Payment Systems Regulator

Response paper

Confirmation of Payee

Response to our call for views CP21/6

October 2021

RP21/1

Contents

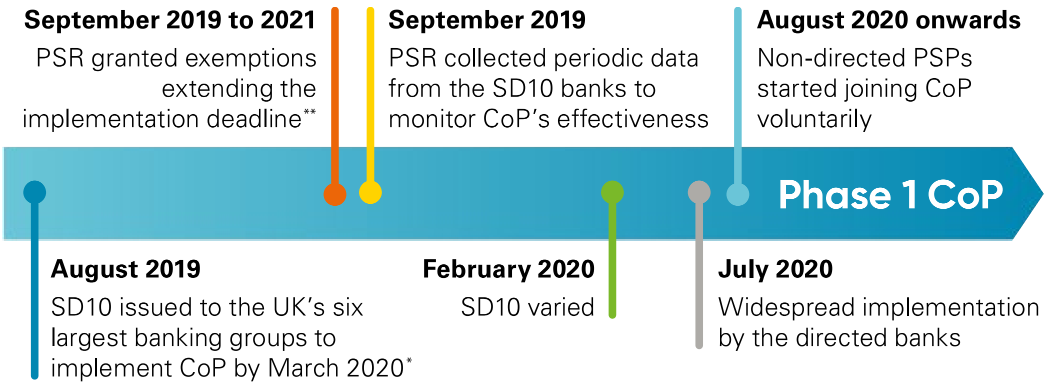
1 Executive summary

1.1 Our analysis has shown that Phase of 1 of Confirmation of Payee (CoP) has had a positive impact, both in terms of reducing accidentally misdirected payments and in preventing what would have likely been a larger increase in Authorised Push Payment (APP) scams, in light of COVID-19 and the increased manipulation of victims by fraudsters. We have also seen that it has mitigated payment risk and strengthened consumer confidence in digital payments. This is why we believe that wider implementation of CoP is necessary to protect a greater number of users of payment systems.

1.2 Every year thousands of individuals and businesses fall victim to 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. The latest figures show that in the first half of 2021, £355 million were lost to APP scams, overtaking card fraud losses.[1]

1.3 CoP seeks to reduce certain types of accidentally misdirected payments and APP fraud in electronic bank transfers by checking the name on the recipient's account. This gives users confidence that they are sending payments to the right place and takes away a lot of the risk of fraud.

1.4 We want payments to work safely and securely for consumers, including for those that are vulnerable. For this reason, we have consistently considered the widespread adoption of CoP in UK payments to be a key priority. This is why we directed the UK's six largest banking groups to introduce CoP over Faster Payments and CHAPS transactions. There are now more than one million CoP requests every day. Below is a timeline of actions we have taken to date.

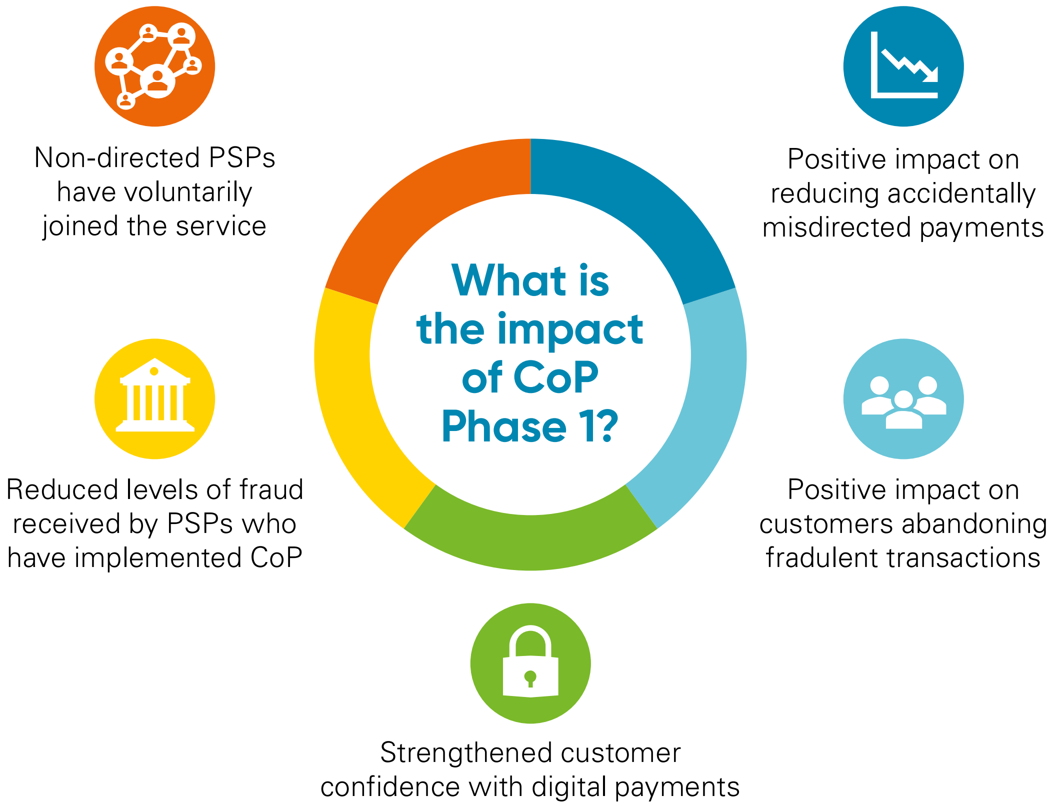


* The SD10 banks represent 90% of transactions over Faster Payments and CHAPS. Due to COVID-19 and resulting pressures, we gave the SD10 banks until end of June 2020 to complete implementation.

** Exemptions granted on a small number of accounts facing technical challenges to implementation.

1 See UK Finance, half year fraud update – 22 September 2021.

1.5 Our ongoing work is the continuation of the journey we started when we directed the Specific Direction 10 (SD10) banks to implement CoP, and it represents our ambition to see more payment service providers (PSPs) join the service, including PSPs that do not use the same reference information as Phase 1 PSPs. This will ensure more consumers can benefit from the protections afforded by CoP and level the playing field between PSPs.



