUMMARY OF APPROACH TO THE REVIEW

As with all Effectiveness Reviews of this nature (see appendix A), it involves examining:

- Board Structure
- Board Management
- Board Processes
- Board Support
- Director Independence
- Collective and Individual Director Competence and Capability
- Board Dynamics and Behaviour
- Committees
- Chairmanship
- Strategy

This enables conclusions to be drawn for the collective Board Effectiveness and individual contributions to that Effectiveness.

REVIEW PROCESS

The Review commenced in May 2021 and concluded at the Board meeting held on the 16th September. It was agreed that the areas identified from the interviews, observations and documentation review, created an accurate picture, with clear areas of focus, which the Board committed to carrying forward with appropriate actions.

One to one interviews took place with all seven Board Directors, including four NEDs and the Chair who is also Chair of the FCA. In addition, four other key Executive Team stakeholders were interviewed.

The Board was also observed and a Documentation Review covering the Board was undertaken. The PSR Board Sub-Committees are common with the FCA and their observation and the Documentation review formed part of the Board Effectiveness Review for the FCA. The information collected formed a coherent picture of the Board's Effectiveness.

As Board Evaluators we were particularly impressed by the transparency, openness and

candour in all the interviews which facilitated an efficient and effective review. The access we were given to information in terms of reference, minutes etc also greatly assisted the process.

SUMMARY OF THE REVIEW

The results of this Board Review and the Board discussion on the results of the Review show a Board focused on the challenges of the Payments Sector.

The PSR is an effective Board, it is relatively small and operates with a focused remit and role. The debate, discussion and challenge from the Board is direct and clear, with the MD and the Executive taking an open and supportive approach to the Board.

The PSR has recently published its 'Future Strategy' and decisions on the way forward for the 'New Payments Architecture', which are key milestones in its short 6-year history of operation.

As a Regulator, it has successfully balanced the need to provide oversight while supporting innovation in what is a fast paced payments environment.

The Board has developed a well-considered approach to attracting NEDs with considerable in-depth expertise, whilst maintaining a strategic focus. While the Board can easily get dragged into too much detail, they are alive to and aware of this danger and are working closely with the executive team to address this particularly in light of the fast-evolving Payments Sector. The PSR Panel, under its new leadership and with its diverse industry Membership, is seen as active and motivated.

The PSR Board has coped well during the Covid pandemic especially considering that 2 NEDs joined during this time. The Board recognise that there are benefits to be gained through Board development as it emerges from the crisis.

SUMMARY OF KEY FINDINGS

The Chair, together with the MD has led a successful shaping of the Board to provide an appropriate balance of industry, technical and consumer focused NEDs in response to the challenges of the Payments Sector.

Consequently, this is a strong, independent Board, with relevant experience and skills. However, there has been little opportunity to develop itself as a coherent group with the constraints of remote working.

BOARD STRUCTURE

The recent addition of new NEDs with Consumer and Payment Systems expertise has strengthened the Board in these critical areas.

While identifying data analysis and digitalisation as a key future area of expertise for the Board, the PSR Panel has the potential to provide access to a great source of information for the Board.

BOARD PROCESSES

The FCA Board sub-committees are largely responsible for PSR succession, diversity and remuneration oversight. There is, however, an annual separate discussion of succession at the PSR Board.

BOARD SUPPORT

Since the last review, there has been a clear improvement in the Board's information which has improved the quality and focus of the Board. While there are still some areas to build upon there is a clear understanding of what is needed to improve Board Information.

There has also been a focus on internal and external reputational risks.

DIRECTOR INDEPENDENCE

This is a strong Independent Board with a good level of debate and challenge which is continuing to develop. Directors who have strong technical expertise and diversity are prepared to say what they think which enlivens the debates.

COLLECTIVE AND INDIVIDUAL BOARD CAPABILITY

The Board has a strong individual capability with a comprehensive appreciation of the diverse range of challenges facing the PSR. They are increasingly coherent in their collective approach and viewpoints and freely express them. The Board acknowledges that external industry views can be improved with further employee, end user and PSR panel input. There was a recognition that the covid pandemic had restricted external networking, conferences and workshop opportunities.

BOARD DYNAMICS

The Directors' interaction with the MD and Executive is positive. The MD has a constructive approach to the Board and is open and responsive to feedback. There is good constructive challenge between the Chair and MD.

While the Board is cohesive, there is a recognition of the opportunity for further Board development as a team, building on individual strengths. At the same time, it is acknowledged that in a fast-paced 'Payment World' keeping the strategic 'headlights' powered on to the future is important.

COMMITTEES

The PSR has an Audit Committee and a Remuneration Committee which is part of the FCA Group committees. There is recognition that PSR input to and representation at these committees can be improved.

CHAIRMANSHIP

The Chair has steered the Board very effectively and, along with the MD, has developed a Board and Organisation set up to focus on the immediate and future challenges of the Sector. The Chair's Leadership has developed a lively, focused and dynamic Board enabled to address the issues it faces.

STRATEGY

The Board and the Executive have set the PSR strategy for Payments. With this new strategy, seeking to drive and support as necessary the successful opening up of payments, the monitoring and charting of successful developments and outcomes becomes increasingly important. This will require the Board to continue to develop early and clear insight and secure feedback into developing areas.

KEY THEMES ARISING FROM THE REVIEW

This Board Review has made recommendations as the Organisation emerges from Covid constraints to further leverage the Board's collective capability across a range of Board Effectiveness characteristics.

The emerging themes from the Review are:

- It is a strong independent Board, with active and technically focused debate and discussion.
- It has a facilitative and open Chair and MD.
- There has been a significant Board and Executive effort to set and effectively launch the new strategy for the Payments Sector.
- Recognition of the criticality of monitoring the emerging Payments landscape.
- The need to continue to ensure a flow of technical and consumer expertise for the Board.
- Continued and developing engagement with multi-dimensional employee and customer stakeholders.
- A post Covid development plan for the Board.

BOARD EFFECTIVENESS

Within the overall Review of the Board's Effectiveness, this is a positive Report of a Board and Executive performing well and addressing the challenges of their Sector.

The Review considered the Board's Effectiveness across a range of 31 criteria.

- 83% of the criteria were seen as Effective.
- An additional two criteria were considered as Very Effective, namely, Openness & Awareness of Domination at the Board, and the Opportunity for Effective Debate & Challenge.
- Only three areas were seen as emerging
- None of the criteria was seen as deficient.

ADDITIONAL AREAS ARISING FROM THE BOARD DISCUSSION ON THE REVIEW

There was a good positive discussion at the meeting about the PSR taking a more

proactive approach with other key Regulators and organisations to enable it to effectively influence decisions and/or outcomes.

There was agreement that time out should be taken, separate from Board meetings to ensure that the newly developed Strategy is given the right level of focus and that annual Operational plans and prioritisation should tightly align to the Strategic direction.

Appendix A

