Payment Systems Regulator

Policy statement

Extending Confirmation of Payee coverage

Response to consultation CP22/2

October 2022

PS22/3

Contents

1 Executive summary

1.1 We are directing around 400 payment service providers (PSPs), to implement a system to offer the Confirmation of Payee (CoP) name checking service to their customers (both as payers and payees). This will help to reduce authorised push payment (APP) fraud and accidentally misdirected payments. This is a continuation of the journey we started in August 2019, when we issued Specific Direction 10 (SD10) to require the six largest banking groups to implement CoP. The new direction represents our ambition to achieve near ubiquity of CoP and protect a greater number of payment system users.

1.2 CoP lets people check that the name on the account matches the details when they set up a new payment. In giving this direction, we want to provide certainty to a greater number of payment system users that they will have CoP protections when they make and receive payments.

1.3 When we issued SD10, the directed banks covered around 90% of transactions made via Faster Payments[1] and CHAPS.[2] All these banks implemented CoP in the 'Phase 1' technical environment, which not all other PSPs could use. At that time, we did not direct more PSPs as we wanted to quickly establish CoP as an integral part of the payment journey. This has happened, and non-directed PSPs have voluntarily joined the service. In total, 59 PSPs now offer CoP.

1.4 We have also worked with stakeholders to make CoP accessible to more PSPs and account types. In June 2022, this resulted in the closure of the Phase 1 technical environment and led to a single operating environment. This allows PSPs to work together – including institutions that rely on different reference information to Phase 1 PSPs, such as secondary reference data (SRD). Figure 1 shows our CoP journey so far.

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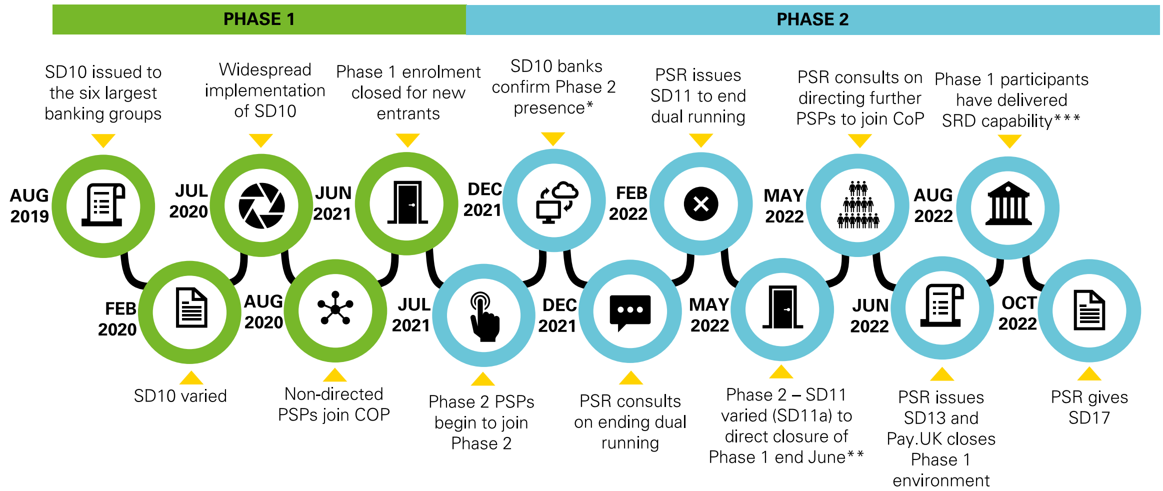
1 The Faster Payments system enables real-time payments for millions of individuals and businesses across the UK.

2 CHAPS is the same-day system used to settle high-value wholesale sterling payments – as well as time-critical, lower-value payments like buying or paying a deposit on a property.

Figure 1: CoP Phase 1 and 2 timeline



* Five of the six SD10 banks confirmed their presence.
** Some participants were delayed with their migration to Phase 2 and to prevent a CoP loss of service the PSR extended the Phase 1 closure date.
*** Two Phase 1 participants will deliver SRD to a later date, which we will keep under review.

1.5 Our analysis of CoP and anecdotal evidence from participants have shown:

- some evidence that it has helped to curtail the increase in some types of APP scams – where someone is tricked into making a payment to an account controlled by a fraudster
- some evidence of reduced levels of fraudulent funds received into accounts by PSPs that have implemented CoP
- a reduction in accidently misdirected payments (made to the wrong person or account) as PSPs have introduced CoP

1.6 We think PSPs need to do more to protect consumers much sooner. Because of the benefits of CoP, and because there are non-CoP PSPs that process a lot of transactions, we are concerned that there are still many consumers who are not protected from APP scams and misdirected payments. In addition, we have continued to see a rise in fraud being received by PSPs who do not offer CoP, but despite this, PSPs have been slow to implement CoP. We think this trend will continue unless we take action to direct PSPs to implement CoP.

