

Consultation paper

Confirmation of Payee

Ending dual running

December 2021

We welcome your views on this consultation. If you would like to provide comments, please send these to us by **5pm on 17 December 2021**.

You can email your comments to **cop.consultation@psr.org**.uk or write to us at:

Confirmation of Payee Consultation
Payment Systems Regulator
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You can download this consultation paper from our website:
www.psr.org.uk/publications/consultations/cp21-11-CoP-ending-dual-running/

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1 Executive summary

1.1 Confirmation of Payee (CoP) is designed to help stop fraud and accidentally misdirected payments by checking whether the name of a payee's account matches the name and account details provided by a payer.

1.2 Our analysis has shown that Phase 1 of CoP has:

- curtailed the increase in authorised push payment (APP) scams
- reduced the levels of fraudulent funds received by payment service providers (PSPs) that have implemented CoP
- reduced the number of accidentally misdirected payments

This is why wider implementation of CoP is necessary to protect a greater number of payment system users.

1.3 Phase 1 covered the vast majority of UK domestic payments. Phase 2 is aimed at broadening coverage to remaining PSPs and enhancing payment security for consumers. The PSR places a priority in our strategic approach on ensuring users are sufficiently protected when using the UK's payment systems. The failure of even a small number of PSPs to implement CoP would have a detrimental impact on the security of payment systems for businesses and consumers.

1.4 For PSPs to implement CoP, they need access to a technical environment for sending and responding to CoP messages, and common rules and standards.

Figure 1: How the CoP service works



1.5 Pay.UK has worked with the Open Banking Implementation Entity (OBIE), to develop the technical environment and rules and standards in phases. The Phase 1 environment and rules and standards allowed PSPs that operate accounts with a unique sort code and account number to implement CoP. PSPs we directed under Specific Direction 10 (SD10) and those that have voluntarily implemented the system to date use Phase 1.

- 1.6** Pay.UK and OBIE have now developed Phase 2.
- 1.7** This means there are currently two technical environments, and two sets of rules and standards. PSPs that now join CoP will operate in the Phase 2 environment rather than the Phase 1 rules and standards. Existing CoP PSPs operate in the Phase 1 environment against Phase 1 rules and standards. This situation is called dual running.
- 1.8** A single technical environment and a single set of rules and standards is vital for CoP's future functionality, because this will encourage adoption and make sure CoP services across all PSPs can work together. In turn, this will mean more widespread CoP coverage for customers, which will help reduce the number of misdirected payments and prevent fraud migrating to PSPs that don't offer CoP.
- 1.9** Pay.UK and the Phase 1 PSPs are committed to ending dual running by retiring Phase 1 and moving to Phase 2. The Phase 1 PSPs plan to complete migration by 30 March 2022. Given issues relating to development, testing, implementation costs and the large number of organisations involved, there may be delays and issues with coordination of the migration to Phase 2 without regulatory impetus.
- 1.10** We want to make sure dual running ends in a timely and coordinated manner so that the CoP services across all PSPs can work together. In this consultation, we propose giving a direction that sets a date for access to the Phase 1 environment and rules and standards to end, keeps PSPs on track to migrate CoP traffic to the Phase 2 Open Banking environment by a specified date, and removes any regulatory obligations on PSPs to do CoP checks in line with the Phase 1 rules and standards.
- 1.11** Specifically, we propose giving a direction that:
- a. requires **Pay.UK** to terminate the terms and conditions for participating in Phase 1¹, withdraw each PSP's CoP Phase 1 accreditation, and retire the Phase 1 rules and standards by 30 April 2022
 - b. requires **Pay.UK** to notify OBIE of this action, so OBIE can close the Phase 1 technical environment, and prevents Phase 1 PSPs from using that environment after 30 April 2022
 - c. requires **relevant PSPs**² to regularly report to Pay.UK on their progress migrating CoP traffic to the Phase 2³ Open Banking environment by 1 April 2022, and requires Pay.UK to relay that information and its own assessment of risks to migration to us
 - d. requires **relevant PSPs** to undergo enhanced reporting to both Pay.UK and us if they are at significant risk of failing to migrate by 1 April 2022, with an obligation to implement a remediation plan
 - e. revokes SD10 on 30 April 2022.

1 In the draft direction, Phase 1 is referred to as the 'initial CoP environment/rules and standards'.

2 Refers to PSPs who join the Phase 1 CoP service before 31 August 2021.

3 In the draft direction, Phase 2 is referred to as the 'CoP domain'.

1.12 Our cost benefit analysis indicates the benefits of the direction will outweigh the costs.

1.13 We welcome your comments by 17 December 2021.⁴

⁴ In deciding the duration of this consultation, we have taken into account the complexity of our proposed action, the breadth of areas we are seeking views on, the engagement we have already had with relevant stakeholders, and alignment with industry timelines to achieve Phase 2 migration.

