

# Confirmation of Payee

Call for views

May 2021

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If you would like to provide comments, please send these to us by **5pm on 30 June 2021**.

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

CoP team  
Payment Systems Regulator  
12 Endeavour Square  
London E20 1JN

We will consider your comments when preparing our response to this call for views.

We intend to publish all responses (see below about confidentiality).

We will not regard a standard confidentiality statement in an email message as a request for non-disclosure. If you want to claim commercial confidentiality over specific items in your response, you must identify those specific items which you claim to be commercially confidential. Therefore, when submitting your response, please highlight any parts of it which you consider should be redacted before publication due to confidentiality. We may nonetheless be required to disclose responses which include information marked as confidential in order to meet legal obligations, in particular as a result of a request made 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 First Tier Tribunal.

You can download this consultation paper from our website:

<https://www.psr.org.uk/publications/consultations/cp21-6-confirmation-of-payee-phase-2-call-for-views/>

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# 1 Executive summary

- 1.1** Every year thousands of individuals and businesses fall victim to Authorised Push Payment (APP) scams – where they are tricked into sending money to an account controlled by a fraudster. There are also a significant number of accidentally misdirected payments that are not recovered. These losses can be significant and life changing. In 2020 alone, APP scam losses totalled £479 million<sup>1</sup>, with the actual figure including unreported losses likely to be much higher.
- 1.2** We want payments to work safely and securely for consumers, including for those people that may be vulnerable. For this reason, we issued Specific Direction 10 (SD10) in August 2019 (varied in February 2020), directing the UK's six largest banking groups to introduce Confirmation of Payee (CoP) for Faster Payments and CHAPS transactions. We directed them to do this by 31 March 2020. We have also been looking at ways of significantly reducing APP scam losses through improved prevention and reimbursement, and have published a call for views in February 2021.<sup>2</sup>
- 1.3** CoP is a service that checks the name of the payee against the account details given by the payer. It aims to improve security and give users confidence that they are sending payments to the right place. SD10 aims to significantly reduce certain types of accidentally misdirected payments and APP scams. Indeed, CoP benefits customers when making or receiving payments into their accounts. Accounts from which payments cannot be made or that can only send payments to specific accounts may derive less benefit from CoP as they are less likely to be subject to the types of fraud or misdirected payments which CoP can prevent.

**Figure 1: How the CoP service works**



Source: Pay.UK

<sup>1</sup> See UK Finance, *Fraud – the Facts 2021* report available [here](#).

<sup>2</sup> See CP 21/3 *Authorised push payment scams – call for views*, 11 February 2021.

- 1.4** Due to COVID-19 and the pressure it put on businesses, we gave banks additional time to comply with SD10. In July 2020, we confirmed that implementation was widespread with certain agreed exceptions on a small number of accounts with technical challenges. Since then, we have continued to oversee compliance with SD10. Most of the exempted accounts have now implemented CoP and a number of non-directed payment service providers (PSPs) have joined the service voluntarily. We call this Phase 1 of CoP.
- 1.5** We have also gathered information and data from the directed banks (SD10 banks) to understand the success of CoP in reducing accidentally misdirected payments and APP fraud.
- 1.6** Based on the analysis of the information and data that we gathered, there is clear evidence that CoP has had a positive impact on reducing the relevant types of misdirected payments.
- 1.7** With regards to APP fraud, it is likely that CoP has prevented what would otherwise have been a larger increase in scams. We have received anecdotal evidence of CoP having had a positive impact, notably by resulting in customers abandoning potentially fraudulent transactions. SD10 banks and other PSPs have confirmed that CoP has improved security and strengthened customer confidence when making a payment to a new payee. Additionally, our data analysis demonstrates that there has been a reduction in the relevant types of APP scams sent to CoP-enabled PSPs, while APP scams sent to PSPs not participating in the service have increased. This suggests CoP has improved transaction security for PSPs offering the service.
- 1.8** Although the data submitted by the SD10 banks shows an increase in the types of APP scams that CoP can prevent, there are several factors impacting this analysis which make it difficult to estimate how APP scams would have evolved in the absence of CoP. These include an overall significant rise in APP scams over the last year spurred by the COVID-19 pandemic. In particular, there has been a growth in the social engineering of victims who are tricked by fraudsters to ignore a no-match CoP result. Fraudsters are using increasingly sophisticated techniques, such as taking advantage of people working remotely or self-isolating in order to psychologically manipulate them into bypassing CoP warnings. Another example is fraudsters convincing the victim that a 'new' or 'safe' account has been set up to protect their money which cannot yet yield a CoP match. We have also seen evidence of fraudsters convincing victims to transfer funds to mule accounts that yield a positive CoP match.
- 1.9** We have also approached several non-directed PSPs on their plans and views on CoP. Most of them have noted the impact of CoP in improving customer experience and confidence in payment journeys. They also recognise the need to expand the use of CoP to extend those benefits to PSPs which are not currently offering the service. This would in turn improve competition between providers and increase the number of customers with access to the protection offered by CoP.

- 1.10** Pay.UK set the rules, standards and guidance that must be followed by PSPs wishing to offer CoP to their customers. Common rules and standards are vital for CoP's functionality because the CoP services across different PSPs need to work together. As these rules and standards are voluntary, our role is to ensure that, where appropriate, PSPs deliver CoP to their customers in accordance with those rules by a specific date. We have so far done this by directing the UK's six largest banking groups, accounting for the vast majority of electronic bank transfers, to deliver this service to their customers in the course of 2020. We have also been engaging with Pay.UK on the development of the rules and standards for Phase 2 of CoP. We have also obtained feedback from industry on the implementation of Phase 2. Phase 2 will enable more PSPs with unique sort codes to participate in the service through a dedicated 'CoP-only' role profile in the Open Banking Directory. It will also allow PSPs using secondary reference data (SRD) to participate.
- 1.11** Pay.UK has worked with participants to produce a phased implementation timeline for Phase 2. While the SD10 banks are broadly on track to deliver the role profile by the end of 2021, the picture is mixed for smaller PSPs. PSPs have highlighted several dependencies to the timetable.
- 1.12** PSPs broadly expect the CoP-only role profile to make joining CoP simpler due to automating testing and onboarding, as well as reducing timelines and costs. As a result, smaller PSPs wishing to join CoP, as well as large banks with a smaller domestic and retail presence in the UK, should find it easier and more cost-effective. This will level the playing field by improving customer confidence and offer similar levels of protection across a greater variety of payment journeys.
- 1.13** Outside of the SD10 banks, PSPs have stressed that the migration of the SD10 banks to the Phase 2 CoP-only role profile is a key dependency in their planning. The majority of CoP requests are made by or sent to the SD10 banks, so their presence is necessary to ensure that they are reachable within the Phase 2 domain. If some of the SD10 banks were not to migrate, or delay migrating, to the new CoP-only role profile they would be unreachable to new Phase 2 joiners. This would result in smaller PSPs delaying joining CoP until the SD10 banks have migrated and will act as a barrier for prospective participants. We are therefore minded to direct the SD10 banks to migrate to the Phase 2 CoP-only role profile by the end of 2021. This is to ensure the SD10 banks' timely presence in the Phase 2 environment and prevent the impact that any potential delays would have on the plans of smaller PSPs to join Phase 2.
- 1.14** While industry recognises the benefits of CoP in terms of enhancing customer confidence, it has indicated that accounts with SRD would have to undergo significant technical changes across multiple channels, brands and platforms, depending on the range of accounts in scope. This change would be required both by PSPs with SRD accounts to enable them to respond to CoP requests, as well as other PSPs to support SRD handling when sending CoP requests. As a result, there could be important cost implications for the whole industry.

- 1.15** As explained in paragraph 1.3, for some accounts, CoP would be unlikely to benefit the customer. This is because the nature of some accounts, notably SRD accounts such as credit cards and mortgages, means that they are not generally as vulnerable to fraud, and they do not have the option for customers to send the funds onwards. For this reason, it might make sense for the industry to focus its efforts on SRD accounts that allow for transactions both into and out of them as these are more likely to benefit from CoP as fraud prevention tool. In doing so, there might be scope to consider whether there could be alternative, potentially less costly solutions to securing the benefits of CoP for SRD accounts than creating a specific CoP solution for SRD accounts. For example, it might be more proportionate for the relevant institutions to introduce unique sort codes and account numbers for those accounts to enable them to participate in CoP. This is likely to be a decision for the industry to make as it has better sight of the costs and benefits to make this decision.

## What do we want to achieve with this call for views?

- 1.16** We set out the findings of our analysis of the impact of Phase 1 of CoP and the feedback received on Phase 2.
- 1.17** We welcome views on the progress, dependencies and expected costs and benefits of Phase 2. We also welcome feedback on whether certain types of accounts with SRD should be excluded from Phase 2's scope and whether alternative solutions are more appropriate for SRD accounts overall. We also welcome views on how CoP messaging works and how it could be enhanced.
- 1.18** We outline a number of policy responses that we could implement for CoP. These include options such as issuing a further direction mandating PSP actions to enable Phase 2, bringing about improvements to the CoP service, and the future of SD10.
- 1.19** We invite your views by 5pm on 30 June 2021.