1.7 Our direction splits the requirement for PSPs to implement a CoP system into two groups:

a. **Group 1**[3]**:** PSPs named in Annex 1 must have and use a CoP system with send and respond capability after **31 October 2023**.

b. **Group 2:** All other PSPs that use unique sort codes, or are building societies using an SRD reference type, must have and use a CoP system with send and respond CoP capability after **31 October 2024.**

1.8 We have prioritised Group 1 based on the complexity and size of the institutions, and on the impact the PSP adopting CoP is likely to have on preventing APP scams. By prioritising this group, we will increase CoP coverage from 92% of Faster Payments transactions to 99% after October 2023.

3 The groups of PSPs included will fall into at least one of the following categories:

- direct participants in Faster Payments
- indirect and direct PSPs in Faster Payments or CHAPS with a high proportion of fraud
- large indirect Faster Payment participants
- CHAPS direct 'retail' participants
- the Northern Ireland banks.

2 Introduction

The continuation of our CoP journey

2.1 CoP helps prevent misdirected payments. The service checks the name of the payee's account against the name and account details given by the payer. This gives payers more confidence that they are making payments to the correct account.

2.2 In August 2019, we issued SD10 to the six largest banking groups to deliver CoP.[4] Subsequently, 21 non-directed PSPs also voluntarily implemented CoP in Phase 1.

2.3 We have worked alongside Pay.UK and the Phase 1 CoP participants to enable more PSPs to join CoP, extending the benefits to even more consumers and levelling the playing field between PSPs. In February 2022, under Specific Direction 11 (SD11)[5], we directed:

- the Phase 1 CoP participants to migrate to Phase 2 of CoP
- Pay.UK, the owner of the CoP rules and standards and the operator of the service, to close the Phase 1 technical environment.[6]

2.4 This has led to a single technical environment and a single set of rules and standards, allowing CoP services across all PSPs to work together. Now, PSPs that rely on different reference information, such as SRD, will be able to implement CoP.

2.5 While many consumers and businesses currently benefit from CoP checks, the pace of adoption has not been as fast as we would like. Some of the reasons PSPs have not adopted CoP so far include:

- the cost and complexities of Phase 1
- relying on reference information other than sort codes and account numbers to identify customers
- lack of a regulatory requirement to do so

4 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.

5 CP22/1, *Confirmation of Payee: Response to consultation CP21/11, Ending dual running* (Feburary 2022)

6 SD11 required Phase 1 PSPs to send and respond to CoP requests in the Phase 2 technical environment only after 31 May 2022. SD11 also had the effect of revoking SD10 following the closure of the Phase 1 environment. Some Phase 1 PSPs faced technical challenges and delays with their migration to the Phase 2 technical environment, and to prevent consumers suffering from a loss of the CoP service, we varied our direction (SD11a) and directed Pay.UK to close the Phase 1 environment on 30 June 2022.

2.6 The scene is now set for near ubiquity of CoP, and this direction represents our ongoing journey to achieve this.

Our consultation

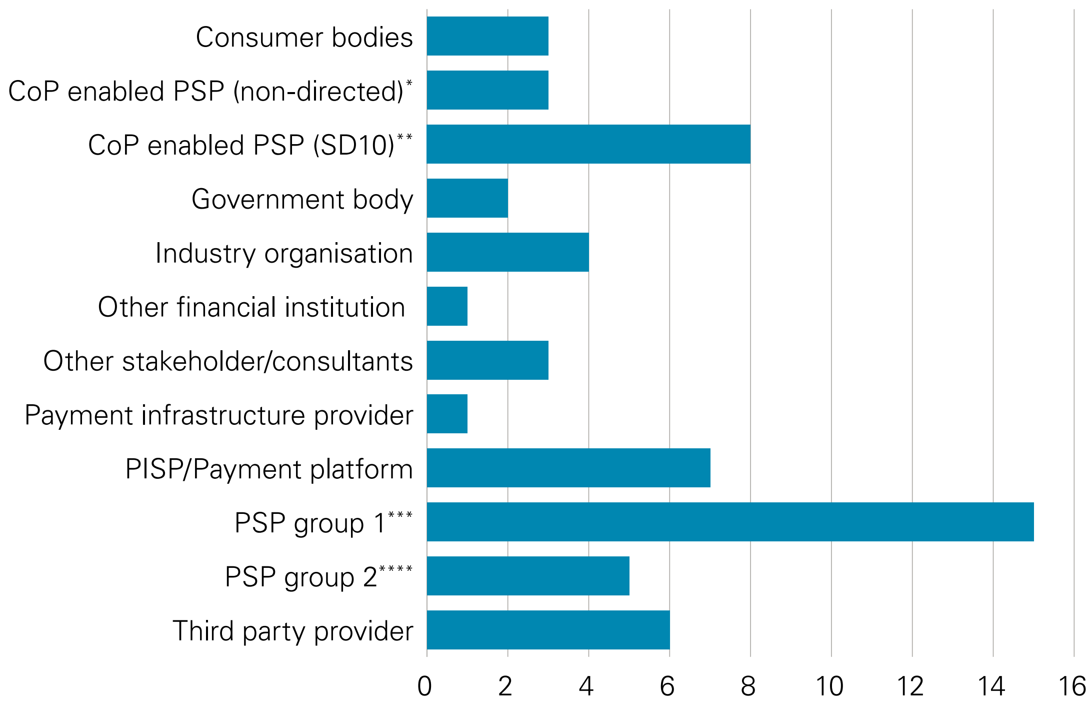
2.7 In May 2022, we consulted on a draft direction requiring approximately 400 PSPs to implement a system that offered CoP to their customers (both as payers and payees) across two groups.