1.6 But there is more to be done following Phase 1, and we recently set out in our Call for Views (CfV) the policy responses we could take for Phase 2 to ensure CoP works for even more consumers. We were told:

- there continues to be a migration of the relevant types of APP scams towards institutions that have not yet implemented CoP, and this has created opportunities for fraudsters to target firms not offering the service
- there has been increased social engineering of victims by fraudsters to convince customers to ignore 'no match' warnings. In some cases, fraudsters may even use the added level of confidence offered by CoP to manipulate victims into sending money to mule accounts
- the presence by the SD10 banks in Phase 2 (accounting for 90% of transactions across Faster Payments and CHAPS) is key to enable prospective participants to progress their plans to join CoP and ensure interoperability for new participants. Since our CfV, the SD10 banks have made a public commitment to be present in Phase 2 by the end of 2021

1.7 For these reasons, and based on the responses we received, it is likely we will need to take further action to ensure more institutions implement CoP to give greater safety for consumers when they make electronic bank transfers:

- We have welcomed the SD10 banks' commitment to be present in Phase 2 by the end of 2021.[2] Pay.UK, which sets the rules and standards for CoP, has equally been delivering the required capabilities to the agreed timelines, and has told us that all other Phase 1 participants have expressed their support for the industry delivery plan to be present in Phase 2 by December 2021. We will continue to engage with industry and Pay.UK to monitor delivery. If appropriate we will act – for example, should progress falter.

- We think ending the dual running period between the Phase 1 and Phase 2 domains at its planned date of March 2022 could provide a deadline for all CoP flows to be migrated to Phase 2 and provide confidence to prospective participants. It would also avoid the additional costs of extending the parallel operation of the Phase 1 and Phase 2 domains. We plan on consulting on this later in 2021.

- We think revoking SD10 might be appropriate, given that it has achieved its original aims and that the wind-down of Phase 1 would render the direction redundant. We plan on consulting on how we might achieve this later in 2021.

- We will continue to assess whether we need to direct PSPs not currently offering CoP to their customers to join the service. These include both PSPs with unique sort codes, as well as PSPs that rely on secondary reference data (SRD) to identify customers. We will consider all available evidence and decide whether it is necessary and appropriate to issue a further consultation in early 2022.

1.8 We were also told that existing warnings during CoP checks might cause confusion to customers and that more consistency is needed. The feedback we received shows that it is presently unclear whether standardised messages would provide additional benefit to those who use the CoP service.

- Existing participants are broadly content with the minimum messaging standards set by Pay.UK and feel issues were more likely to be related to Pay.UK's approach to enforcing those standards.

- Other respondents to our CfV argued there is a need for a consistent payment journey and standardised wording for CoP warning messages (including style, position and visual presentation) to achieve this.

- We would like Pay.UK to be proactive in investigating this and where appropriate make changes to their rules and standards, such as issuing firmer guidance on messaging standards for new participants. We would like to understand if there are any gaps due to minimum messaging standards being open to broader interpretation than originally envisaged, whether they are effective, or whether the implementation by some PSPs do not meet those standards.

2 https://www.psr.org.uk/media/5xwi4ez2/20210721-psr-response-to-sd10-bank-letter-cop-only-role-profile.pdf

Next Steps

1.9 Over the next few months:

a. we will continue monitoring the progress by the SD10 banks and the other Phase 1 participants to be present in Phase 2 by the end of 2021

b. we will consult in Q4 2021 on whether we will require the end of dual running by a specified date in 2022 and revoking SD10

c. we will decide whether we need to intervene to direct delivery of the remaining parts of Phase 2, notably implementation of CoP by non-participants and delivery of the SRD capability

2 Introduction

- The aim of CoP is to reduce certain types of accidentally misdirected payments and 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 SD10, we directed the UK's six largest banking groups to implement CoP. We confirmed widespread implementation in July 2020. Several other PSPs have also voluntarily joined the service. Since then Pay.UK, the operator of the CoP system, has issued the final rules and standards for CoP Phase 2.
- We issued a CfV to gather feedback on the impact and progress of CoP, the dependencies and expected costs and benefits of Phase 2, and potential policy options for ensuring broader participation. We received 40 responses, from stakeholders across a range of sectors and with a range of perspectives, which we summarise in this document.

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 We want payments to work safely and securely for consumers, including for those that are vulnerable. For this reason, we have consistently considered the widespread adoption of CoP in UK payments to be a key priority and directed[3] the UK's six largest banking groups to implement CoP in 2020.[4] Other PSPs have also voluntarily joined the service.

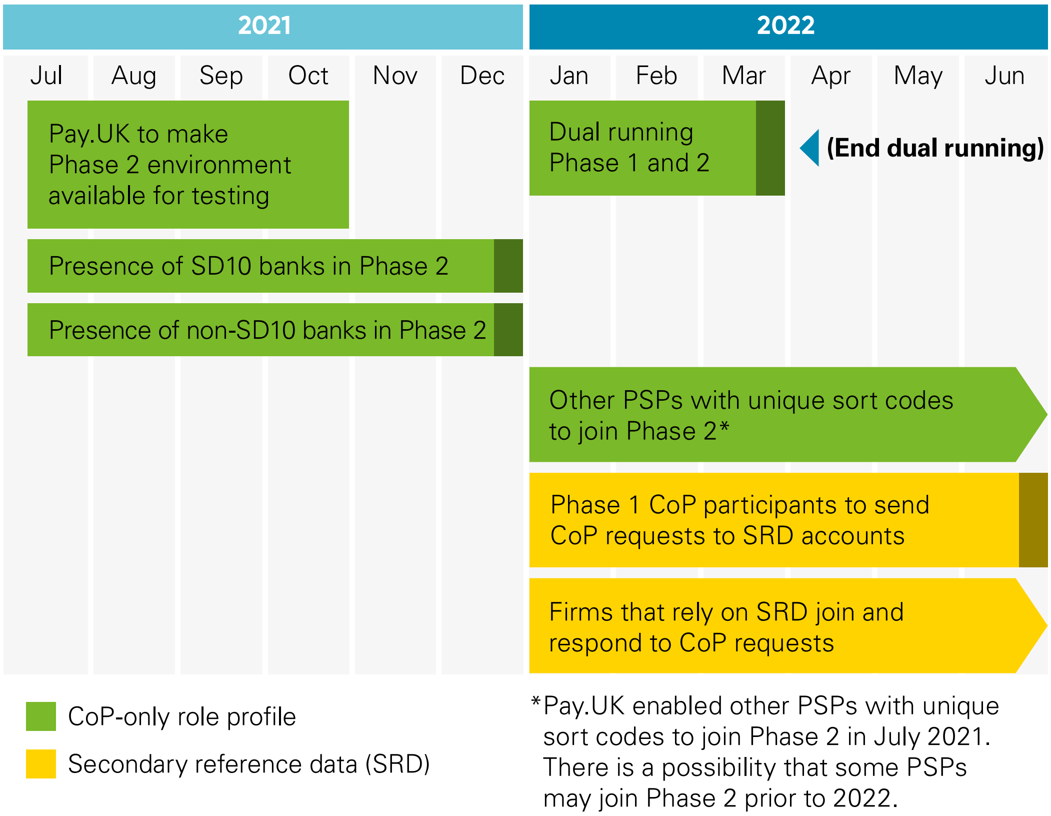
2.3 The next step in CoP is known as Phase 2, which aims to achieve 'ubiquity of service' by enabling further participation by institutions that do not currently offer the service to their customers.