## 2 Introduction

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- The aim of Confirmation of Payee (CoP) is to reduce certain types of accidentally misdirected payments and Authorised Push Payment (APP) fraud by checking the name on the recipient's account. This improves security and gives users confidence that they are sending payments to the right place.
- Under Specific Direction 10 (SD10), we directed the UK's six largest banking groups to implement CoP. We confirmed widespread implementation in July 2020. A number of other PSPs have also joined the service.
- We have received anecdotal evidence that CoP has made a difference. We've looked into this in more detail, including by collecting data from the directed banks, and present the results of our analysis.
- We have been engaging with Pay.UK, which sets the rules and standards of CoP, on its initiatives for Phase 2. Phase 2 will enable further participation in CoP by more PSPs. Pay.UK has produced a timeline for the phased implementation of Phase 2. We have gathered feedback from PSPs on their timelines, costs and benefits from Phase 2, and set those out in this paper.
- We welcome views on the impact and progress of CoP so far, as well as on the dependencies, and expected costs and benefits of CoP Phase 2. We also set out a number of potential policy responses.

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## Evolution of Confirmation of Payee

- 2.1** CoP is a service that checks the name of the payee against the name and account details given by the payer. It aims to improve security and give users confidence that they are sending money to the right place, thereby reducing certain types of misdirected payments and APP fraud.
- 2.2** Pay.UK set the rules, standards and guidance that must be followed by PSPs wishing offer CoP to their customers. Common rules and standards are vital for CoP's functionality because the CoP services across different PSPs need to work together. As these rules and standards are voluntary, our role is to ensure that, where appropriate, PSPs deliver CoP to their customers in accordance with those rules by a specific date. In August 2019, we issued SD10 to the UK's six largest banking groups<sup>3</sup> to introduce CoP for Faster Payments Scheme (Faster Payments) and CHAPS transactions. We directed these banks to do this by 31 March 2020.

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<sup>3</sup> These include the following banks: Bank of Scotland plc, Barclays Bank UK plc, Barclays Bank plc, HSBC Bank plc, HSBC UK Bank plc, Lloyds Bank plc, National Westminster Bank plc, Nationwide Building Society, Royal Bank of Scotland plc, Santander UK plc and Ulster Bank Limited.



We varied SD10 in February 2020. The banks we directed represented around 90% of transactions over Faster Payments and CHAPS.

- 2.3** Due to COVID-19 and resulting pressure put on businesses, we gave directed banks until the end of June 2020 to complete implementation. In July 2020, we confirmed widespread implementation. We also granted exemptions extending the deadline for a small number of accounts facing technical challenges. Since then, we have continued to oversee compliance with our direction. Most of the exempted channels have now implemented CoP and a number of non-directed PSPs have joined the service voluntarily. We call this the implementation of Phase 1 of CoP.

## Understanding the impact of Confirmation of Payee

- 2.4** We have used our powers to require information from the SD10 banks and other PSPs to help us understand the effect of CoP on reducing certain types of accidentally misdirected payments and certain types of APP fraud. This included both qualitative and quantitative evidence.
- 2.5** Our analysis of the information and data submitted by the SD10 banks shows CoP has had a positive impact on the relevant types of misdirected payments sent by SD10 banks. We observe reductions in both value and volume of misdirected payments as a proportion of all the payments made over the past year.
- 2.6** With regards to APP fraud, it is likely that CoP has prevented what would otherwise have been a larger increase in scams. We have received anecdotal evidence of CoP having had a positive impact, notably by resulting in customers abandoning potentially fraudulent transactions. SD10 banks have also confirmed that CoP has brought about improved security and strengthened customer confidence when paying a new payee. Indeed, our data analysis shows that PSPs that have enabled CoP over the past year have seen a reduction in the types of APP scams that CoP can prevent, compared to an increase in such scams for PSPs not participating in the service. This suggests that CoP has improved transaction security for PSPs offering the service.
- 2.7** In addition, although the data submitted by the SD10 banks shows an increase in the types of APP scams that CoP can prevent, there are several factors impacting this analysis that make it difficult to estimate how APP scams would have evolved in the absence of CoP. These include an overall significant rise in APP scams over the last year, the impact of COVID-19, and the increased social engineering of victims in order to bypass negative CoP responses (e.g. a no-match response).
- 2.8** Other PSPs that we have approached confirmed that CoP has improved customer experience and confidence in electronic bank transfers. They also recognise the need to expand the use of the service to other PSPs in order to extend those benefits.

**2.9** We issued SD10 to secure widespread adoption of the CoP service in order to reduce significantly the number of accidentally misdirected payments and certain types of APP fraud. In directing the UK's six largest banking groups, we achieved widespread adoption of CoP. When directing those banking groups, we also anticipated that more PSPs would implement CoP, due to the protections it offers their customers. While we have seen an increase in uptake by some well-known banking brands and non-bank PSPs – there are still several PSPs, including moderately large institutions – that do not offer CoP to their customers.

## Phase 2

**2.10** The next step in CoP is known as Phase 2. Pay.UK's plans for Phase 2 of CoP will enable further participation by PSPs with unique sort codes through a dedicated 'CoP-only' role profile in Open Banking. It will also enable participation by institutions that do not use unique sort codes and account numbers to identify customer accounts, but instead identify customer accounts via SRD (e.g. building societies using roll numbers).

**2.11** In addition to producing the rules and standards, Pay.UK has worked with participants to produce a timeline for the phased implementation of Phase 2. This timeline includes existing Phase 1 participants making changes required for Phase 2 in a phased manner over the rest of 2021 and into 2022. These changes will allow other PSPs with unique sort codes to implement CoP through the creation of a dedicated CoP-only role profile in the Open Banking Directory, as well as allowing CoP checks to be undertaken based on SRD.

**2.12** Alongside our engagement with Pay.UK, we have sought further feedback on the costs, benefits and timelines for Phase 2 for different PSPs, including the SD10 banks, other CoP-enabled PSPs, and non-participants to the service. We have gathered this feedback by engaging with the industry and sending requests for information to several PSPs under section 81 of the Financial Services (Banking Reform) Act 2013 (FSBRA).

**2.13** This information shows that while the SD10 banks are broadly on track to move to the CoP-only role profile by the end of 2021, the picture is mixed for smaller Phase 1 PSPs. These are PSPs that have voluntarily implemented CoP, are in the process of doing so, or wish to do so and have taken steps towards beginning the enrolment process. Those PSPs mention technical, budgetary and regulatory dependencies that impact on their ability to deliver Phase 2 to the timetable. It is important to deliver these aspects of Phase 2 to allow a greater number of PSPs join the service.

**2.14** An important dependency is the timely migration of SD10 banks to the CoP-only role profile. As the majority of CoP requests are made by or sent to the SD10 banks, their presence is necessary to ensure that they are reachable within the Phase 2 environment. Any delays would mean that they are unreachable to new users and could risk, and have a knock-on impact on, the plans by smaller PSPs to join the service. We are therefore minded to direct the SD10 banks to migrate to the CoP-only role profile by the end of 2021 to minimise the impact of any potential delays.

- 2.15** PSPs expect Phase 2 to level the playing field both in terms of increasing the number of participating firms, as well as the range of accounts that can be checked. PSPs also highlight that it will improve customer experience and increase confidence in making payments. Specifically, PSPs expect the CoP-only role profile to make joining CoP simpler due to automating testing and onboarding, while also reducing timelines and costs. Given that most of the CoP requests are made by or sent to the SD10 banks, their presence in the Phase 2 environment is necessary to ensure that they are reachable to new joiners.
- 2.16** PSPs have highlighted that it would take significant technical changes for them to be able to identify and send or receive CoP requests from SRD accounts. In order to make a name check available on SRD accounts, this change would be required both by PSPs with SRD accounts to enable them to respond to CoP requests, as well as other PSPs to support SRD handling when sending CoP requests. As a result, there could be significant cost implications for the whole industry.
- 2.17** The level of change will, however, depend on the range of SRD accounts included in the scope of Phase 2. As explained in paragraph 1.3, for some of those accounts, CoP would not benefit the customer. This is because the nature of some accounts, notably SRD accounts such as credit cards and mortgages, means that they are less conducive to fraud as they do not have the option to send the funds onwards while misdirected payments are easier to recover. For this reason, it might make sense for the industry to focus its efforts on SRD accounts that allow for transactions both into and out of them as these are more likely to benefit from CoP as fraud prevention tool. In doing so, there could potentially be alternative, less expensive solutions to securing the benefits of CoP for SRD accounts than creating a specific CoP solution for SRD accounts. For example, it might be more proportionate for the relevant institutions to introduce unique sort codes and account numbers for those accounts to enable them to participate in CoP. This is likely to be a decision for the industry to make as it has better sight of the costs and benefits to make this decision.

## Next steps

- 2.18** We welcome views on the impact and progress of CoP so far. We also seek views on the dependencies and expected costs and benefits of CoP Phase 2. We set out a number of potential policy responses, such as the possibility of directing further, other steps to bring about improvements to the CoP service, and the future of SD10.