2 Introduction

CoP is a service that aims to decrease the incidence of fraud and accidentally misdirected payments by checking whether the name of a payee's account matches the name and account details provided by a payer. For PSPs to implement CoP, they need access to common rules and standards. The Phase 1 technical environment and rules and standards allowed PSPs that operate accounts with a unique sort code and account number to implement CoP. Pay.UK and OBIE have now developed the technical environment and rules and standards for Phase 2. This phase is aimed at broadening participation in CoP and improving the service.

This means there are two technical environments, and two sets of rules and standards at present. PSPs that now join CoP will operate against the Phase 2 rules and standards. Existing CoP PSPs operate against Phase 1 (dual running). A single technical environment and a single set of rules and standards is vital for CoP's future functionality, because this will encourage adoption and make sure CoP services across all PSPs can work together.

Pay.UK and PSPs are committed to ending dual running by retiring Phase 1 and moving to Phase 2. Given issues relating to development, testing, implementation costs and the large number of organisations involved, there may be delays and issues with coordination of the migration of Phase 2 without regulatory impetus.

What is Confirmation of Payee Phase 1?

- 2.1** CoP is an important tool to help prevent misdirected payments. The service checks the name of the payee's account against the name and account details given by the payer, giving payers more confidence that they are making payments to the correct account.
- 2.2** For PSPs to implement CoP, they need access to a technical environment to send and respond to CoP messages and common rules and standards. This is because for a CoP check to occur, PSPs need to send messages to one another. Pay.UK has worked with OBIE to develop the technical environment and the rules and standards in phases. The Phase 1 environment and rules and standards allowed PSPs that operate accounts with a unique sort code and account number to implement CoP.
- 2.3** In August 2019, we issued SD10, requiring the UK's six largest banking groups to implement CoP for Faster Payments (FPS) and CHAPS in line with the Phase 1 rules and standards.⁵ In July 2020, we confirmed widespread implementation of CoP as a result of our direction.

⁵ We varied SD10 in February 2020. We also granted exemptions extending the deadline for a small number of accounts and channels facing technical challenges. All exempted channels have now implemented CoP.

What is Phase 2?

- 2.4** Since the widespread implementation of CoP against the Phase 1 rules and standards, Pay.UK has worked with stakeholders to deliver the Phase 2 technical environment and related rules and standards. Phase 2 is aimed at broadening participation in CoP to all account-holding PSPs, not just those that operate accounts with a unique sort code and account number. It therefore supplants Phase 1.
- 2.5** Phase 2 includes a range of developments, with two key elements. First, it introduces a 'CoP-only' profile within Open Banking (the Phase 2 Open Banking environment). PSPs use the Open Banking Directory to identify each other and send CoP messages. In Phase 1, a PSP offering CoP needs to be a full member of Open Banking to access the Directory. The CoP-only profile introduced in Phase 2 allows PSPs to access the Open Banking Directory without full Open Banking membership, meaning that, in total⁶, there will be lower set-up and running costs to PSPs. This enhances accessibility.
- 2.6** Phase 2 also includes technical enhancements that will allow PSPs to send and receive Secondary Reference Data (SRD). This is information other than a sort code and account number that allows for account identification. PSPs with accounts identified using SRD can only implement CoP once these technical enhancements are in place.

What is dual running?

- 2.7** Currently, there are two technical environments and two sets of rules and standards: Phase 1 and Phase 2. At present, PSPs are operating in the Phase 1 environment against the Phase 1 rules and standards. PSPs that join CoP now will operate in the Phase 2 environment against the Phase 2 rules and standards. This situation is termed dual running. Critically, PSPs can only conduct CoP checks with PSPs operating in the same phase.
- 2.8** A single common technical environment and set of rules and standards is vital for CoP's future functionality, because this will encourage adoption and make sure CoP services across all PSPs can work together. While dual running continues, we cannot be sure that all PSPs are using interoperable CoP systems, meaning CoP checks for customers may not be possible between some PSPs. This means we need to end dual running by retiring Phase 1 and moving solely to Phase 2. This will enable a greater number of consumers to benefit from the protection of CoP.

⁶ This relates to costs of services provided by OBIE and Pay.UK, and associated running costs for the PSPs involved.

2.9 To end dual running, the following must happen:

- Access to the Phase 1 technical environment and rules and standards needs to end by a set date.
- Phase 1 PSPs need to migrate their CoP traffic to the Phase 2 Open Banking environment on or before that date.
- Any regulatory obligations on PSPs to do CoP checks in line with the Phase 1 rules and standards need to end on or before that date.

Where are we now?

2.10 During our call for views earlier this year⁷, the PSPs directed by SD10 wrote to us publicly committing to implementing the Phase 2 Open Banking environment before the end of 2021 without the need for a direction. We welcomed this commitment in an open letter.⁸ In addition, Pay.UK has told us that all other Phase 1 PSPs plan to implement the Phase 2 Open Banking environment by the same date.

2.11 Given these developments, we are not minded to direct Phase 1 PSPs to implement the Phase 2 Open Banking environment.