3 Under Specific Direction 10 (SD10), see https://www.psr.org.uk/publications/policy-statements/specific-direction-10-confirmation-of-payee-varied-february-2020/. We varied SD10 in February 2020.

4 These included: 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. These banks represented 90% of transactions over Faster Payments and CHAPS in 2018. We also granted exemptions extending the deadline for a small number of accounts and channels facing technical challenges. Our decision to extend the timeframe for SD10 banks to implement the direction was informed by assurances provided by the SD10 banks that they would reimburse any customers who suffered loss from a misdirected payment or an APP scam, where a CoP check would have made a difference to the outcome.

2.4 According to Pay.UK, the body responsible for setting the rules, standards and guidance on CoP, Phase 2 will enable PSPs with unique sort codes to join CoP through a dedicated 'CoP-only' role profile in Open Banking. Phase 2 will also enable participation by institutions operating accounts that do not use unique sort codes and account numbers, but instead identify the customer via SRD (for example, building societies using roll numbers). This will in turn increase both the number of participating firms but also the range of accounts that can be checked.

2.5 Pay.UK has worked with current participants to produce a timeline for the phased implementation of Phase 2 over the rest of 2021 and into 2022:



2.6 In May 2021, we set out the findings of our analysis of the impact of Phase 1 of CoP and the feedback received on Phase 2 in a CfV.[5] We welcomed views on the progress, dependencies and expected costs and benefits of Phase 2. We also sought feedback on proposed policy interventions, including whether to mandate further implementation of CoP by the institutions and accounts within the scope of Phase 2. We also welcomed views on how CoP messaging works and how it could be enhanced.

2.7 This document summarises the responses to our CfV and provides, where appropriate, an update on our work to determine what PSR interventions are necessary and proportionate to ensure the timely delivery and implementation of Phase 2.

5 CP21/6, Confirmation of Payee, https://www.psr.org.uk/publications/consultations/cp21-6-confirmation-of-payee-phase-2-call-for-views/

Responses

2.8 We had 40 responses to the CoP Phase 2 CfV.

2.9 We will separately publish the non-confidential responses ahead of consulting on our policy options to support Phase 2.

2.10 Respondents represented a large range of stakeholders, including all the SD10 banks, PSPs that have voluntarily implemented CoP and those that have yet to implement CoP. In addition, we had responses from industry representative groups, consumer groups, consultancies and government departments. This has provided a broad evidence base to help us prioritise our work on the different parts of Phase 2. Below is a breakdown of stakeholders who responded to our CfV.

Organisation type	Responses
Building Societies	4
Consumer bodies/organisations	4
Cross-government response	1
Industry organisations	5
Payment infrastructure provider (Pay.UK)	1
Other stakeholders	8
PISP/payment platforms	2
PSP – Non-directed Phase 1	1
PSP – Phase 2	6
PSP – SD10	6
Third-party solution suppliers	2
Total	40

2.11 While not every respondent answered every question, there were still a significant amount of responses to each question for us to draw views from and to inform our work.

2.12 In Chapter 3, we summarise thematically the responses to the questions raised in the CfV, as well as outlining, where appropriate, the PSR's provisional views and next steps. We are not seeking views on this document, but there will be opportunity to engage on the topic again in 2021.

2.13 We would like to thank all respondents who took the time to respond to the CfV, and note that their submissions have helped the next stage of work on CoP. We look forward to continued engagement with you as we take this important work forward.

3 Summary of responses

- In our CfV we welcomed views on the impact and progress of CoP so far. We also sought views on the dependencies and expected costs and benefits of Phase 2. We set out potential policy responses, such as the possibility of the PSR issuing directions mandating certain aspects of Phase 2, other steps to bring about improvements to the CoP service, and options for the future of SD10. In this chapter we summarise the responses received to the questions asked in our CfV, outline our initial analysis and, where appropriate, discuss our potential next steps.
- One of the main aspects of the CfV was Phase 2. Pay.UK's plans for Phase 2 will enable further participation by PSPs with unique sort codes through a dedicated 'CoP-only' role profile in Open Banking. Since our CfV, we have welcomed a public commitment by the banking groups directed under SD10 (the 'SD10 banks') to implement the CoP-only profile by the end of 2021.
- Phase 2 also enables participation by institutions that do not use unique sort codes and account numbers to identify customer accounts, but instead identify customer accounts via SRD (for example, building societies using roll numbers). Since the CfV we have written to the SD10 banks to update them on our current thinking, to ensure that they are able to develop SRD capability in accordance with the timelines agreed with Pay.UK, and that this is not otherwise constrained by waiting for the publication of this and/or other PSR documents.

3.1 We have considered the responses to the questions asked in the CfV thematically, provided a summary of respondents' views and outlined our response.

Impact of Phase 1

3.2 In our CfV, we invited feedback on our findings on the impact of Phase 1. Our analysis showed that CoP has enhanced consumer confidence, has had a positive impact on reducing the relevant types of misdirected payments sent by the SD10 banks, and is likely to have prevented what would have been a larger increase in APP scams. Our analysis showed that fraud is migrating to institutions that had not yet implemented CoP. We also found that scams are continuing to occur even where a 'no match' occurred.

Respondents' views

3.3 Respondents overwhelmingly agreed that CoP has improved transaction security and enhanced consumer confidence. A large minority of respondents also agreed that CoP has had a positive impact on reducing accidentally misdirected payments.

3.4 Regarding APP fraud, most respondents considered the picture to be more complex due to an overall increase of APP scams during the COVID-19 pandemic. Respondents considered that CoP has enabled a reduction in the relevant types of APP scams sent to PSPs that have joined the service. Consumer organisations and representative bodies agreed that APP fraud would have been higher absent CoP, as it has helped to mitigate payment risk and strengthen consumer confidence in digital payments.

3.5 A majority of respondents, representing a variety of stakeholders, agreed with our analysis that there has been a shift in the relevant types of APP scams migrating to institutions that have not yet implemented CoP. They cited the growing migration to other types of payment institutions, such as money transfer services and crypto wallets/currency exchanges.

3.6 A substantial majority of respondents considered the lack of a universal service created opportunities for fraudsters to target PSPs that were not offering the service. Respondents argued that further expansion of CoP was necessary to mitigate this trend and provide industry-wide protection.

3.7 Most respondents, however, noted that the beneficial impact of CoP may to some extent be offset by social engineering techniques employed by fraudsters, for instance by persuading customers to ignore a 'no match' warning and proceed with a fraudulent transaction. Some respondents also confirmed that fraudsters have been using the added level of confidence offered by CoP to manipulate victims into sending money to mule accounts generating a name match.

3.8 A cross section of respondents thought this could be due to the customer's lack of knowledge with interpreting warnings. For example, customers did not always know the difference between a 'no match', 'partial match' and 'not available' warnings. Others felt that customers may also be experiencing 'click fatigue'.