## 3 Impact of Phase 1

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- We have gathered information and data from the SD10 banks and other PSPs on the impact of CoP. Our analysis shows that CoP has had a positive impact on reducing the relevant types of misdirected payments sent by the SD10 banks.
  - With regards to APP scams, it is likely that CoP has prevented what would otherwise have been a larger increase. We have received anecdotal evidence of CoP having had a positive impact. Our analysis also shows that the relevant types of APP scams have shifted away from PSPs offering CoP to those not participating in the service, suggesting that CoP has improved transaction security. SD10 banks and other PSPs have both confirmed that CoP has improved customer experience and increased confidence in electronic bank transfers.
  - Although the data submitted by the SD10 banks show that the relevant types of APP scams sent by SD10 banks have continued to increase, there are several factors likely to be affecting the trends observed, including the overall growth in APP scams, the impact of COVID-19, the increased social engineering of victims, and mixed trends across the SD10 banks.
  - We set out anecdotal evidence regarding the positive impact of CoP on the relevant types of APP scams, the growing impact of social engineering of victims to bypass CoP, and the impact of COVID-19.
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### Information collected

- 3.1** We used our powers to require information from the SD10 banks and other PSPs to analyse the impact of CoP in reducing accidentally misdirected payments and certain types of APP fraud. We have gathered this feedback by engaging with the industry and sending requests for information under section 81 of the Financial Services (Banking Reform) Act 2013 (FSBRA).
- 3.2** We have collected both qualitative and quantitative evidence. In terms of qualitative evidence, we have gathered feedback on the experience by SD10 banks and other PSPs following the implementation of CoP, the trends they have evidenced, the customer feedback that they have received, and the impact of other events such as Covid-19 and the growth in the social engineering of victims.

- 3.3** In terms of data, we collected quarterly data from the SD10 banks covering the period Q3 2019 – Q4 2020. We collected the following information for the relevant quarters:
- a. total number of Faster Payments and CHAPS transactions carried out by the SD10 banks
  - b. volume and value of payments for which CoP requests were sent or received by the SD10 banks and the CoP responses received
  - c. volume and value of the relevant types of misdirected payments raised by SD10 bank customers
  - d. volume and value of the relevant types of APP scams sent by the SD10 banks<sup>4</sup>
  - e. which PSPs were recipients of funds from relevant types of APP scams sent by SD10 banks<sup>5</sup>
- 3.4** Based on the data received, we estimate that our analysis covers 85% of transaction volume and 89% of transaction value over Faster Payments.<sup>6</sup>

## Relevant types of misdirected payments and APP scams

- 3.5** CoP can prevent specific types of accidentally misdirected payments and APP scams. We call these ‘the relevant types of misdirected payments’ and ‘the relevant types of APP scams’ respectively.

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### Relevant types of misdirected payments<sup>7</sup>

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Mis-keyed digit(s) in the account number

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Mis-keyed digit(s) in the sort code

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Completely incorrect account number and/or sort code used

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Wrong account details provided by payee

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- 4 Covered by the Lending Standard Board’s Contingent Reimbursement Model (CRM) Code set up in 2019. Current signatories include the SD10 banks, Metro Bank, Starling Bank and The Co-operative Bank.
  - 5 Not all SD10 banks collected the requisite level of granular information, particularly for the period prior to Q3 2020 and the widespread implementation of CoP. There was a phased implementation starting in Q1 2020, with some banks joining earlier than others. Where appropriate, we have therefore focused on the period since the confirmation of widespread implementation of CoP in July 2020, for which the data is more complete. We also recognise that there might be a lag in some of the data (for instance, victims having set up a fraudulent payee before the implementation of CoP having realised the loss after a delay).
  - 6 Based on 2020 Faster Payments transaction volumes and values provided to us by Pay.UK.
  - 7 Sub-categories A-D within Category 1 (incorrect account number and/or sort code or payment reference) of the industry-wide Credit Payment Recovery process used to recover Faster Payments and Bacs payments sent in error. These represented around 25% of all misdirected payments in Q4 2020.

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## Relevant types of APP scams<sup>8</sup>

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**Invoice and mandate scams:** The victim attempts to pay an invoice to a legitimate payee, but the scammer intervenes to convince the victim to redirect the payment to an account they control.

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**CEO fraud:** A scammer manages to impersonate the CEO or other high-ranking official of the victim's organisation to convince the victim to make an urgent payment to the scammer's account.

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**Impersonation – police/bank staff:** A scammer contacts the victim claiming to be from either the police or the victim's bank and convinces the victim to make a payment to an account they control.

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**Impersonation – other:** A scammer claims to represent an organisation such as a utility company, communications service provider or government department.

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## Data analysis and techniques

- 3.6** We have carried out our data analysis on the basis of the nominal values and volumes of the relevant types of misdirected payments and the relevant types of APP scams sent by the SD10 banks. We have looked at these as a proportion of all relevant payments in order to strip out any value and volume effects from the underlying Faster Payments system (e.g. as the value and volume of payments rise, it is likely the value and volume of misdirected payments will also rise). We call these figures 'trend-adjusted'.<sup>9</sup>
- 3.7** In terms of data quality, not all SD10 banks have been collecting the same level of granular information, particularly prior to the widespread implementation of CoP in July 2020.
- 3.8** Moreover, CoP has undergone a phased implementation starting in Q1 2020, with some SD10 banks joining earlier than others. This was done in order to reduce the risks associated with onboarding several participants at the same time. There was therefore no clear turning point allowing us to observe the situation pre- and post-CoP. We also recognise that there might be a lag in reporting APP scams or misdirected payments in some of the data, so it might take some time for the impact of CoP to be felt. Where appropriate, we focus our analysis on the period starting with confirmation of the widespread implementation of CoP.
- 3.9** It is important to note that a CoP check is undertaken when setting up a new payee, or when amending the unique identifiers in relation to an existing payee. CoP will, however, not be carried out for payees that were set up before the introduction of the service, even if they were proven to be a fraudulent payee or a misdirected payment later on. The data trends that we present are therefore illustrative of the effects of CoP

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<sup>8</sup> There are eight main types of APP scams, of which four are impacted by CoP. For the full list, see CP21/3 *Authorised push payment scams – call for views* from 11 February 2021.

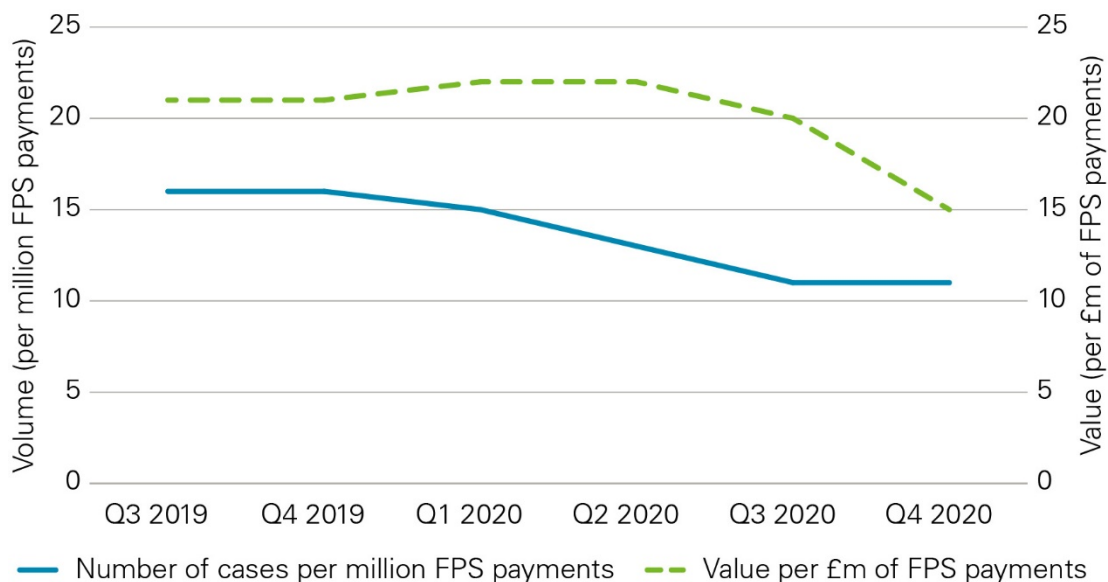
<sup>9</sup> We have equally assessed the impact of CoP at bank level as we are conscious that the timing and manner of implementation might affect CoP's efficacy. Where appropriate, we indicate where bank-specific trends are similar or differ from the SD10 bank trends.

but will understate the impact because they contain misdirected payments and APP fraud for payee relationships that were set up before CoP was implemented.

## Impact on the relevant types of misdirected payments

**3.10** Our analysis shows a decrease in the trend-adjusted values and volumes of the relevant types of misdirected payments. The decrease in the number of cases begins in Q1 2020 which is also when the first of the SD10 banks started enabling customers to send CoP requests. The level then falls further, coinciding with the period that more banks began offering the CoP service, before levelling off at the end of 2020.

**Figure 2: Evolution of the relevant types of misdirected payments by SD10 banks (trend-adjusted)<sup>10</sup>**



Source: PSR analysis of SD10 Bank submissions

**3.11** There remains a question as to why misdirected payments have not fallen further. Although the data might be understating the impact of CoP, it is unlikely that CoP has eliminated misdirected payments. This is because some PSPs have yet to implement the service and CoP checks cannot currently be done in around 10-15% of cases.<sup>11</sup> Similarly, even where a CoP check has provided a no-match or a close-match response, some customers have still gone ahead and made the payment. This is explained further below.

**3.12** An analysis of trends at bank level shows similar trends to the aggregate results. The qualitative evidence we have gathered further confirms these trends.

<sup>10</sup> HSBC Bank plc, HSBC UK Bank plc and Nationwide Building Society are not included as HSBC Bank plc, HSBC UK only reported data for Q2-Q4 2020, and Nationwide only reported data for Q3 and Q4 2020. The trends for Q2-Q4 2020 do not change if these institutions are included.

<sup>11</sup> We estimate that SD10 banks cover 89% of Faster Payments value and 85% of volume.