2.12 While we think this is encouraging, it needs to be followed by PSPs sending and receiving CoP requests in Phase 2, including directing traffic through the Phase 2 Open Banking environment. Once this happens, all CoP PSPs will be operating in Phase 2.

2.13 We want industry to remain committed to establishing a single CoP system and migrating their traffic to appropriate timelines. Timely migration will lead to cost reductions, as it will prevent PSPs from having to run two systems, and make sure there is no disruption to service.

2.14 Pay.UK and the PSPs have agreed a plan where all CoP traffic will be moved from Phase 1 and into Phase 2 by 30 March 2022.

2.15 PSPs are committed to delivering to these timelines because of the costs associated with dual running. We did, however, receive some responses in our call for views⁹ saying that, while it may be the case that PSPs will eventually switch to Phase 2, there is a risk that this will not be as timely as desired. Though there will be longer-term cost savings, and cost savings for new PSPs joining Phase 2, there are still development,

⁷ CP21/6, *Confirmation of Payee: Call for Views* (May 2021): <https://www.psr.org.uk/publications/consultations/cp21-6-confirmation-of-payee-phase-2-call-for-views/>

⁸ The PSR's open letter to the SD10 banks and UK Finance (July 2021): <https://www.psr.org.uk/publications/general/psr-s-open-letter-to-specific-direction-10-banks-and-uk-finance-july-2021/>

⁹ RP21/1, *Confirmation of Payee: Response to our call for views* (October 2021): <https://www.psr.org.uk/publications/policy-statements/rp21-1-response-to-cop-phase-2-cp21-6/>

testing and implementation costs for existing Phase 1 PSPs. As a result, some Phase 1 PSPs may have an incentive to delay moving to Phase 2 to delay those costs.

- 2.16** In addition, given the large number of organisations involved, there may be delays and issues with coordination without regulatory impetus. The next chapter outlines our proposal to make sure dual running ends in a timely and coordinated manner.

3 Our proposal

We want to make sure dual running ends in a timely and coordinated manner so that the CoP services across all PSPs can work together. We propose giving a direction that:

- sets a date for access to the Phase 1 technical environment and rules and standards to end
- keeps PSPs on track to migrate CoP traffic to the Phase 2 Open Banking environment by that date
- removes any regulatory obligations on PSPs to do CoP checks in line with the Phase 1 rules and standards

This approach is designed to be effective and proportionate.

What do we want to achieve?

3.1 We want to make sure dual running ends in a timely and coordinated manner so that the CoP services across all PSPs can work together. This will ensure greater levels of protection for people making payments. This requires the following:

- Access to the Phase 1 technical environment and rules and standards needs to end by a set date.
- Phase 1 PSPs need to migrate their CoP traffic to the Phase 2 Open Banking environment on or before that date.
- Any regulatory obligations on PSPs to do CoP checks on an ongoing basis in line with the Phase 1 rules and standards need to end on or before that date.

What are we proposing?

3.2 As detailed in the draft direction in the annex, we propose giving a direction that:

- a. requires **Pay.UK** to terminate the terms and conditions for participating in Phase 1, withdraw each Phase 1 PSP's CoP Phase 1 accreditation, and retire the Phase 1 rules and standards by 30 April 2022
- b. requires **Pay.UK** to notify OBIE of this action, so OBIE can close the Phase 1 technical environment, and prevents Phase 1 PSPs from using that environment after 30 April 2022

- c. requires **relevant PSPs** to regularly report to Pay.UK on their progress migrating CoP traffic to the CoP-only Open Banking profile by 1 April 2022, and requires Pay.UK to relay that information and its own assessment of risks to migration to us
- d. requires **relevant PSPs** to undergo enhanced reporting to both Pay.UK and us if they are at significant risk of failing to migrate by 1 April 2022, with an obligation to implement a remediation plan
- e. revokes SD10 on 30 April 2022

Why are we proposing the direction?

- 3.3** Ending dual running in a timely and coordinated manner is an important step in CoP service provision. Having a single technical environment and a single set of rules and standards is vital for CoP's future functionality, because this will encourage adoption and make sure CoP services across all PSPs can work together. In addition, Phase 2 has lower total costs for PSPs than Phase 1.
- 3.4** This will result in more widespread CoP coverage, meaning more customers and more payments will have the protection of CoP. Wider coverage should reduce the number of misdirected payments and prevent fraud from migrating to PSPs that do not offer CoP.
- 3.5** Pay.UK and PSPs are committed to ending dual running by retiring Phase 1 and moving to Phase 2. Given issues relating to development, testing, implementation costs and the large number of organisations involved (there are 33 PSPs that need to migrate), there may be delays and issues with coordination of migration of Phase 2 without regulatory impetus. It is therefore appropriate to consider directing relevant stakeholders.
- 3.6** Chapter 4 sets out in more detail the costs and benefits of this approach.