3.9 Most respondents argued that customer education could play an important role in combatting the social engineering techniques and supporting customers with understanding the meanings and implications attached to a 'no match' warning. They also argued clearer messages regarding CoP warnings may prevent fraud happening in the first place. We elaborate on the issue of messaging in paragraphs 3.76 to 3.90.

3.10 Some respondents noted that greater cooperation between PSPs and an industry-agreed approach on data sharing could help keep PSPs better informed of the techniques employed by fraudsters. In this respect, they alluded to the proposals made by the PSR in relation to data sharing between PSPs as part of the PSR's APP scams work, such as risk rating transactions.[6]

6 https://www.psr.org.uk/media/5yvpidyc/psr_cp21-3_app_scams_call_for_views_feb-2021.pdf

3.11 Other suggestions included tighter industry rules specifying the content and presentation of a 'no match' warning, with appropriate warning design and visual presentation depending on the outcome of the name match. A small number of respondents highlighted the possibility to delay payments or subject them to additional checks in the case of a 'no match', to give customers time to reconsider and the sending PSP time to investigate. Delaying a transaction was considered by one respondent to be particularly useful for higher value payments.

Our current view

We consider that the evidence on CoP's positive impact provides a compelling case for the wider roll-out of CoP – this will provide consumers with better protection against APP fraud, prevent accidently misdirected payments and provide greater industry protection.

3.12 When we originally directed SD10, our policy intention was to see other PSPs adopting the CoP service. The more PSPs that take part in CoP the greater the opportunity to protect users of payment systems and ensure consumer confidence. We agree with stakeholders that evidence indicates that CoP has resulted in a reduction in the number of relevant misdirected payments, and our analysis of the data provided by SD10 banks since the CfV shows this pattern has largely continued.

3.13 In relation to APP scams, we recognise that CoP is only one tool in the fight against APP fraud, but we agree with respondents that without it APP fraud levels would have been higher. Stakeholder's views and our analysis as set out in the CfV confirm a worrying trend of fraudsters adapting behaviour and continuing to migrate activity towards PSPs who have not yet implemented CoP. The opportunity to participate in CoP will enhance competition by allowing more PSPs to ensure their customers enjoy similar levels of protection across a variety of payment journeys.

3.14 We also share stakeholders' concerns that relevant APP scams continue even after a 'no match' warning. Nevertheless, our analysis of the data provided by SD10 banks since the CfV shows that there has been a continuing decrease in the number and value of scams that proceeded following a 'no match' warning. This suggests that CoP may be leading to a greater number of customers relying on warnings and abandoning potentially fraudulent transactions. It is therefore clear to us that there is a strong case for the wider roll-out of CoP.

3.15 We are grateful for the suggestions on potential ways of combatting social engineering and will continue working proactively with industry and other regulators to consider these, including as part of our APP scams work. These will need careful consideration to understand their likely effectiveness and the scope for unintended consequences. For example, whilst PSPs having more control to stop or delay transactions may be useful, this would need to be balanced against the potential negative impact on consumer experience of payment systems.

Phase 2

CoP-only role profile – positive outcomes, challenges and dependencies

3.16 Phase 2 of CoP aims to enable further participation in the service by making it possible for all account-holding PSPs to offer CoP. As a first step, this includes changes to the Open Banking Directory to enable PSPs with unique sort codes to join CoP through a dedicated 'CoP-only' role profile.[7] A further element includes SRD implementation, which we discuss further at para 3.31. In the CfV, we invited respondents to provide views on the likely costs and benefits of CoP-only role profile, as well as potential key dependencies.

Respondents' views

3.17 Respondents considered that CoP would have significant benefits by helping to level the playing field for PSPs currently unable to participate in the service. Respondents noted that the wider availability of CoP would likely enhance consumer confidence and reduce the prevalence of accidentally misdirected payments and APP fraud.

3.18 Moreover, respondents agreed with our assessment in the CfV of the additional advantages of the CoP-only role profile, such as the move to a new simulator which would automate the testing and onboarding of new PSPs. This would make the process of joining CoP simpler, more efficient and streamlined.

3.19 Respondents had fewer comments on the costs involved, such as the fixed costs involved for joining Open Banking and the ability of smaller PSPs to join CoP. The majority of stakeholders expect Phase 2 to reduce the cost and complexity of joining CoP. Most respondents noted that the costs of fraud were so high that this would likely offset implementation costs. Some respondents, notably small PSPs and their representative organisations, highlighted the need for third-party providers to provide services at competitive costs. Overall respondents were positive that benefits outweighed costs.

3.20 Respondents overwhelmingly agreed that a key dependency is the presence by the SD10 banks in the Phase 2 domain and their adoption of the CoP-only role profile, which will allow new participants to reach them in Phase 2. Respondents noted that until SD10 banks move over to Phase 2, the benefits of other PSPs joining would be limited and could lead to reduced customer confidence in CoP checks.

3.21 Others noted that the migration of the SD10 banks would provide greater certainty and support smaller PSPs with their planning. In some cases, it was a critical factor for smaller PSPs when considering whether to join the service.

7 Currently participants must be a full member of Open Banking to be able to offer CoP.

3.22 In terms of other dependencies, one respondent considered progress was dependent on Pay.UK delivering key deliverables, including the final approved documentation set, the message simulator, Open Banking Directory changes, and the planned dates for delivery of the test and migration plan. Other respondents stated that transparency over timescales, deliverables and the road map from Phase 1 to Phase 2 had been unclear. PSPs also asked for clarity on the accounts to be captured under Phase 2.

3.23 Several respondents highlighted that reliance on third-party providers is critical to the delivery of Phase 2 for smaller PSPs. Respondents noted the limited number of third-party suppliers and highlighted that this presented a risk and additional costs to firms if a supplier was no longer available to offer their services. In relation to timelines and plans to migrate from Phase 1 to Phase 2, there were concerns that PSPs were unable to share information with third-party providers due to non-disclosure agreements with Pay.UK.

3.24 Several respondents also noted challenges around limited service providers of cloud infrastructure capability. This means that PSPs would be competing for the services of a limited number of providers or would have to build their own cloud infrastructure capabilities. Regarding the latter, one respondent noted that this could run as high as 120% above costs for a third party providing this service.

Our current view

Based on the responses we have seen, respondents considered that there were significant benefits to implementing the CoP only role profile of Phase 2, which will allow all account-holding PSPs to deliver CoP's protections to their consumers. We welcome the progress made to date and want to ensure that industry plans remain on track. The most significant challenge relates to the presence of the SD10 banks in Phase 2. In addition, the limited number of third-party solution providers presents challenges for smaller PSPs joining CoP. We will continue to monitor delivery against the agreed industry timelines.