## Impact on the relevant types of APP scams

- 3.13** Based on the qualitative feedback that we received and our data analysis, we believe that CoP has likely prevented what would otherwise have been a larger increase in the relevant types of APP scams. In addition, although the data submitted by the SD10 banks shows an increase in the relevant types of APP scams, there are several factors impacting this trend that makes it difficult to estimate how APP scams would have evolved in the absence of CoP. We set out the evidence below.

### Evidence of CoP's effectiveness

- 3.14** We have received anecdotal evidence of CoP having had a positive impact, notably by leading to customers abandoning potentially fraudulent transactions. A recent report by the Lending Standards Board (LSB) suggests that a quarter of abandoned transactions for four signatories to the CRM code were due to CoP warnings.<sup>12</sup>
- 3.15** SD10 banks have reported to us examples of situations where customers heeded the CoP warning when setting up a new payee and abandoned potentially fraudulent transactions after seeking further information from the payee and/or their bank.
- 3.16** In other instances, the CoP check stopped the fraudulent transaction in combination with other fraud prevention tools – for instance, in situations where the profile of the customer and the transaction triggered additional warnings.
- 3.17** SD10 banks have confirmed that it is more challenging to systematically identify examples resulting in aborted scams than successful scams. This is because customers generally report scams after they have taken place, and don't generally report aborted transactions that could have been an attempted scam. A transaction may also be abandoned for reasons other than CoP or other warning messages.
- 3.18** It is also important to recognise that there could be variations at bank level, with some PSPs seeing reductions in the relevant types of APP scams. PSPs have highlighted that the lack of consistency in messaging may result in varying customer behaviour and affect the efficacy of CoP. We elaborate on this further in paragraphs 4.34 to 4.36.

### Improved security, enhanced customer confidence and APP scams moving away from CoP-enabled PSPs

- 3.19** Furthermore, both the SD10 banks and other PSPs have confirmed that CoP has improved security and strengthened customer confidence when making a payment to a new payee.

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<sup>12</sup> Lending Standards Board, Review of the Contingent Reimbursement Model Code for Authorised Push Payment Scams, Data Analysis, January 2021, available [here](#).

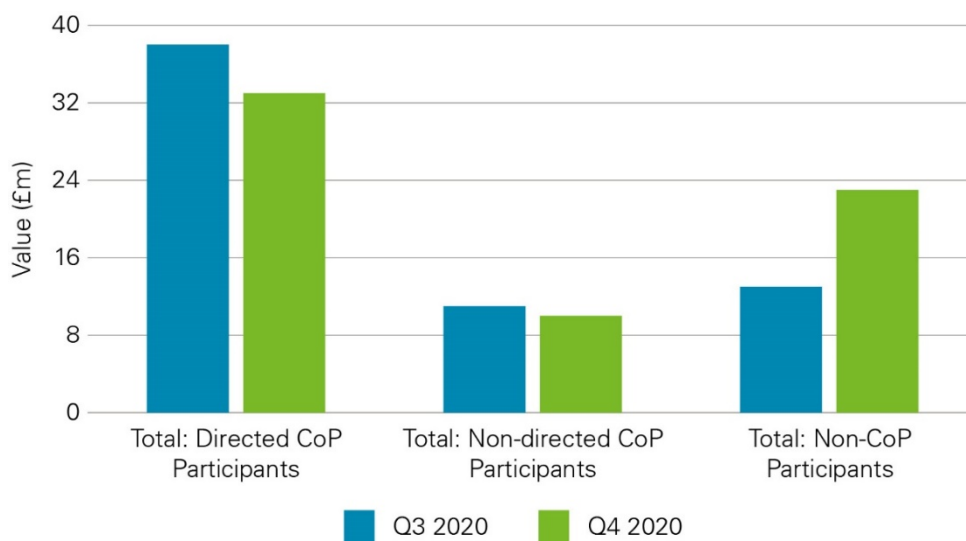


**3.20** In fact, our data analysis demonstrates that there has been a reduction in the relevant types of APP scams sent to CoP-enabled PSPs, while APP scams sent to PSPs not participating in the service have increased.

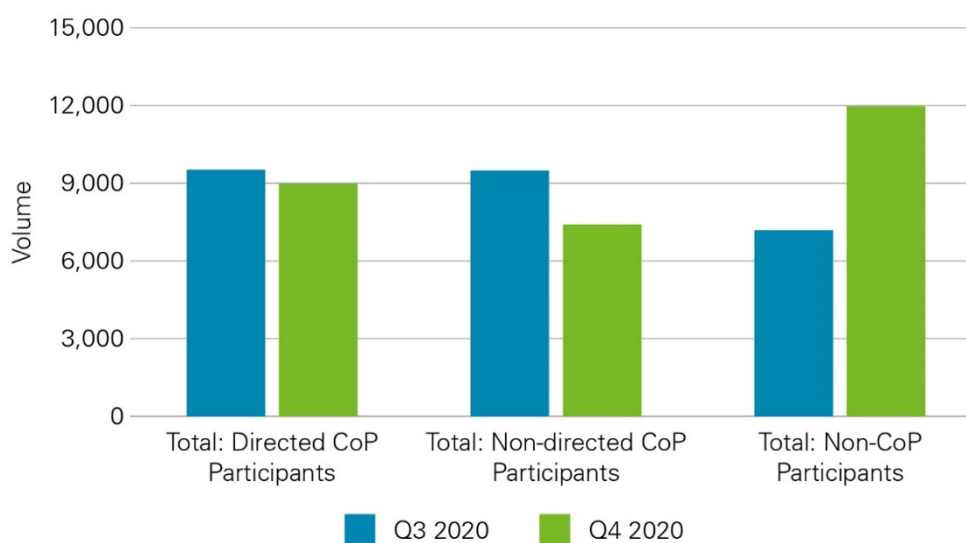
**3.21** Figures 3 and 4 show where the relevant types of APP scams sent from the SD10 banks ended up. Between Q3 and Q4 in 2020, PSPs that have implemented CoP saw a reduction in the value and volume of scams received, while PSPs not offering the service saw an increase. In addition, the volumes of the relevant types of APP scams sent to non-participants have surpassed the volumes sent to the SD10 banks (which are much larger by market share).

**Figures 3 and 4: Distribution of the relevant types of APP scams sent by SD10 banks**

*Relevant types of APP scams by type of receiving PSP (value £m)*



*Relevant types of APP scams by type of receiving PSP (volume)*

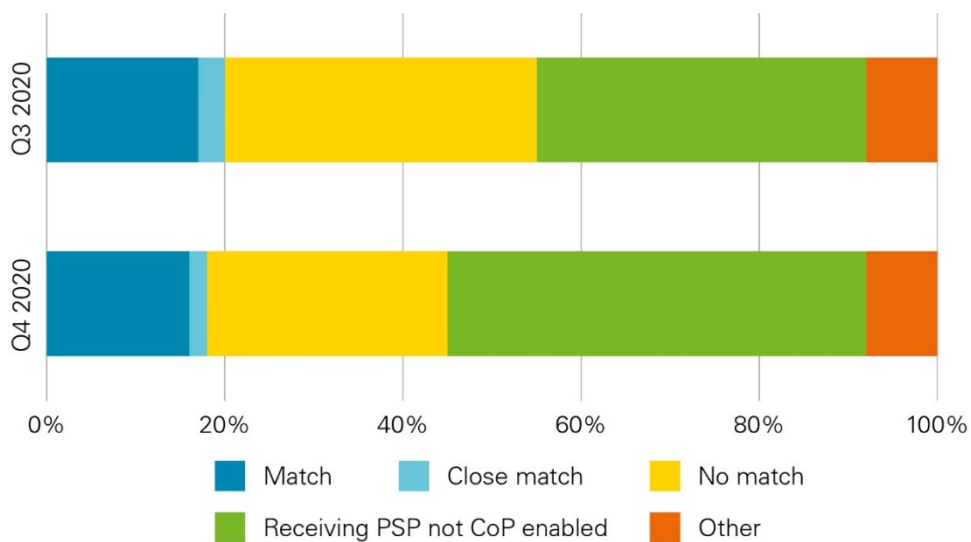


Source: PSR analysis of SD10 Bank submissions

**3.22** Figure 5 below appears to confirm the trend that the relevant types of APP scams are moving away from accounts that can respond to a check of the recipient's name. In particular, it shows an increase in the number of scams sent to institutions that have not yet implemented CoP. It also shows a significant number of scams where customers have proceeded to make the payment to the fraudster despite a negative CoP response or even after receiving a positive match.

**3.23** Besides suggesting that CoP has improved transaction security for PSPs offering the service, this may also suggest that scammers were moving away from accounts that could have the recipient's name checked to those that are not (yet) offering this service. The fact that the CoP service is not universal could therefore be opportunity for APP scams to occur.