How the proposed direction will work

- 3.7** The proposed direction **sets a date of 30 April 2022**, by which Pay.UK must terminate the terms and conditions for participating in Phase 1, withdraw each PSP's CoP Phase 1 accreditation, and retire the Phase 1 rules and standards. This will end each Phase 1 PSP's legal right to participate in Phase 1 of CoP.
- 3.8** We will also require **Pay.UK to notify OBIE** of its intention to terminate Pay.UK's terms and conditions for participants in Phase 1 and, with sufficient notice, to provide a list of PSPs which OBIE needs to inform of the forthcoming closure of the Phase 1 technical environment. It will then be possible, and appropriate, for OBIE to end access to the Phase 1 technical environment with a closure date of 30 April 2022.
- 3.9** To ensure **no Phase 1 PSPs continue to use the Phase 1 environment**, we will also directly require them not to do so after 30 April 2022.

- 3.10** The direction requires relevant **PSPs to report regularly to Pay.UK** on their progress migrating CoP traffic to the Phase 2 Open Banking environment by 1 April 2022, and requires Pay.UK to relay that information and its own assessment of the risks to timely and coordinated migration to us.
- 3.11** This element of the direction is aimed at making sure PSPs actively plan for migration of CoP traffic and regularly report on progress. If there is a significant risk that a PSP will fail to migrate by 1 April 2022, we may trigger enhanced reporting to both Pay.UK and us, with an obligation on the PSP to implement a remediation plan approved by us. This should see PSPs migrate by the set deadline.
- 3.12** We are proposing **a one-month gap** between the deadline for migration of CoP traffic and Pay.UK retiring the Phase 1 rules and standards. This buffer is in place to mitigate the risk of a gap in CoP service provision to customers in the event unforeseen circumstances mean a PSP cannot complete migration by 1 April 2022. The PSP would still be able to conduct CoP checks for its customers using Phase 1 until 30 April 2022. Without the buffer, the PSP would be unable to do any CoP checks after 1 April 2022 until migration is complete.
- 3.13** Finally, SD10 requires directed **PSPs to conduct CoP checks on an ongoing basis** in line with the Phase 1 rules and standards. This regulatory obligation needs to be removed so that PSPs have the ability to deviate from Phase 1.
- 3.14** The direction leverages the existing monitoring/reporting arrangements between Pay.UK and PSPs, and specifies a monitoring and enforcement commitment for us that is workable.

Question 1: Do you have any comments on our proposed direction as set out in the annex? Include any comments on the dates set out in the proposed direction.

4 Cost benefit analysis

We have analysed the impacts of the proposal against a baseline scenario. Our baseline is that there would be a more staggered phasing out of Phase 1 that stretches beyond 1 April 2022, potentially until the end of 2022. We consider the benefits of the proposal will outweigh the costs.

How will the proposal improve outcomes?

- 4.1** Ending dual running in a timely and coordinated manner is an important step in CoP service provision. A single technical environment and a single set of rules and standards is vital for CoP's future functionality, because this will encourage adoption and make sure CoP services across all PSPs can work together. In turn, this will mean more widespread CoP coverage for customers, which will help reduce the number of misdirected payments.
- 4.2** The absence of a single technical environment and a single set of rules and standards would mean higher costs to PSPs, because they would need to build and operate against multiple environments and rulesets to send CoP messages to one another. Moving to a single environment and set of rules and standards should reduce these costs, and therefore help encourage adoption.
- 4.3** Phase 2 also introduces a CoP-only profile in Open Banking. PSPs use the Open Banking Directory to find each other to send CoP messages. In Phase 1, a PSP offering CoP needs to be a full member of Open Banking to access the Directory. The CoP-only role profile introduced in Phase 2 allows PSPs to access the Open Banking Directory without full Open Banking membership, meaning in total there will be lower set-up and running costs to PSPs, which enhances accessibility.
- 4.4** Phase 2 also includes technical enhancements that will allow PSPs to send and receive SRD. PSPs with accounts identified using SRD can only implement CoP once these technical enhancements are in place. Phase 2, therefore, functions as a key enabler for increased CoP coverage over customer accounts.

What is our assessment of the impacts?

- 4.5** We have analysed the impacts of the proposal against a baseline scenario. Our baseline is that there would be a more staggered phasing out of Phase 1 that stretches beyond 1 April 2022 – potentially until the end of 2022.

- 4.6** The table below details our assessment of the likely costs and benefits of the proposal relative to the baseline. We have conducted a qualitative assessment as robust data was not available for the range of benefits and costs we have identified.