3.25 We agree with respondents that there are significant advantages associated with the implementation of the CoP-only role profile of Phase 2 – including levelling the playing field and enhancing competition between PSPs, strengthening consumer trust in the system, as well as extending CoP protections to more consumers to prevent misdirected payments and APP fraud.

3.26 While we recognise that costs associated with the CoP-only profile of Phase 2 remain an important factor for industry, we consider that the process of joining CoP through the CoP-only role profile is likely to be simpler, more efficient and streamlined.

3.27 The presence of the SD10 banks is a key dependency, and we have welcomed a public commitment made by the SD10 banks to deliver the necessary CoP-only role profile changes by end of 2021, with some migrating earlier in 2021. Pay.UK have also informed us that Phase 1 PSPs who were not directed to implement CoP also intend to be present in the CoP-only role profile by the end of 2021. These developments are important to ensure wider participation in Phase 2 in a timely way. We will continue to engage with the SD10 banks, Phase 1 participants and Pay.UK to monitor delivery and, if appropriate, take steps to direct delivery – for example, should progress falter.

3.28 We also note the concerns of respondents in relation to third-party providers. We want to better understand the scope of these limitations and how quickly such providers can scale up services to support CoP requirements for certain PSPs.

3.29 Pay.UK has agreed with industry timelines and milestones for the delivery of Phase 2 and, as we understand, these timelines are broadly on track. In our CfV, we noted that Pay.UK made the final versions of the first Phase 2 rules and standards and related documentation available at the end of March 2021. In July 2021, Pay.UK made the Phase 2 CoP-only role profile available for enrolment.[8] Pay.UK also confirmed that the message simulator was delivered after a slight delay in August 2021. We will continue to engage with Pay.UK on their progress in delivering against the timelines.

3.30 On the concerns raised regarding the uncertainty of timelines for Phase 1 participants migrating to Phase 2, we consider that these issues are likely to be addressed by the commitment given by SD10 banks to deliver the CoP-only role profile by the end of 2021, and should provide clarity to other PSPs so they can progress plans to join the CoP service in 2022. We also welcome Pay.UK's indication that the other Phase 1 participants intend to be present in Phase 2 by December 2021.

Secondary reference data – positive outcomes, challenges and alternative solutions

3.31 Phase 2 will also enable participation by institutions and accounts that do not use unique sort codes, but instead use SRD to credit the customer's account. This will include accounts that may use, as an example, roll numbers and primary account numbers (PAN). Pay.UK and current participants have agreed a target date of end June 2022 to enable CoP checks to be performed where the payee account details use SRD. In our CfV, we asked for views on the costs and benefits of including SRD accounts in Phase 2, the extent to which these benefits may differ for types of SRD accounts, and the feasibility of alternative solutions.

8 https://newseventsinsights.wearepay.uk/news-in-brief/confirmation-of-payee-extended-capability-update/

Respondents' views

3.32 Several respondents reiterated the significant cost of building a CoP capability for SRD accounts in order to restructure the payment journey across their different products and channels. Some respondents also noted uncertainty in demand by some SRD account providers for a CoP SRD solution, although others suggested there was demand for an SRD solution.

3.33 Almost a quarter of respondents thought that an SRD solution would address a realistic threat of harm for accounts that allow for payments into and out of them. This was not the case for accounts with restricted withdrawals – for example, only to nominated bank accounts in the name of the account holder. A number of respondents have therefore suggested that further analysis should be undertaken on the costs and benefits of delivering SRD.

3.34 Respondents overall recognised that bringing SRD accounts into scope of CoP would level the playing field for institutions using SRD by enabling them to participate in CoP. They argued that this would extend the protections of CoP to more consumers, improve consumer experience, and reduce the likelihood of some types of misdirected payments and APP fraud. Respondents also pointed out that SRD capability has always been in the scope of Phase 2 to enable further participation by those PSPs that are interested.

3.35 With fraud tending to migrate to accounts not offering CoP, and with the growing sophistication of scams, certain respondents felt that SRD accounts that do not currently appear vulnerable could become targeted by fraudsters, if they were excluded from the scope of Phase 2. This would be particularly concerning if those smaller PSPs have less resources to tackle financial crime.

3.36 One respondent highlighted that if (some) SRD accounts were excluded from the protections of CoP, this could be detrimental to the reputation of some PSPs and place them at a commercial disadvantage as they would not be able to offer the same protections to their customers.

3.37 With regard to alternative solutions, over two-thirds of respondents highlighted that alternative options mentioned in our CfV – namely, introducing unique sort codes and account numbers (SCANs) for SRD accounts, or using the Bacs Biller Update Services – were either unfeasible or further analysis on their feasibility was needed. There was also scepticism as to whether any of the alternative solutions would be cheaper or quicker to deliver.

3.38 A number of respondents noted that introducing SCANs for all SRD accounts would require significant technical changes, such as the renumbering of millions of accounts, changes to core systems and re-issuing customer credentials. Respondents also acknowledged that the Biller Update Service operated by Bacs could be an option for some SRD accounts, such as mortgage and credit card accounts, that have significant volumes in the service. However, most respondents did not think that it could cover all payments organisations and would require changes to make it scalable.

Our current view

We think it is important that institutions using SRD can provide CoP to their customers, allowing them to benefit from CoP's protections and increased confidence. This will avoid any competitive impact on SRD account providers and prevent fraud from migrating to accounts that are unable to participate in the service. A number of SD10 banks have confirmed that they will be delivering the relevant elements for an SRD capability by the middle of 2022.

3.39 As with the implementation of the CoP-only role profile, extending CoP to SRD accounts will provide CoP protection to more customers. Data provided by the SD10 banks continues to show evidence of fraud migrating to non-CoP participants, and a critical objective for the PSR is to stop fraudulent payments migrating to accounts that are currently unable to participate in CoP – for example, SRD accounts.

3.40 We are also keen to ensure that consumers are not prevented from benefitting from the protection of CoP, which may be a factor if smaller PSPs are unable to offer CoP as a result of larger financial institutions being unable to collect and send SRD data. We consider that wider adoption of the service to SRD accounts will level the playing field to ensure PSPs can offer their customers similar levels of protection.

3.41 In the future we are likely to see different business models emerging where unique sort codes and account numbers are not the primary way to address account holders. There are also potential use cases for CoP and SRD in pre-payment messaging between PSPs. These include sharing information between PSPs for the purpose of fraud prevention, such as risk-rating transactions in the Measure 2 proposals, set out in our APP scams CfV. Therefore, extending the delivery of CoP to accounts that use SRD is also likely to provide some future proofing of CoP.

3.42 Based on the responses we received, there is little evidence that alternative solutions for SRD accounts are more viable than SRD. Of the options proposed by the PSR, it was clear that respondents felt that SCANs for SRD accounts and the Bacs Biller Update Services would require PSPs to undertake significant technical changes. In addition, respondents did not cite other alternatives to those proposed by the PSR.