**Figure 5: Responses received for the relevant types of APP scams by SD10 bank customers**



Source: PSR analysis of SD10 bank submissions

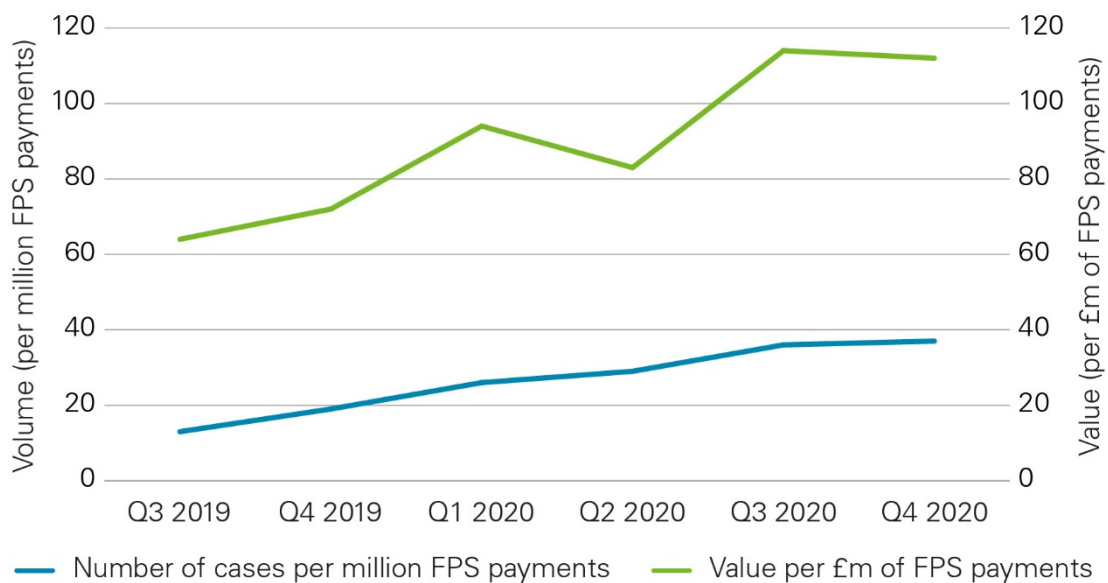
**3.24** The SD10 banks and other PSPs have overwhelmingly confirmed that the relevant types of APP scams are shifting away from CoP-enabled PSPs. This is because CoP gives customers an additional tool to alert them to potential issues. The feedback also confirms that PSPs that have not implemented CoP have seen an increase in customer complaints and that customers may even be discouraged from using PSPs not offering the service due to the differing levels of protections. This has implications for consumers (getting different levels of protection depending which PSP they bank with) and for competition (PSPs who are not yet able to implement CoP might be losing customers). This is why we consider CoP Phase 2 to be important: we expect most of these issues to be addressed through Phase 2, which we elaborate on in the following section.

**3.25** Customers continuing to make payments to fraudsters after a no match or even a positive match is, however, a different and potentially difficult problem to overcome. It may be that the data captures a greater level of social engineering in scams that CoP would not help prevent. It could also be due to the messaging that customers are being faced with, the number of screens that they need to click through ('click fatigue') or the lack of education as to how CoP works.<sup>13</sup> We explore these issues later in this call for views.

### Several factors impacting the growth in the relevant types of APP scams

**3.26** In terms of the evolution of the relevant types of APP scams sent by the SD10 banks, our analysis of the data submitted by the SD10 banks demonstrates that both the trend-adjusted value and volume have increased steadily over 2020. These rising trends continued since the beginning of the implementation of CoP in Q1 2020 and the confirmation of widespread implementation in Q3 2020.

**Figure 6: Evolution of the relevant types of APP scams sent by SD10 banks (trend-adjusted)<sup>14</sup>**



Source: PSR analysis of SD10 bank submissions

<sup>13</sup> As mentioned in paragraph 3.28, it could also be related to misclassifications of APP scams within the data, and the data capturing certain types of scams that are not impacted by CoP (such as romance and investment scams).

<sup>14</sup> Barclays Bank plc has been excluded as they did not provide the breakdown for the relevant types of APP scams. Nationwide's data is included from Q4 2019.

- 3.27** These rising trends do not, however, mean that CoP has not had a positive impact. It is important to recognise that there are several factors likely to be affecting the trends. These include the overall increase in APP scams in 2020, the growth in the use of digital payments as a result of COVID-19, and increased vulnerability of customers due to isolation and loneliness. According to UK Finance, between 2019 and 2020, APP fraud grew by 40% in volume and 5% in value.<sup>15</sup> This in turn makes it difficult to estimate how APP scams would have evolved in the absence of CoP. We elaborate on the impact of COVID-19 further in paragraphs 3.29 to 3.31.
- 3.28** There are equally other qualifications to the analysis:
- a. Firstly, not all SD10 banks have experienced the same trend. Some SD10 banks have experienced significant increases while others have seen their relevant types of APP scams decreasing or levelling off. Indeed, the lack of a common messaging by PSPs may result in differing behavioural impacts on customers and impact the efficacy of CoP. We elaborate on the issue of messaging and warnings in paragraphs 4.34 to 4.36.
  - b. Secondly, of the relevant types of APP scams sent by the SD10 banks, the value and volume received by CoP-enabled PSPs has reduced, while these have increased for non-CoP PSPs. We have elaborated on this in paragraphs 3.20 to 3.24 above.
  - c. Thirdly, there has been an increase in the social engineering of victims by fraudsters, whereby customers are manipulated to either ignore a CoP result or make payment to alternative accounts to avoid a no-match. In such cases, CoP could become less effective. We elaborate on this further in paragraphs 3.29 to 3.31.
  - d. Fourthly, while we have attempted to remove from the data certain types of APP scams that CoP is unlikely to impact (for instance, romance and investment scams<sup>16</sup>), some may still be captured due to reporting issues or the complexity of the scam.
  - e. Lastly, CoP is part of a broader solution to address fraud. There are concurrent proposals being considered to reduce consumer harm caused by APP fraud. We published a call for views in February 2021<sup>17</sup>, and are currently considering the feedback, as well as conducting further analysis on the likely effectiveness of the measures suggested in that document and ways to develop them further.

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15 To 260,000 payments and £479 million respectively. See UK Finance, *Fraud – the Facts 2021* report available. This includes total APP fraud both within and outside the LSB’s CRM code. According to the report, the relevant types of APP scams have increased by 62% in volume and decreased by 9% in value between 2019-2020. The main driver for the reduction in value appears to have been a reduction in both volume and value of Invoice & Mandate scams, which are associated with business customers. By comparison, we restricted our data collection and analysis to fraud covered by the CRM Code sent by the SD10 banks.

16 In those scams the scammer convinces the victim to transfer the money to fictitious accounts or their own accounts.

17 See CP 21/3 *Authorised push payment scams – call for views*, 11 February 2021.

## Social engineering and the impact of COVID-19

- 3.29** We received extensive feedback on the increased social engineering of victims by fraudsters and the growing sophistication of certain scams as a result of CoP.
- 3.30** In order to complement our analysis, we sought anecdotal evidence from the SD10 banks on the impact of social engineering on the efficacy of CoP and the impact of COVID-19 on the relevant types of APP scams.
- 3.31** SD10 banks have highlighted the increased sophistication of fraudsters who manipulate victims to ignore CoP warnings (or even convince victims to transfer funds to mule accounts that get a CoP match). We set out the common trends below:

### **Box 1: The impact of social engineering**

We have seen evidence of scammers using increasingly sophisticated methods to manipulate victims into making a payment despite a negative CoP result. Common techniques include coaching the victim to trust the fraudster and ignore the outcome of CoP in case of a 'no match' or a 'close match' by providing convincing explanations for the lack of a positive result.

A frequent example mentioned to us is the fraudster convincing the victim that a 'new' or 'safe' account has been set up to protect their money which cannot yet yield a CoP match. Once the payee is set up, the victim will no longer receive a CoP warning when sending (further) payment(s).

Similarly, we have seen evidence of fraudsters manipulating customers to transfer money to mule accounts generating a positive CoP match, as a way of convincing them that the transaction is genuine. Fraudsters can further manipulate victims to transfer funds into accounts held with institutions that have not yet implemented CoP or where CoP cannot be offered (e.g. accounts located outside the UK).

### **Box 2: The impact of COVID-19**

SD10 banks have reported that COVID-19 has resulted in an increase in certain types of impersonation scams – notably around vaccinations and high-yield investments.

In addition, they have evidenced changes in the behaviour of both victims and fraudsters as a result of COVID-19, with fraudsters having greater access to potential victims through cold calling, an increase in vulnerable consumers using digital payments, and increased vulnerability due to self-isolation and loneliness.

**Question 1:** Phase 1 trends and impact: Do you have any comments on the trends presented above regarding the impact of CoP on the relevant types of misdirected payments and the relevant types of APP scams? Do you believe that, in light of the decreases in the relevant types of misdirected payments and despite an increase in the relevant types of APP scams, CoP has had a positive impact? Do you believe that CoP has resulted in improved customer experience and confidence in electronic bank transfers?

**Question 2:** Fraud migration and bypassing a no match: Do you agree that the analysis shows that financial institutions that haven't implemented CoP provide opportunities for the relevant types of APP scams to continue to grow? Are there any other type(s) of institution where the relevant types of fraud have migrated to? Do you agree with the analysis showing that scams continue even when a 'no match' occurs? Do you have any views as to how these areas could be addressed in future?