Benefits	
Type	Magnitude¹⁰
<ul style="list-style-type: none"> • Direct benefit: Cost saving for PSPs from no longer operating both phases simultaneously. In addition, Phase 2 has lower total running costs than Phase 1 because of the CoP-only profile in Open Banking. The proposed direction increases the likelihood that these savings materialise sooner. 	Medium
<ul style="list-style-type: none"> • Indirect benefit: The proposal will help facilitate the earlier adoption of CoP by non-CoP PSPs, because PSPs will have more certainty over CoP requirements, and they will not have to incur the cost of dual running. Making it easier for additional PSPs to provide CoP is likely to create a more level playing field where smaller PSPs will be able to provide CoP on the same basis as larger PSPs without incurring excessive costs. This means more customers being protected: <ul style="list-style-type: none"> ○ Customers of newly joined PSPs will benefit from CoP ○ Customers of PSPs already offering CoP will also benefit, as their payments to accounts at newly joined PSPs will now be covered by the service 	High
<ul style="list-style-type: none"> • Indirect benefit: Expedited wider adoption of CoP will result in fewer misdirected payments. As set out in our call for views in May 2021, as CoP adoption has increased, we have seen a 25% fall in the value of misdirected payments. 	Medium

¹⁰ Magnitude, in this context, is our estimate of the combination of the probability of a cost or benefit materialising and the likely size of that cost or benefit. For example, a medium-sized cost that we assess as being very unlikely to be incurred would be classified as a 'low'-magnitude cost overall. This approach is consistent with the cost benefit analysis methodology set out in the Treasury's [Green Book](#) – for example, at paragraphs A5.13 to A5.15.

Costs	
Type	Magnitude
<ul style="list-style-type: none"> • Direct cost: There are Phase 2 set-up and running costs for PSPs, but these would be incurred in any case by PSPs. The proposal increases the likelihood that these occur sooner. 	Low
<ul style="list-style-type: none"> • Direct cost: There is a cost to PSPs in migrating CoP traffic from Phase 1 to Phase 2. These would be incurred by PSPs in any case. The proposal increases the likelihood that these occur sooner. 	Low
<ul style="list-style-type: none"> • Direct cost: Potential risk that some PSPs fail to migrate to Phase 2 by the end of the buffer period (30 April 2022). This would result in a loss of CoP service for their customers. PSPs and Pay.UK already have plans to migrate before 1 April 2022, meaning the likelihood of this happening is low. There are also standard reporting and enhanced reporting provisions in the proposed direction to keep PSPs on track. These include the possibility of a mandatory remediation plan, showing how a PSP will bring itself back on track to achieve migration by 30 April 2022. 	Low
<ul style="list-style-type: none"> • Direct cost: The direction imposes reporting obligations on PSPs and Pay.UK. The proposed direction aligns with existing plans to end dual running and the reporting arrangements from PSPs to Pay.UK. We think the parts of the direction that deal with migration to Phase 2 therefore impose only minimal additional burdens on Phase 1 PSPs. The proposed direction would also place an additional burden on Pay.UK. Pay.UK would have to relay the regular progress updates to us and provide its own assessment of risks. We consider this burden minimal. 	Low

Our conclusion

- 4.7 Based on the impact assessment above, we consider that the benefits of the proposal are likely to outweigh the costs.¹¹

11 We note that, in principle, costs that are brought forward are (slightly) increased in net present value terms (for example, due to financing costs). However given: the relatively short time frames; the fact that, for most PSPs, the timing of these costs is not materially affected; and the fact that any early adoption of CoP also brings financial benefits to those same PSPs, in terms of reduced misdirection of payments and the associated costs; we have not sought to account for this timing issue.

- 4.8** We also considered how to reduce the costs associated with complying with our direction and have sought to reduce these costs.
- 4.9** We are therefore satisfied that our proposed direction to end dual running in a timely and coordinated manner will enable significant benefits for payers and payees.

Question 2: Do you have any comments on our cost benefit analysis?

5 Equality impact assessment

In line with our public sector equality duty under the Equality Act 2010, we must assess the likely equality impacts and reasons for giving our proposed direction.

- 5.1** In proposing the direction and its contents, we have considered section 149 of the Equality Act 2010 (the public sector equality duty), particularly the impact of our proposed direction on people with protected characteristics.¹²
- 5.2** The proposed direction is designed to ensure that Phase 1 CoP participants migrate to Phase 2, and to end dual running. The combination of Phase 1 participants moving to Phase 2 by the end of 2021, and the closure of the Phase 1 technical environment following the end of dual running, should encourage greater adoption of CoP across new PSPs. This means more payers and payees will experience CoP as part of the payment process. The direction also revokes SD10.
- 5.3** In deciding to give SD10, we did an equality impact assessment that examined the impact of CoP on payers and payees. We see no reason to think that the PSPs who will, or are likely to, join in Phase 2 as a consequence of the end of dual running will have a significantly different customer base to those directed under SD10. As a result, having re-evaluated the equality impact assessment for SD10, we think it remains relevant here.¹³ We have, however, reconsidered the relevant factors in the context of the current proposal to give a direction.

Payers

- 5.4** In our initial assessment for giving SD10, we said CoP will introduce an appropriate and necessary level of friction for those making payments, because they will need to consider the CoP result. However, we said there is a higher risk of poor outcomes for some people with protected characteristics, including some elderly people and people with certain physical or mental health disabilities.
- 5.5** CoP will make the authorisation of transactions more involved for a payer, because they will need to enter the payee's name correctly. Payers will also need to consider the response to the CoP check done on that name. If there is no match or a close match, the payer will need to decide whether to proceed with the transaction.