3.43 We see benefits for longer-term progression of services, such as the Biller Update Service to address issues with specific types of accounts. However, we do not want to divert industry resources to look at such options ahead of SRD implementation, as it could have a knock-on impact on the agreed Phase 2 timelines and the ability of SRD account providers joining CoP. In our view, this leaves SRD-capability as the only viable option.

3.44 We are aware of respondent's concerns over the cost and complexities to deliver CoP for SRD accounts, and have noted views by respondents that the level of risk of fraud being committed and opportunities for misdirected payments to occur can vary between different SRD accounts. This may require further analysis to assess fully the scope of SRD accounts to be incorporated as part of Phase 2 implementation. Which is why we recognise that implementing SRD is not feasible in 2021 while the industry is focused on delivering the CoP-only role profile.

3.45 Instead, we think that it is realistic and achievable for current CoP participants to implement the ability to send SRD data by the planned date of mid-2022. We have asked the SD10 banks to confirm to us that they intend on delivering the SRD elements of Phase 2 according to the timeline agreed with Pay.UK. A number of SD10 banks have confirmed that they will be delivering the relevant elements of SRD by mid-2022. We will continue to engage with the industry to monitor progress against this timeline.

Supporting the transition from Phase 1 to 2

3.46 As part of the CfV, we sought feedback on the effectiveness and proportionality of policy actions we could take to ensure that existing participants deliver Phase 2 on time to allow new joiners to progress their own plans to join. We sought feedback on:

a. whether to direct the SD10 banks to migrate to the Phase 2 CoP-only role profile by the end of 2021 (the timeline they agreed with Pay.UK)

b. whether we needed to direct other Phase 1 participants to move to Phase 2

c. whether to direct the period for the dual running of the Phase 1 and Phase 2 domains to end

d. whether SD10 was still necessary or could be revoked

Respondents' views

3.47 The SD10 banks noted that the PSR did not need to direct them to implement the Phase 2 CoP-only profile as they were willing to commit to delivering it by the end of 2021. Other respondents explained that Phase 1 participants need to migrate in a timely manner to Phase 2 to ensure that they are reachable to new joiners. Views were however mixed on whether this should be on a voluntary or mandated basis.

3.48 With respect to directing other Phase 1 participants to move to Phase 2, views were mixed. Some respondents noted that existing Phase 1 participants have already planned to have a presence in Phase 2, while others thought that a regulatory mandate was required to avoid a costly extension to the dual running period. One SD10 bank felt that migration to Phase 2 would be incentivised by ending dual running by its currently planned timeline of March 2022.

3.49 Respondents were less focused on the period of dual running, but where it was mentioned, they felt it was important to end dual running to give the industry certainty and avoid additional costs by protracting the parallel operation of the Phase 1 and Phase 2 domains. A minority of respondents felt the proposed milestone to end dual running in March 2022 was optimistic and that more flexibility could be needed to avoid overloading participant processes and factor in any delays by the SD10 banks in migrating across to Phase 2.

3.50 With respect to revoking SD10, we had 22 responses of which only two suggested that SD10 should not be revoked. Those that disagreed with revocation argued that SD10 should be expanded to all PSPs or else revised to ensure that it remains applicable with the new Phase 2 standards. All other respondents felt that SD10 will become redundant, either because of the wind-down of Phase 1 or because SD10 had achieved its original aims.

3.51 Half of the respondents suggested revoking outright and not carrying over any element of SD10 into any potential future direction. The remaining responses suggested that there should be some direction in place of SD10, possibly the end of the dual running period, to ensure continuity of service and that existing participants continued to test with new joiners.

Our current view

We welcome the public commitment by the SD10 banks to be present in Phase 2 by the end of 2021, which we will monitor. We consider that a timely and voluntary migration by all Phase 1 participants would give confidence to new joiners to be in CoP in 2022. We think that directing the end of dual running by March 2022 could provide a backstop date to achieve migration to Phase 2. We plan on consulting on this later in 2021, alongside a proposal on how to revoke SD10.

3.52 Since the CfV, the SD10 banks wrote to the PSR publicly committing to implement the CoP-only profile before the end of 2021 without the need for a direction. The PSR has welcomed this commitment in an open letter dated 21 July 2021. We will continue to monitor the SD10 banks' progress against their commitment and take regulatory action if necessary and proportionate – for example, if there is a risk of delay in migrating.

3.53 Pay.UK has also explained to us that all the other Phase 1 participants plan to have a presence in the Phase 2 environment before the end of 2021. We consider that timely voluntary migration of the other Phase 1 banks to Phase 2 would be a good outcome in terms of giving confidence to PSPs to progress their plans to join CoP.

3.54 We are persuaded by respondents' views that ending the dual running would give confidence to new joiners that all Phase 1 participants have fully migrated across to Phase 2. There are additional benefits with reductions in cost and increases of efficiency that come from full and timely migration.

3.55 While we agree more work is needed by the industry to migrate across to Phase 2, we do not agree with the view that ending dual running in March 2022 is not achievable given the progress by Pay.UK and the industry to date, and the public commitment made by the SD10 banks. We do not want to elongate any period of dual running if there is no need to. However, it may be necessary for our potential policy response to weigh up any advantages of extending dual running, if proposed to us, against the risks of maintaining two systems for longer than anticipated. This would, however, only be in the event that any Phase 1 PSP were able to demonstrate their inability to fully migrate by the end of Q1 2022.

3.56 For this reason, we will consult later in 2021 on the possibility of a PSR direction to facilitate the end of dual running by a specified time in 2022. We will continue to consider the most effective and proportionate means to support timely ending of the dual running period. The options we are considering include directing PSPs to migrate their traffic to Phase 2 by a specified date or the option to mandate the phasing out of Phase 1 rules and standards.

3.57 We believe that SD10 has achieved its objective of ensuring widespread adoption of CoP, and agree that SD10 will technically be redundant once Phase 2 is implemented and dual running is no longer required. In our view, the evidence overwhelmingly points to retiring SD10, particularly as the minority of respondents that argued against revoking SD10 did so to highlight the need for further PSP participation in CoP. We are also broadly persuaded by the majority of responses not to continue elements of SD10, and are mindful that SD10 should stay in place until the end of dual running and the wind-down of Phase 1.

3.58 We will consult later in 2021 on the possibility of directing the end of dual running. When making this proposal, we will also set out our proposals on how and when we will revoke SD10.

Ensuring further participation in Phase 2

3.59 In order to achieve broader participation in CoP, we asked whether it would be effective and proportionate for us to direct other PSPs that have not yet adopted CoP to implement Phase 2. We also asked whether we need to direct them to develop either (or both) the responding or sending capabilities.