## 4 Phase 2

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- Pay.UK's plan for Phase 2 of CoP will enable further participation by PSPs with unique sort codes through the creation of a dedicated 'CoP-only' role profile in the Open Banking Directory. It will also allow the participation of PSPs which do not have unique sort codes but use secondary reference data (SRD) to address payments to customers.
- Pay.UK has worked with participants to produce a phased implementation timeline for Phase 2. While the SD10 banks are broadly on track to move to the new role profile by the end of 2021, the picture is mixed for smaller PSPs. PSPs have highlighted several dependencies to the timetable.
- PSPs broadly expect that the expansion of CoP will enhance competition between PSPs, as well as strengthen customer confidence in payment journeys. They expect that the CoP-only role profile will reduce timelines and costs, and also make joining CoP simpler.
- PSPs have indicated that including accounts with SRD would require significant technical change, depending on the range of accounts included in scope of Phase 2. For some of those accounts, CoP could be less beneficial. It might make sense for the industry to focus on specific types of accounts that are likely to benefit from this fraud prevention tool and decide whether there are less costly ways to achieve CoP coverage for those accounts than enabling CoP checks for SRD accounts. Some PSPs have mentioned alternative solutions to securing the benefits of CoP for SRD accounts.
- We welcome views on the progress, dependencies and expected costs and benefits for Phase 2. Regarding SRD, we also welcome your feedback on whether certain types of accounts should be excluded from the scope of Phase 2 and whether there are more appropriate solutions. We also welcome views on how well CoP messaging works for customers and how it could be improved.

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### Scope and timeline for Phase 2

- 4.1** Phase 2 of CoP aims to enable further participation in the service by making it possible for all account-holding PSPs to offer CoP and ensuring widespread implementation of the service.
- 4.2** The scope of Phase 2 covers changes to the Open Banking Directory to enable PSPs with unique sort codes to join CoP through a dedicated 'CoP-only' role profile. Currently participants must be a full member of Open Banking to be able to offer CoP. The implementation of a message simulator and a requirement to use automated onboarding will allow for the centralised testing and simplified onboarding of new

participants, as opposed to the current practice of manually onboarding each participant and an interbank testing system. The CoP-only role profile will reduce the costs and timelines for joining CoP by giving more PSPs the technical capability to join without requiring full Open Banking membership.

- 4.3** In addition, Pay.UK's plan is that Phase 2 will also enable CoP to be offered for customer accounts that are not uniquely addressable by a sort code and account number, but instead rely on their PSP to credit their account via SRD – i.e. using the reference field in the payment with a further unique identifier. These typically include accounts in PSPs operating a collection account with a sponsor bank and building societies that use roll numbers. They can also include HOCAs<sup>18</sup> for credit cards, mortgages, savings accounts and loans.
- 4.4** Some of these accounts may derive less benefit from CoP as they are less likely to be subject to the types of fraud or misdirected payments which CoP can prevent. For this reason, it might make sense for the industry to focus its efforts on SRD accounts that allow for transactions both into and out of them as these are more likely to benefit from CoP. In doing so, there might be scope to consider whether there could be alternative, potentially less costly solutions to securing the benefits of CoP for SRD accounts than creating a specific CoP solution for them. We elaborate on this further in paragraphs 4.17 to 4.24.
- 4.5** Pay.UK has worked with participants to produce a phased implementation timeline for Phase 2. The current schedule is as follows:
- a. The Open Banking Implementation Entity (OBIE) to create a CoP-only role profile in the Open Banking Directory and make it available for enrolment by the end of June 2021. Pay.UK plans to make the Phase 2 environment available to participants for testing by the beginning of July 2021.
  - b. PSPs to implement the CoP-only role profile and onboard new participants with unique sort codes by the end of 2021.
  - c. A parallel running of the Phase 1 and Phase 2 environments until the end of Q1 2022, with the Phase 1 domain subsequently being wound down.
  - d. CoP participants to be able to request a CoP check where the payee account details use SRD and SRD accounts enabled to respond to CoP requests by the end of H1 2022. This will necessitate the creation of reference data that can be used to identify SRD accounts, which will be held within the existing directory structure.<sup>19</sup>
  - e. After enabling Phase 2 by the end of June 2021, Pay.UK will only accept applications to join CoP in the Phase 2 environment.

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18 Where a PSP uses an account receiving money to aggregate sums of money before sending them to the relevant accounts of individuals.

19 The current Pay.UK plan provides that priority is given to sending SRD with the request in order to enable responding at SRD account level. Responding at SRD level is optional.



## Progress

- 4.6** Our engagement with the industry so far has shown that the SD10 banks are broadly on track to move to the CoP-only role profile and onboard new participants by the end of 2021. Pay.UK provided final versions of the documentation, including the rulebook, at the end of March 2021.<sup>20</sup>
- 4.7** The remaining existing CoP participants will also need to move to the CoP-only role profile, and the timetable appears more mixed for them.
- 4.8** Some prospective participants still wish to join (or are in the process of joining) CoP under Phase 1 (even though the Phase 2 CoP-only role profile will be available from the beginning of July 2021). These PSPs have signalled that they would like additional time to get used to the Phase 1 system, to complete their joining process, or to join Phase 1, prior to making further changes to accommodate Phase 2. Other PSPs have signalled to Pay.UK that they are now planning to implement in Phase 2, rather than Phase 1, now that the timetable provides more certainty.
- 4.9** The picture is equally mixed for non-directed PSPs yet to take steps towards joining CoP. While some of them have indicated that they plan to deliver CoP by the end of 2021, others have not yet included CoP in their 2021 budgets or are still working out the cost implications and obtaining appropriate resources. In order for new joiners to be able to begin sending CoP requests and obtain a response from the larger banks (that account for the majority of payments), SD10 banks would have to be present in the Phase 2 environment – see paragraph 4.15.
- 4.10** With regards to the inclusion in CoP of accounts addressable by SRD, we have received feedback on the timelines, costs and benefits which we set out in the sections below.

## CoP-only role profile

- 4.11** PSPs have highlighted a number of technical, budgetary and regulatory dependencies to the completion of the Phase 2 timeline.
- 4.12** In terms of technical dependencies, PSPs have specified the need for Pay.UK to provide the final documentation, including the operating guide, technical specifications, the rulebook, test pack, the testing simulator containing the centralised testing facility, and the already available Open Banking-defined automated onboarding service. We understand that Pay.UK has made the final versions of the documentation available at the end of March 2021. The testing simulator is expected for delivery at the beginning of July 2021.

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<sup>20</sup> Pay.UK expects that the final versions of the documentation will be formally endorsed by its relevant governance bodies in June 2021.

- 4.13** Some PSPs have indicated that there is currently significant demand for certain third-party services required to deliver CoP Phase 2, including cloud infrastructure delivery resources, API interface development and application building. Third-party solutions are especially relevant for smaller PSPs as they can offer lower costs by servicing several PSPs concurrently. In particular, there might be a limited number of third-party providers with the required experience and service to support the CoP requirements, as well as the capacity to support multiple initiatives. Some PSPs have also alluded to the length of the supplier onboarding and due diligence required to enable a third-party provider to offer a CoP solution on their behalf.
- 4.14** In terms of budget, most SD10 banks and some non-directed PSPs have either allocated or provisioned budgets to begin work on Phase 2. One SD10 Bank and some non-directed PSPs have, however, not yet allocated budgetary resource. Several PSPs have pointed out that the lack of a regulatory requirement to implement Phase 2 is a factor impacting their planning given the presence of other projects in the regulatory pipeline, concurrent consultations in the payments arena, other transformation projects and COVID-19 having an impact on their investment budget. This indicates that the PSR formally directing relevant PSPs could speed up the implementation of Phase 2.
- 4.15** PSPs have stressed that the migration of the SD10 banks to the CoP-only role profile is a key dependency in their planning. Given that most of the CoP requests are made by or sent to the SD10 banks, their presence is necessary to ensure that they are reachable within the CoP-only role profile in the Phase 2 domain. If some of the SD10 banks were not to migrate or delay migrating to the new CoP-only role profile, they would be unreachable to new Phase 2 joiners. This could result in smaller PSPs delaying joining CoP until the SD10 banks have moved to the Phase 2 environment and act as a potential barrier to development planning for prospective participants.
- 4.16** Some institutions have highlighted that although it may be necessary for Phase 1 participants to move to the Phase 2 environment at the same time, migration planning for Phase 1 participants has not yet been done at industry level. Some PSPs have indicated that challenges could arise with simultaneously onboarding a large number of participants and have proposed that the go-live dates be sequenced with an end-date for completion. In order to enable them to plan for Phase 2, certain PSPs have highlighted the need for transparency by Pay.UK as to the schedule of the Phase 2 delivery dates. Third-party providers may also need access to the CoP rulebook to allow them to develop their service offering prior to marketing it to PSPs wishing to outsource their CoP solution.