12 The relevant protected characteristics under section 149 are age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex, and sexual orientation.

13 See our consultation paper CP19/4: <https://www.psr.org.uk/publications/consultations/cp19-4-confirmation-of-payee-response-to-the-first-consultation-and-draft-specific-direction-for-further-consultation/>, and response paper PS19/4: <https://www.psr.org.uk/media/gp2axtod/responses-and-decision-on-consultation-for-cop.pdf>

- 5.6** This additional complexity is more likely to affect people with certain attributes linked to protected characteristics. This includes people with cognitive impairment, because of age or disability, and those who do not speak English as a first language. As the provision of CoP broadens during Phase 2, these impacts are likely to arise in relation to more people who share these attributes.
- 5.7** However, the benefits of CoP will also apply more widely as a result of Phase 2. As the responses to May 2021 call for views demonstrate, these benefits include reducing accidentally misdirected payments and preventing what would have been a larger increase in Authorised Push Payment scams. Other benefits include a greater number of consumers relying on CoP warnings and abandoning potentially fraudulent transactions and strengthening consumer confidence in digital payments. Given this, in our view the benefits of expanding CoP to a greater number of consumers outweigh any negative impacts, including any that could disproportionately affect people with certain protected characteristics.
- 5.8** Given the evidence on the benefits of CoP, we consider it appropriate to give the proposed direction. We continue to expect PSPs to take steps to mitigate the impact of any additional complexity associated with CoP – this would include educating customers, especially those who are most likely to be negatively affected.

Payees

- 5.9** We have reconsidered the position of vulnerable payees. A payee may be vulnerable for several reasons – for example, because of an abusive relationship.
- 5.10** Pay.UK's CoP rules and standards for Phase 2 provide guidance on the categories of vulnerable customer that PSPs may consider opting out. We expect PSPs to follow this guidance.
- 5.11** We have also reconsidered the potential difficulties that CoP may place on those with complex first and family names – for example, their name may have been rendered from a different alphabet into the Latin alphabet.
- 5.12** Under the CoP process, a payer will need to know a payee's name and how to spell it. Pay.UK's rules and standards for Phase 2 of CoP specify that, in the case of a close match, the actual name associated with the proposed payee's account will be returned to the payer. We continue to consider this an appropriate way to deal with close matches. This may also mitigate the difficulty about complex first and family names. We encourage PSPs to ensure their approach to identifying close matches accounts for this issue.

Revocation of SD10

- 5.13** We have separately considered the impact of revoking SD10. Given the investment made by existing CoP PSPs, and the fact that CoP has become a standard feature of the payment process for many customers, we do not expect revoking SD10 to result in

PSPs withdrawing their CoP service. On the contrary, we expect it will help broaden CoP coverage by removing regulatory obligations on PSPs to do CoP checks in line with the Phase 1 rules and standards. This will allow PSPs to migrate to Phase 2. We therefore consider the likely equality impacts of revoking SD10 to be similar to the impacts of migration to Phase 2 of CoP and the end of dual running.

Question 3: Do you have any comments on our assessment of the impacts of the direction we are considering on protected groups or vulnerable consumers? Do you have any evidence that will assist the PSR in considering equality issues, and in particular complying with its public sector equality duty and in deciding whether to give this direction?

6 Next steps

How to respond

- 6.1** If you want to respond to this consultation paper, please send us your comments by 5pm on 17 December 2021. If there is confidential information in your submission, please send us two copies: the confidential version and a non-confidential version suitable for publication.
- 6.2** You can email us at cop.consultation@psr.org.uk or write to us at the following address:

Confirmation of Payee Consultation
Payment Systems Regulator
12 Endeavour Square
London E20 1JN

Our next steps

- 6.3** We will consider all responses to this consultation in deciding on next steps. If we decide to proceed with giving the proposed direction, we plan to do so by early February 2022.

Disclosure of information

- 6.4** Generally, we seek to publish views or submissions in full or in part. This reflects our duty to have regard for our regulatory principles, which include those in relation to:
- publication in appropriate cases
 - exercising our functions as transparently as possible
- 6.5** We will not regard a standard confidentiality statement in an email message as a request for non-disclosure. If you wish to claim commercial confidentiality over specific items in your response, you must identify those specific items that you claim to be commercially confidential.
- 6.6** We may be required to disclose all responses that include information marked as confidential in order to meet legal obligations – in particular, if we are asked to disclose a confidential response under the Freedom of Information Act 2000. We will endeavour to consult you if we receive such a request. Any decision we make not to disclose a response can be reviewed by the Information Commissioner and the Information Rights Tribunal.