Respondents’ views

3.60 While respondents overwhelmingly agreed that CoP should be extended to provide ubiquity of service, views were mixed on the need to direct non-CoP participants to join the service. Some respondents noted that a direction would provide a clear timeline for extending CoP’s coverage and protections. Indeed, some respondents were less convinced that ubiquity would be achieved without further regulatory intervention, arguing that the SD10 banks only introduced CoP after being mandated to do so by the PSR.

3.61 Others felt that it should be left up to the PSP’s commercial discretion to take up Phase 2, as PSPs not benefitting from CoP checks would be incentivised to join to improve their offering to their customers. Some respondents argued the risk of fraud migrating to non-CoP PSPs should itself be a driver for PSPs to deliver CoP.

3.62 One respondent cautioned that smaller PSPs do not have significant supplier choice and a requirement on them to deliver CoP by a specific date could drive up the price of supply. Another respondent noted issues with immediate delivery and suggested that PSPs should be mandated to deliver CoP but with a sufficient lead time of two years.

3.63 One respondent noted the need for CoP to support an 'indirect agency model', which would allow financial institutions to participate in CoP through their agency banks. This would allow even more PSPs to join CoP without requiring regulatory action.

3.64 While there were fewer responses on whether PSPs should be directed to develop either (or both) the sending or responding capabilities, views were also mixed. Some respondents noted that the priority should be for new participants to respond to CoP requests, because the majority of transactions are sent by the SD10 banks. Other respondents felt that both the sending and responding capabilities were important and both should be required to fully protect customers.

Our current view

We will examine in the next few months if we need to direct new PSPs to join CoP considering the feedback by respondents. In the meantime, we consider that PSPs committing to join CoP is a good way to extend its protections to their customers.

3.65 We remain open-minded on whether we need to direct any PSPs that do not currently offer CoP to do so. Respondents raised credible considerations if we were to direct further, such as the state of the market of third-party suppliers needed to help smaller PSPs develop CoP capabilities, the possibility of any weakness in the system being exploited by fraudsters, and whether competitive forces would be sufficient for PSPs to deliver CoP. We will also look at whether there is a threshold below which a direction to implement CoP could be too onerous on some PSPs. We will investigate these considerations further before we determine our next steps.

3.66 We consider that PSPs committing to join CoP is a credible and efficient way to achieve ubiquity and would welcome further commitments from PSPs to deliver CoP in a timely way.

3.67 We are minded to agree with respondents that the respond capability is a priority for most new joiners, as most CoP requests are being sent by the SD10 banks. Indeed, we have seen fraud migrating to those PSPs that are currently unable to respond to CoP requests. While we also think that the sending capability is important, we agree that this can be developed in a phased manner.

Extending CoP to SRD accounts

3.68 In addition to the costs and benefits of SRD mentioned above, we sought views on whether it would be effective and proportionate for us to direct in order to ensure participation in CoP by SRD accounts by the industry deadline of end June 2022. As part of this, we invited feedback on whether to direct the SD10 banks (and possibly others) to collect SRD when sending CoP requests and/or whether to direct PSPs offering SRD accounts to implement CoP responding capabilities.

Respondents' views

3.69 Respondents were split evenly between those that felt a PSR direction was the best way to achieve the changes, and those that felt that implementation should be left to the industry's discretion and/or that a commitment by the market would be sufficient.

3.70 The majority of respondents were supportive of the PSR directing the SD10 banks, as well as other PSPs to implement the capability to send SRD information in CoP requests. They argued that this would bring about certainty of widespread adoption, level the playing field for PSPs using SRD and close gaps for potential fraudsters. In principle, every account should have CoP so that customers can enjoy the same confidence, protection and safeguards.

3.71 However, SD10 banks noted that it was too early to consider such a direction given the significant costs, the uncertainty of potential demand, the fact that CoP's benefits for certain SRD account types might be limited, and the small number of institutions using SRD. Other respondents shared this view, noting that implementation should be incentivised through competitive pressures. A response received on behalf of some SRD institutions also highlighted that they do not currently have enough information to assess the implementation costs and reiterated the risks linked to the lack of third-party solution suppliers.

3.72 With regard to the timeline, some respondents noted the condensed timescale for implementation and suggested more time was given than the end June 2022 timeframe, particularly for the non-SD10 PSPs.

3.73 SD10 banks' views were mixed on whether PSPs offering SRD accounts need to be directed to respond to CoP requests. Some of them felt this was not required as the case on the sending side has not (yet) been proven. Two of the SD10 banks however noted that if we were to direct the SD10 and/or other PSPs to collect SRD when sending CoP requests, then we should also direct SRD institutions to respond to such requests. This would be required to ensure uptake of the sending capability that would be rolled out. Another respondent suggested industry commitment alone would be enough.

3.74 Outside the SD10 banks, responses were mixed. Some respondents felt the commercial pressures to offer similar levels of protections to their customers would lead them to develop CoP. Others felt that competitive pressures would not be enough and that they favoured directing the implementation of both the sending and receiving capabilities to ensure a consistent and ubiquitous approach.

Our current view

Since the CfV, we have asked the SD10 banks to confirm that they intend to deliver the SRD elements of Phase 2 by mid-2022. A number of SD10 banks have confirmed that they will be delivering the relevant elements of SRD by that date. We are happy to accept a commitment from the SD10 banks to deliver SRD sending capabilities to the agreed industry deadline. We will continue to monitor the delivery of SRD to that timeline. We are therefore not currently minded to direct the SD10 banks unless there are significant delays to the delivery of SRD.

Based on the industry's progress and available evidence, we will consider whether any directions are required to deliver SRD after the end of dual running. In the meantime, we do not want PSPs to change or slow down their agreed plans to progress the delivery of the SRD capability by the middle of 2022.

3.75 We acknowledge that the changes required to collect, send and respond to SRD in CoP requests will have a significant impact on the industry. While we recognise the views by some respondents that the UK SRD account market may be small, we note the importance of ensuring that customers benefit from the same level of protections across different account types. We also want to ensure that SRD account providers are not targeted by fraudsters or placed at a competitive disadvantage.

Service improvements and messaging

3.76 In the CfV, we invited views on the effectiveness of CoP messages. This included whether greater consistency between PSPs might improve consumer understanding about how to interpret the results of a CoP check and/or reduce confusion when a payee's name could not be found (for example, due to the receiving PSP not being part of CoP). We also sought feedback on whether Pay.UK should carry out oversight improvements to the CoP service in relation to the consistency of the messages that users see, as well as its role with CoP rules, standards, operating guidance and communicating relevant statistics.

Respondents' views

3.77 Overall, respondents agreed that CoP messaging could be improved, particularly where confusing warnings could lead to customers complaining or aborting legitimate transactions. Views however varied as to how this would best be achieved.

3.78 SD10 banks generally thought that greater consistency in messaging would drive a better customer experience. They however felt that the messaging should still be able to reflect their own preferences for tone of voice and the profile of their customer base, rather than being the same across all PSPs. They also noted the importance of warnings evolving over time, to ensure that the customer pays attention to them on an ongoing basis.