**Question 3: Phase 2 progress and dependencies: Do you have any comments on the progress and dependencies of Phase 2 and the CoP-only role profile presented above? Are there any other dependencies or barriers that you would like to highlight?**

## Secondary Reference Data (SRD)

- 4.17** Phase 2 will also enable participation by institutions and accounts that do not use unique sort codes, but address customers via SRD. In order for certain smaller PSPs with SRD accounts to be able to participate in CoP and respond to CoP requests, existing participants would need to be enabled to collect and send SRD. This would make a name check available on SRD accounts.
- 4.18** We have received extensive feedback on the inclusion of SRD accounts in Phase 2. PSPs seem to agree that it is beneficial to include SRD accounts to extend CoP and add a level of reassurance for customers. This is especially relevant for high-value transactions, such as mortgage and loan repayments – for which there is a relatively high incidence of accidentally misdirected payments. Some PSPs have also indicated that offering CoP on SRD accounts would lead to reduced friction in payment journeys and related customer enquiries.
- 4.19** Most PSPs, however, highlighted the extensive changes that would be required in terms of developing their internal process to identify SRD accounts and to build in CoP across the large variety of accounts that are currently being offered using SRD. In order to make SRD accounts CoP-discoverable, significant work would be required by PSPs with SRD accounts, which would need to have the capability to respond to CoP requests. Other PSPs would also have to begin supporting SRD handling when sending CoP requests in order to enable them to capture SRD information. This would require changes to systems and processes across channels, brands and platforms. As a result, there could be significant cost implications for the whole industry.
- 4.20** Depending on the range of accounts to be included in Phase 2, change would be required across multiple channels and platforms, increasing cost and complexity and potentially resulting in delays to the delivery timetable. As an example, a PSP mentioned that, in order to ensure cloud security and PCI DSS compliance, the cost of the changes required to handle primary account number (PAN) information related to credit cards could be as high as their entire Phase 2 budget for all other required changes (i.e. it could double the cost of phase 2 implementation). There are, however, certain smaller PSPs, such as electronic money institutions, that rely solely on PAN information as SRD without which they could not participate in CoP.
- 4.21** As there is currently no consensus on the scope of SRD accounts to be covered by Phase 2, PSPs have indicated that certain accounts should be prioritised over others in order to coordinate approaches and focus CoP where it would bring most benefit.

- 4.22** Several PSPs have asked whether it would make sense to exclude certain types of SRD accounts from Phase 2, such as credit card and mortgage accounts. This is because the nature of some SRD accounts means that they are not generally as vulnerable to fraud as they do not have the option to send the funds onwards. Some building societies confirmed that their accounts only allow funds to be transferred to nominated accounts that have restricted withdrawal capabilities, which mitigates their use for fraud and makes it easier to recover any accidentally misdirected payments.<sup>21</sup>
- 4.23** In contrast, some building societies that offer current accounts, as well as other accounts that allow transactions to third parties, have voiced their support to being included in CoP. They recognise the expected benefits in terms of reducing accidentally misdirected payments and enhancing fraud prevention. Some of them also expect CoP will enhance customer confidence by creating a payment journey that is currently offered by other PSPs. For this reason, some PSPs have asked whether the industry should focus its efforts on SRD accounts that allow for transactions both into and out of them as these are more likely to benefit from CoP as fraud prevention tool. In doing so, there could potentially be alternative solutions to bring CoP to SRD accounts to building SRD capability within CoP. This includes the possibility of introducing unique sort codes and account numbers for SRD accounts to enable them to be included in the service through the CoP-only role profile. This could be especially relevant for PSPs that are in the process of phasing out their SRD account books, thereby giving any CoP solution specific to SRD accounts a limited lifespan. This is likely to be a decision for the industry to make as it has better sight of the costs and benefits to make this decision.
- 4.24** Similarly, PSPs have also mentioned the option of expanding the Biller Update Service operated by Bacs. This provides participating organisations with a centrally managed facility to update and disseminate biller information, and services a wider range of accounts and PSPs.

**Question 4: Costs and benefits of including SRD accounts: Do you have any comments on the specific costs and benefits of including SRD accounts in CoP Phase 2? Are there any other potential costs or benefits that you would like to raise? Do you have any comments on whether there are certain types of SRD accounts which would not yield a significant benefit from CoP, and/or whether the industry should focus its efforts on SRD accounts that allow for transactions to both into and out of them?**

**Question 5: Alternative solutions for SRD accounts: Do you have any comments on whether the alternative solutions presented above could bring the benefit of CoP at a lower cost than creating a specific CoP solution for SRD accounts? Do the alternative solutions have any downsides?**

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<sup>21</sup> These will be refunded, as unduly enriched customers cannot withdraw the money and spend it. It is equally likely to be obvious to the customer that the payment was misdirected as it does not originate from the usual account used to repay the mortgage or loan.

## Expected benefits of Phase 2

### Enhancing competition between PSPs

- 4.25** Phase 2 will broaden the CoP ecosystem in terms of the participating firms, as well as the range of accounts that can be checked. These include:
- PSPs that do not own their own sort codes in the Extended Industry Sort Code Directory (EISCD)
  - PSPs regulated by non-PSD2 National Competent Authorities (i.e. those in Crown Dependencies)
  - smaller PSPs having difficulties to meet the full Open Banking membership requirements
  - other types of accounts not currently reachable by CoP, notably those using SRD.
- 4.26** Phase 2 will make CoP a viable proposition for smaller PSPs, as well as large banks with a smaller domestic and retail presence in the UK, thereby promoting a level playing field. The CoP-only role profile would reduce the costs and timelines for joining CoP by giving more PSPs the technical capability to join without requiring full Open Banking membership.
- 4.27** The onboarding process for new participants will be simplified and automated through a 'Dynamic Client Registration' process. Testing and certification will also be centralised and automated through a simulator; the manual onboarding system and interbank testing will be removed. This will in turn streamline onboarding and reduce joining costs, technical costs related to onboarding and overheads.
- 4.28** Furthermore, Phase 2 will offer CoP checks on payments where this is not currently possible due to the sending or receiving bank not being part of the service. PSPs have noted that demand for CoP has grown with more PSPs enrolling in the service, customer volumes increasing and the increase in electronic payments as a result of COVID-19.

### Strengthening consumer protections, improving customer experience and enhancing customer confidence

- 4.29** PSPs have pointed out that greater CoP participation would enhance customer experience and build confidence in the payment journey by increasing the likelihood of being alerted to potential issues. Both the SD10 banks and smaller PSPs expect that extending the service to more PSPs would have a positive impact on accidentally misdirected payments, as well as address the current trend of the relevant types of APP scams migrating to non-participating PSPs. As potential participants increase, PSPs expect the benefits of CoP to increase over time too. This universality of service will enhance competition by allowing PSPs that currently don't participate to offer their customers similar levels of protection across a greater variety of payment journeys.

- 4.30** Some PSPs have also indicated that broader CoP participation would alleviate issues posed by some institutions not participating. These issues include increased customer complaints, customers facing additional friction in the payment journey, and customers being discouraged from using or sending to PSPs that don't offer the service.

## Key dependencies

- 4.31** As noted above, SD10 banks will need to be present in the Phase 2 environment to ensure that CoP is a viable proposition for smaller PSPs. The majority of the PSPs have indicated that a delay to the Phase 2 timetable could result in certain banks reconsidering their plans, requiring longer technical engagement and the reconvening of recourse, as well as a longer dual running period of the Phase 1 and Phase 2 domains. This in turn could increase cost and complexity.
- 4.32** In addition, some smaller PSPs have emphasised that there are significant lead times once they begin delivery work or instruct a third-party supplier. These could risk being extended further if the timeline for Phase 2 is uncertain.
- 4.33** A number of medium-sized PSPs that do not currently offer CoP have, however, said that extending the dual running period of Phases 1 and 2 would allow them to focus on completing their delivery of Phase 1 while assessing the potential benefits of the future rollout of CoP to additional channels.

**Question 6: Phase 2 benefits and costs: Do you have any comments on the benefits of CoP Phase 2 presented above? Are there any other potential costs or benefits that you would like to raise?**

## Messaging and warnings

- 4.34** Some PSPs and consumers have highlighted that there might be lack of consistency in CoP messages across PSPs – notably in relation to what a positive or negative match may be telling the customer. In addition, they suggested that some messages might lead to confusion when a payee's name cannot be checked due to the receiving PSP not being part of CoP. In such cases, it may be unclear to the customer if the warning received is due to a no match rather than the inability to perform a CoP check. We would expect this to become less of an issue with broader PSP participation in CoP, but it may remain an issue in the transition.
- 4.35** PSPs have also mentioned that the number of CoP and APP scam warnings displayed by some PSPs could be leading to message/click fatigue or customers abandoning genuine transactions. This issue can be made worse by a lack of education as to how CoP works. In this regard, we are aware of the work undertaken by the Open Banking Implementation Entity on how best to shape more targeted CoP and Contingent Reimbursement Model (CRM) warnings in Open Banking payment journeys, which could have wider implications beyond Open Banking payment journeys.

**4.36** We are keen to understand views on the consistency of messages and warnings customers receive when setting up a new payee and undertaking a CoP check. We would also be interested in any suggestions for additional actions or changes that could lead to better outcomes. We note, for example, the high level of CoP relevant app scams that have a no-match associated with them.