- 6.7** We take our data protection responsibilities seriously, and will process any personal data that you provide to us in accordance with the Data Protection Act 2018, the GDPR and our PSR Data Privacy Policy. For more information on how and why we process your personal data, and your rights in respect of the personal data that you provide to us, please see our website privacy policy: psr.org.uk/privacy-notice.

Annex

Draft Direction

DRAFT Specific Direction X: Closure of the initial technical environment for Confirmation of Payee

December 2021

Specific Direction (Closure of initial technical environment for Confirmation of Payee)

1 Recitals

Whereas:

- 1.1** Confirmation of Payee (CoP) is a valuable tool in reducing certain types of authorised push payment (APP) scams and accidentally misdirected payments. It checks the name of the payee's account against the other details given by the payer, to help reduce the number of APP scams.
- 1.2** The first phase of CoP currently uses a part of the open banking directory that supports multiple activities of PSPs, in addition to the provision of CoP (the initial CoP technical environment).
- 1.3** Pay.UK maintains the rules and standards for the initial CoP technical environment. The PSR has given Specific Direction 10, requiring certain PSPs (the SD10 PSPs) to carry out CoP checks in accordance with those rules and standards for payments over Faster Payments and CHAPS.
- 1.4** Pay.UK has agreed with the SD10 PSPs and other PSPs that currently participate in CoP (together, the 'initial CoP participants') that by 30 March 2022 they will move to the second phase of CoP. This requires migration to a new part of the open banking directory that specifically supports CoP (the CoP domain). Pay.UK has also published a new rule book specifically for the CoP domain.
- 1.5** The CoP domain is designed to make the CoP service available to a wider range of PSPs, enabling them to offer the CoP service to their customers. The PSR therefore considers it desirable to ensure that initial CoP participants complete the planned migration to the CoP domain by 1 April 2022, and that the initial CoP technical environment should subsequently be closed.

- 1.6** Closure of the initial CoP technical environment is triggered by Pay.UK withdrawing initial CoP accreditation from the initial CoP participants and removing them from the initial CoP participation list. The Open Banking Implementation Entity (OBIE) is then able to close the initial CoP technical environment.
- 1.7** The PSR considers that SD10 should be revoked immediately after the initial CoP technical environment is closed. After that time, it will no longer be appropriate to require the SD10 PSPs to perform CoP checks in accordance with the rules and standards for the initial CoP technical environment.
- 1.8** The PSR has therefore decided:
- a. to require Pay.UK to withdraw initial CoP accreditation from the initial CoP participants and inform OBIE, to enable closure of the initial CoP technical environment by 30 April 2022 and provide an end point for migration to the CoP-only domain
 - b. to require the initial CoP participants to provide regular reports to Pay.UK and the PSR on work towards completing migration by 1 April 2022, in order to monitor their progress
 - c. that if, during the period preceding 1 April 2022, the PSR considers there is a significant risk that an initial CoP participant will fail to migrate by 1 April 2022, the initial CoP participant must implement a remediation plan to ensure timely migration
 - d. to revoke SD10 at midnight on 30 April 2022

2 Powers exercised and purpose

- 2.1** Faster Payments and CHAPS are designated by the Treasury under section 43 of the Financial Services (Banking Reform) Act 2013 ('the Act') for the purposes of Part 5 of the Act.
- 2.2** The PSR makes this direction in accordance with section 54 (Regulatory and competition functions – directions) of the Act. In accordance with section 54(3)(c), this direction applies to persons of a specified description.
- 2.3** The purpose of this direction is to ensure initial CoP participants migrate to the CoP-only domain no later than 1 April 2022, and set a backstop date for Pay.UK to close the initial CoP technical environment.

Direction

NOW the Payment Systems Regulator gives the following specific direction to:

- a. Pay.UK**
- b. each initial CoP participant within the meaning of section 3.1(e) of this direction**

3 Key definitions

3.1 In this direction:

- a. 'CoP' means the service overseen by Pay.UK, and known as Confirmation of Payee, which allows the account-holding name of the payee in a payment transaction to be checked against the other details given by the payer in that transaction
- b. 'CoP domain' means the part of the open banking directory dedicated only to enabling CoP
- c. 'CoP participant list' means the list of accredited CoP participants maintained by Pay.UK
- d. 'initial CoP accreditation' means an approval given by Pay.UK to participate in CoP, in accordance with the initial CoP terms and conditions
- e. 'initial CoP participant' means a person with an initial CoP accreditation
- f. 'initial CoP rules and standards' means the rules and standards for CoP provided for in the rule book developed by Pay.UK that is applicable to initial CoP participants
- g. 'initial CoP terms and conditions' means the terms and conditions applicable to CoP participants that initiated an application to join the CoP service before 31st August 2021
- h. 'switchover' means, in relation to an initial CoP participant, the point at which that participant begins to send and respond to CoP requests using only the CoP domain
- i. 'switchover date' means 1 April 2022

4 Closure of the initial CoP environment

4.1 By 16 April 2022, Pay.UK must inform each initial CoP participant that it will take the steps mentioned in paragraph 4.2 on 30 April 2022.