3.79 One SD10 bank noted that PSPs already follow the guidance set out in Pay.UK's CoP operating guide and best practice principles, and felt that there was little more to be done. In contrast, another SD10 bank was supportive of reviewing the guide and best practice principles to ensure a greater consistency of outcomes.

3.80 Other PSPs were generally more in favour of standardising wording in messages across all PSPs so as to avoid customer confusion and to reduce the likelihood of abandoning legitimate transactions. They noted that there should be guidance on the visual presentation, for instance in terms of font size, colouring and position, and that there should be regular reviews to test customer reaction to different wordings. One institution noted that current messaging wording is overly cautious. Non-PSP respondents also agreed with standardising messaging.

3.81 Some respondents agreed that when CoP is taken alongside other warnings there could be 'click fatigue'. One respondent thought customer education is the best way to avoid issues relating to the number of warnings. A number of other respondents felt a greater level of education was required in addition to changes in messaging.

3.82 Another respondent on behalf of some PSPs suggested that the issue of click fatigue needed to be taken up with the Financial Ombudsman Service and the Lending Standards Board as part of the work on the Contingent Reimbursement Model. A further proposal was to make specific messages, such as the no match warning, substantially different from the standard 'proceed' option.

3.83 Pay.UK's response outlined the work it has already started in this area, using the experiences from the implementation of Phase 1 to inform and improve the messaging minimum standards. Pay.UK noted that it cannot be responsible for individual PSPs' customers and their risk profile, and as such each PSP should be left to decide their own messages and tone.

3.84 Nearly all respondents agreed that Pay.UK needed to monitor and ensure compliance with its rules and standards. Some respondents thought Pay.UK were already performing this function well. Others suggested that any ongoing issues with messaging was because Pay.UK were not as proactive on monitoring and ensuring compliance as they could be. Some respondents suggested that Pay.UK needs to treat CoP in the same manner as it would treat other managed services – for example, the Current Account Switching Service (CASS).[9] There were suggestions on how to monitor compliance – for example, through monthly returns and annual attestations and monitoring against KPIs.

3.85 Several respondents felt that Pay.UK should publish data on the overall effectiveness of the CoP service in terms of reducing misdirected payments and APP fraud (rather than the performance of individual PSPs), as this would lead to improved transparency. One respondent noted that the statistics on the impact of CoP, currently being collected by the PSR, should be delegated to Pay.UK so they can collect a wider set of data to assess how well the service is performing.

9 A scheme which certain PSPs participate in to facilitate the consumer's transition from one current account provider to another.

Our current view

Given that CoP has been used by consumers sending money to and from the SD10 banks for more than 12 months, it is arguably the wrong time to begin considering the concept of standardising wording across all PSPs. We nevertheless agree that there is merit in Pay.UK reviewing and significantly tightening up the existing guidance in case this is leading to poor outcomes. In addition, outside of the SD10 banks, many PSPs would like to have prescriptive text and standards for messaging rather than guidance and principles.

3.86 It is clear from the responses we received that respondents broadly agreed with the concerns we highlighted in the CfV about how Phase 1 CoP messaging has been implemented. There is however no consensus view as to how significant this is, the issues causing it and how best to address it.

3.87 Given that CoP has been used by consumers sending money to and from the SD10 banks for more than 12 months, it is arguably the wrong time to begin considering the concept of standardising wording across all PSPs. We also take on board the comments about the need for each PSP retaining some flexibility over the wording and presentation of their messages. Though we agree that there is merit in the suggestion of Pay.UK reviewing and firming up the existing guidance in case this is leading to poor outcomes.

3.88 We note that, outside of the SD10 banks, many PSPs would like to have prescriptive text and standards for messaging rather than guidance and principles. As such, there could be scope to make available some 'off-the-shelf' standards that PSPs could choose to adopt. We consider that existing CoP PSPs would have to be given adequate time to implement any required changes, through routine maintenance cycles. We expect to discuss this further with Pay.UK and others.

3.89 In terms of the design of the messaging and the payment journey, we remain concerned about 'click fatigue' and how CoP fits into the overall set of screens and messages. The question is the extent to which any work we undertake on CoP now, can and should influence the rest of the anti-fraud processes in the payments journey. This is an area we are keen to actively keep engaging in, whilst focusing our resources on the most effective interventions.

3.90 We acknowledge the view expressed by respondents about the potential benefits of Pay.UK collecting and publishing statistics. We find the case for greater transparency compelling but note that there are different industry bodies that collect and publish payment industry statistics. We also note that any data would have to be supplied by the CoP participants who, unless we used powers to require the supply of that data, would need to do so on a voluntary basis. Therefore, we are looking to those industry organisations to consider the feasibility of collecting and publishing CoP statistics.

4 Summary of next steps

4.1 We will continue to engage with the industry and Pay.UK to monitor the progress and timelines for the delivery of Phase 2. If appropriate, we will take action – for example, should progress be delayed, including – but not limited to – in relation to the public commitment by the SD10 banks to be present in the Phase 2 environment by the end of 2021.

4.2 At the same time, we will consult later in 2021:

a. on a direction to ensure the dual running period of the Phase 1 and Phase 2 domains ends at a specified time in 2022, which we anticipate would be its planned end-date of end of March 2022, so as to provide a backstop date and give confidence to new joiners that all CoP flows have fully migrated to Phase 2

b. on how and when we plan to revoke SD10, as it has achieved its original aims and will technically be redundant following the wind-down of Phase 1

4.3 We will consider all the available evidence and decide whether it is necessary and appropriate to issue a further consultation in early 2022. If we do so, this could cover either or both of the areas below:

a. Directing PSPs which do not currently offer CoP to do so.

b. Mandating the implementation of the ability to collect SRD in order to send CoP requests, and/or mandating SRD accounts to respond to CoP requests. This could focus on all SRD accounts or just specific accounts.

4.4 We would like Pay.UK to be proactive in investigating whether the minimum messaging standards make them open to broader interpretations than originally envisaged and in making any necessary changes to their rules and standards as a result.

Timetable

Dec 2021	Publish consultation on ending the dual running period between Phase 1 and Phase 2 and revoking SD10 by end March 2022.
Until end 2021	Monitor delivery of commitment by SD10 banks to be present in Phase 2 and engage with Pay.UK on implementation of Phase 2 by other Phase 1 participants. Step in if necessary.
Jan 2022	Formally issuing Direction on ending dual running and revoking SD10.
Mar 2022	Depending on our assessment, we may launch a further consultation to direct PSPs that do not offer CoP to do so and/or direct SRD sending and/or responding in CoP requests.

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12 Endeavour Square
London E20 1JN
Telephone: 0300 456 3677
Website: www.psr.org.uk