**Question 7: Messaging and warnings: Do you have any comments on how CoP messaging works and how this could be improved in order to avoid the issues raised above – for instance, by standardising messaging? What other enhancements could be brought to the CoP service?**

# 5 Policy responses

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- Based on the information presented in this document, the responses received, and further analysis we conduct, we will be considering whether to take any further policy action for CoP.
  - This includes policy action in relation to issuing a further direction to facilitate Phase 2, bringing about improvements to the service, and the future of SD10.
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## Phase 2

- 5.1** Based on responses to this call for views, we will be considering whether to take any policy action to ensure effective implementation of Phase 2 and ensure broader PSP participation in CoP. We will be considering whether it would advance our statutory objectives, and be effective and proportionate, to issue a direction requiring PSPs to take specific steps to enable or advance delivery of Phase 2, as well as which PSPs to direct.
- 5.2** It is likely that SD10 will become out of date, due to the development of Phase 2 and the eventual wind down of Phase 1. We are therefore minded to revoke SD10, subject to any necessary transitional and saving provision, on the basis that it will be technically redundant once Phase 2 is implemented, and parallel running is no longer required. We also believe that SD10 has achieved the objective of ensuring widespread implementation of Phase 1 amongst the SD10 banks, as well as reducing accidentally misdirected payments and APP fraud amongst SD10 banks. In particular, if the PSR makes a new direction to support Phase 2, it would make sense to revoke SD10, with any provisions of SD10 that are still needed being carried through into the new direction.
- 5.3** We are now looking to consolidate the benefits of Phase 1, and further the aims and objectives of CoP, by enabling Phase 2. More specifically, we are minded to direct the SD10 banks to migrate to the Phase 2 CoP-only role profile by the end of 2021 in line with the timeline established by Pay.UK. This is to ensure the SD10 banks' timely presence in the Phase 2 environment and minimise the knock-on impact that any potential delays could have on the plans of smaller PSPs to join Phase 2. An eventual direction would likely also seek to ensure a dual run in both the Phase 1 and Phase 2 environments for a period thereafter in order to lay the foundations for smaller PSPs joining Phase 2.
- 5.4** Indeed, the information gathered by the PSR suggests that prompt participation by more PSPs in CoP would provide ubiquity of service and therefore strengthen CoP's benefits in terms of increasing transaction security and enhancing customer confidence in payment journeys. Besides improving competition between PSPs, broader PSP participation in CoP would also tackle misdirected payments and APP fraud, including the current trend of the relevant types of APP scams migrating away from CoP-enabled PSPs to PSPs that do not offer the service.



**Question 8: Directing migration by SD10 banks to Phase 2: Do you think we should direct the SD10 banks to move to the Phase 2 CoP-only role profile environment by the end of 2021? Is it also important to include in any such direction a period of dual running for Phase 1 and 2 ending in Q1 2022, as currently foreseen by Pay.UK?**

**5.5** In addition to directing the SD10 banks to move to the Phase 2 environment by the end of 2021, we are also considering whether we need to direct non-SD10 PSPs to implement Phase 2 by a specific deadline.

**Question 9: Directing Phase 2 implementation by non-SD10 PSPs with unique sort codes: Do you have any comments on whether we ought to direct non-SD10 PSPs with unique sort codes to implement Phase 2, in addition to the SD10 banks? In particular:**

- a. **Should we direct non-SD10 Phase 1 participants to move to the Phase 2 environment, and/or PSPs that have not yet adopted CoP to implement CoP under Phase 2? If so, by what date? Are there any specific PSPs or groups of PSPs that we ought to prioritise and/or exclude from an eventual direction, such as medium sized and/or small financial institutions?**
- b. **Should we direct PSPs to develop both the responding and sending capabilities for CoP, or responding or sending only?**
- c. **Is a PSR direction the best way to achieve the necessary changes? Do you have any other suggestions to achieve these changes?**

**Question 10: Enabling CoP participation by SRD accounts: In relation to SRD accounts, do you have any comments on the following:**

- a. **For those SRD accounts where CoP would be beneficial, is a PSR direction to deliver a specific CoP capability for these accounts the best way to achieve the necessary changes? Do you have any other suggestions to achieve participation in CoP by those accounts, such as the alternative industry-led solutions in paragraphs 4.23 to 4.24 ? Do you have any comments on the costs of the industry introducing unique sort codes and account numbers for (certain types of) SRD accounts?**
- b. **If a PSR direction were to be needed, should we direct the SD10 banks to implement the capability to send SRD information by the end of H1 2022 in accordance with the timeline established by Pay.UK? Should we direct PSPs beyond the SD10 banks to deliver this capability?**
- c. **Should we also direct PSPs that offer SRD accounts to implement CoP responding capabilities for SRD accounts by the end of H1 2022 in accordance with the timeline established by Pay.UK?**

- 5.6** We are inclined to ensure that Pay.UK coordinates the go-live dates for Phase 2 participants, if need be, in order to pre-empt any challenges that could arise with onboarding several participants at the same time. Pay.UK would share the schedule of the Phase 2 delivery dates and provide access to the CoP rulebook with third-party providers in order to allow them to develop their service offering to PSPs wishing to outsource their CoP solution.

## Enhancing the service

- 5.7** We will consider whether Pay.UK should carry out oversight improvements to the CoP service – particularly in relation to the consistency of the messages that users see during the CoP check. This could include Pay.UK requiring formal approval of the language and icons used as part of the messaging, as well as overseeing interaction with other automated warnings. We will also consider Pay.UK’s role in terms of monitoring compliance with its rules, standards and operating guidance.

**Question 11: Pay.UK’s role: In view of Pay.UK’s role described in paragraphs 1.10 and 2.2, do you have any comments on whether we ought to require Pay.UK to have a greater role in terms of the CoP messaging? Do you have any comments on the role we should require Pay.UK to play in monitoring adherence to the CoP rules, standards and operating guidance, and communicating relevant statistics?**

## Future of SD10

- 5.8** As noted above, we are inclined to revoke SD10 subject to any necessary transitional and saving provision, on the basis that it will be technically redundant once Phase 2 is implemented, and parallel running is no longer required. We also believe that it has achieved its objective of ensuring widespread adoption of CoP, as well as reducing accidentally misdirected payments and APP fraud amongst SD10 banks. We are now looking to consolidate the benefits of Phase 1, and further the aims and objectives of CoP, by enabling Phase 2. We will provide more information on any plans for revoking SD10 in our follow up to the call for views.

**Question 12: Future of SD10: Regarding the future of SD10:**

- a. **Do you believe that SD10 has achieved its objectives, will be technically redundant once Phase 2 is implemented, and should therefore be revoked?**
- b. **Should SD10 be revoked in circumstances where there is no direction in relation to CoP Phase 2? Are there any elements of SD10 that should be continued into any future direction, and how long should these be for?**

## 6 Next steps

### Respond to this call for views

- 6.1** We are asking for feedback on the questions set out in this paper by **5pm on 30 June 2021**. We welcome feedback from all stakeholders and interested parties, not only entities that we regulate.
- 6.2** You can provide your feedback by emailing us at **COP@psr.org.uk**. We would be grateful if you could provide your response in a Word document (rather than, or as well as, a PDF).
- 6.3** We will make all non-confidential responses available for public inspection. If you want to claim commercial confidentiality over specific items in your response, you must identify those specific items which you claim to be commercially confidential. Therefore, when submitting your response, please highlight any parts of it which you consider should be redacted before publication due to confidentiality.

### Timetable

- 6.4** The timetable for this consultation and the subsequent process is as follows:

<b>30 June 2021</b>	Call for views closes
<b>July-August 2021</b>	The PSR considers the responses and consults on next steps
<b>September-October 2021</b>	Follow-up policy statement with direction(s) if appropriate

# Glossary of terms

Expression or abbreviation	Definition
<b>CoP</b>	Confirmation of Payee, a service that checks the name of the payee against the account details given by the payer in electronic bank transfers.
<b>CoP-only role profile</b>	A dedicated role profile in the Open Banking Directory, created as part of Phase 2, allowing new participants with unique sort codes to join CoP without becoming a full member of Open Banking.
<b>FSBRA</b>	Financial Services (Banking Reform) Act 2013.
<b>Head Office Collection Accounts (HOCAs)</b>	An account used by businesses to collect funds from clients that may be routed by a further secondary reference code, such as a building society roll number.
<b>Open Banking Implementation Entity (OBIE)</b>	Created by the Competition and Markets Authority in 2016 to deliver Open Banking – an initiative that enables customers to initiate payments or share account related information via third-party providers.
<b>Pay.UK</b>	The operator of the Bacs, Faster Payments and Cheque Image Clearing systems, and the operator of the Confirmation of Payee (CoP) service setting the CoP rules and standards.
<b>Phase 1 (CoP)</b>	Implementation of CoP by the UK's six largest banking groups. In July 2020, the PSR confirmed that implementation was widespread with certain agreed exceptions on a small number of accounts with technical challenges. A number of non-directed PSPs have also joined the service voluntarily.
<b>Phase 2 (CoP)</b>	The next phase of CoP which will enable more PSPs using unique sort codes to participate in the service. It will also allow PSPs using secondary reference data (SRD) to identify customers to participate in the service.
<b>PSPs</b>	Payment service providers such as banks, Building Societies, E-money Institutions and other account holding Payment Institutions.
<b>SD10</b>	Specific Direction 10 issued by the PSR in August 2019 (varied in February 2020) directing the UK's six largest banking groups to introduce CoP for Faster Payments and CHAPS transactions by 31 March 2020.

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Expression or abbreviation	Definition
<b>SD10 banks</b>	The banks directed by the PSR under Specific Direction 10. These are: Bank of Scotland plc, Barclays Bank UK plc, Barclays Bank plc, HSBC Bank plc, HSBC UK Bank plc, Lloyds Bank plc, National Westminster Bank plc, Nationwide Building Society, Royal Bank of Scotland plc, Santander UK plc and Ulster Bank Limited.
<b>Secondary reference data (SRD) accounts</b>	Customer accounts that are not uniquely addressable by a sort code and account number, but instead rely on their PSP to credit their account via SRD – i.e. using the reference field in the payment with a further unique identifier. These typically include accounts in PSPs operating a collection account with a sponsor bank and building societies that use roll numbers. They can also include HOCAs for credit cards, mortgages, savings accounts and loans.
<b>Sort Code</b>	A six-digit number, usually written as three pairs of two digits, used to route payments in certain interbank payment systems.

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PUB REF: CP21/6

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