- 4.2** On 30 April 2022, Pay.UK must:
- a. terminate the initial CoP terms and conditions for all initial CoP participants, under clause 13 of those terms and conditions, and cease to support participation in the CoP service under those terms and conditions
 - b. withdraw initial CoP accreditation from each initial CoP participant and remove each such participant from the CoP participant list in respect of its initial CoP accreditation
 - c. inform each initial CoP participant and OBIE that it has taken the steps in paragraphs (a) and (b)
 - d. publish a statement on its website, for at least one month, confirming that:
 1. it has taken the steps in paragraphs (a) and (b)
 2. it has withdrawn the initial CoP rules and standards

- 4.3** After 30 April 2022, an initial CoP participant must only send or respond to CoP requests using the CoP domain.

5 Reporting obligations relating to initial CoP participants

- 5.1** Each month, on a date specified by the PSR (the 'reporting date'), an initial CoP participant must provide Pay.UK with:
- a. the date it intends to achieve switchover
 - b. a description of its progress towards achieving switchover on that intended date, including:
 1. details of any risks to achieving switchover on that intended date and, if different, the switchover date
 2. an explanation of how it intends to mitigate those risks
 - c. any additional information relevant to achieving switchover by that intended date and, if different, the switchover date
- 5.2** Each month, no later than five working days after the reporting date, Pay.UK must provide the PSR with the information set out in paragraph 5.1 for each initial CoP participant.

5.3 Together with that information, in relation to each initial CoP participant Pay.UK must provide:

- a. its assessment of any risks that may prevent that initial CoP participant achieving switchover by the switchover date
- b. any additional information relevant to each initial CoP participant achieving switchover by the switchover date

5.4 Paragraphs 5.1, 5.2 and 5.3 cease to apply in relation to an initial CoP participant that has confirmed to Pay.UK and the PSR that it has achieved switchover.

6 Enhanced obligations for specified initial CoP participants

6.1 An initial CoP participant must comply with the obligations in paragraph 6.2, if the PSR notifies it in writing that the PSR considers there is a significant risk of the initial CoP participant failing to achieve switchover by the switchover date.

6.2 The initial CoP participant must:

- a. by a date specified by the PSR in the notice, propose to Pay.UK and the PSR a remediation plan to ensure switchover by the switchover date, or its intended date if earlier
- b. adjust the remediation plan to reflect any modifications proposed by the PSR from time to time, or proposed by the initial CoP participant and accepted by the PSR
- c. implement the remediation plan, subject to any modifications required or accepted by the PSR
- d. from a date specified by the PSR in the notice, provide to Pay.UK and the PSR a weekly report containing:
 1. the information set out in paragraph 5.1
 2. the steps the initial CoP participant has taken to implement the remediation plan as modified from time to time
 3. the extent to which those steps have reduced the risk of the initial CoP participant failing to achieve switchover by the switchover date, or its intended date if earlier
 4. any additional steps the initial CoP participant considers necessary to ensure switchover by the switchover date, or its intended date if earlier

7 Revocation of Specific Direction 10

7.1 Specific direction 10 is revoked at midnight on 30 April 2022.

8 Commencement and duration

8.1 This specific direction comes into force on [DATE].

8.2 This direction ceases to be in force 12 months after the date on which this specific direction comes into force, unless prior to that date:

- a. it is varied, revoked or extended by the PSR
- b. Pay.UK and each initial CoP participant is notified of this change in writing

8.3 The PSR may review this direction at any point prior to the date it ceases to be in force.

9 Citation

9.1 This specific direction may be cited as Specific Direction [XX] (Closure of initial technical environment for Confirmation of Payee).

10 Interpretation

10.1 The headings and titles used in this specific direction are for convenience and have no legal effect.

10.2 The Interpretation Act 1978 applies to this specific direction as if it were an Act of Parliament except where words and expressions are expressly defined.

10.3 References to any statute or statutory provisions must be construed as references to that statute or statutory provision as amended, re-enacted or modified, whether by statute or otherwise.

10.4 In this specific direction, the word 'including' shall mean including without limitation or prejudice to the generality of any description, definition, term or phrase preceding that word, and the word 'include' and its derivatives shall be construed accordingly.

10.5 Section 3 of this specific direction contains key definitions. In addition, in this specific direction the following terms have the following meanings:

- **Act** means the Financial Services (Banking Reform) Act 2013.
- **CoP request** means a request sent by a PSP to check the name of the intended payee (that is, the person to whom or which the payer anticipates sending funds) against the name of the person who holds the account to which the unique identifiers given by the payer when providing the necessary information (or amending the unique identifiers in that information) refer.
- **OBIE** means the Open Banking Implementation Entity, registered in England under Company Number: 1044008.
- **Payment Systems Regulator** or **PSR** means the body corporate established under Part 5 of the Act.

Made on [DATE]

Chris Hemsley
Managing Director
Payment Systems Regulator

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