- **Group 1:** Those that meet at least one of a number of criteria, designed to distinguish more complex PSPs and PSPs where adopting CoP is likely to have the biggest impact on preventing APP scams. We proposed that Group 1 PSPs implement a system to enable send and respond capability by 30 June 2023.

- **Group 2:** All other payment PSPs either using unique sort codes, or those which are building societies using a different SRD reference type. We proposed that Group 2 PSPs should implement a system to enable send and respond capability by 30 June 2024.

2.8 Our consultation ran for six weeks, closing on 8 July. We received 52 responses from a range of sectors. Figure 2 shows a full breakdown of the responding groups.

Figure 2: Stakeholder groups that responded to our consultation



* PSPs who were named as a Group 1 PSP in our consultation

** PSPs who met the criteria of being a Group 2 PSP in our consultation

*** PSPs who we directed to implement CoP under SD10

**** PSPs who voluntarily implemented CoP during Phase 1 or following the closure of the Phase 1 technical environment

2.9 During our consultation we also ran a series of roundtable discussions with industry and interested parties, to ensure an understanding of our proposals and explore lessons we could draw from previous CoP implementation for future challenges.

2.10 We held four sessions with representatives from PSPs, consumer groups, charities and businesses offering CoP facilities. More than 150 attendees joined these sessions.

2.11 We would like to thank all respondents and stakeholders who took the time to respond to our consultation and engage with us at our roundtable discussions. We look forward to your continued engagement as we take forward this important work.

3 Responses to our consultation and our views

We received 52 responses from a range of sectors. We have considered these responses carefully and have decided to give a direction requiring approximately 400 PSPs to implement a system to offer CoP. We will split the requirement into two groups.

- **Group 1:** Those that meet criteria, designed to distinguish more complex PSPs where the adoption of CoP is likely to have the biggest impact. By prioritising PSPs in this group, we will increase CoP coverage from 92% of transactions made via Faster Payments to 99%. This group will need to have and use a CoP system with send and respond capability after **31 October 2023**.
- **Group 2:** All other payment PSPs who are either using unique sort codes, or are building societies using a different SRD reference type. This group will need to have and use a CoP system with send and respond capability after **31 October 2024**.

Our proposals

3.1 Our proposal to direct approximately 400 PSPs represents our ambition to see near ubiquity of the CoP service to protect a greater number of users from falling victim to APP scams and misdirected payments.

3.2 In our consultation we asked for views on the scope of our direction, the size and type of the groups to be directed, the timelines for implementing CoP and future rule changes for Faster Payments and CHAPS. We also asked for comments on the cost benefit analysis (CBA) and on our assessment of the direction under the Public Sector Equality Duty.

3.3 In this chapter, we summarise the views we received on the draft direction under key themes and give our assessment of those views. Not all respondents answered every question.

Appropriateness of the direction and giving the direction to Groups 1 and 2

3.4 We asked:

- **Question 1a:** Whether a specific direction is the most appropriate way to achieve our objective of the widespread use of CoP. We asked for views on the categories of PSPs we proposed to direct in Group 1 and whether Group 1 is focused on the most appropriate PSPs to direct.
- **Question 1b:** Whether Group 2 was appropriate, considering the size of that group.
- **Question 1c:** If the respondent was a PSP we were proposing to direct, their views on the proposal to direct them.

Respondents' views

3.5 We had 36 responses to this question, of which 35 respondents, representing a variety of sectors, agreed with giving a specific direction. Reasons included the fact that market forces alone have not produced widespread adoption, but that CoP had become a customer expectation. Other respondents felt that, without a regulatory mandate, many PSPs will not have an incentive to implement CoP, because of the cost or complexity of building and implementing CoP. In some cases, CoP was not being prioritised against other business commitments that firms were focused on – a direction served to make the business case for firms to secure the funding to prioritise CoP delivery.

3.6 Only one firm believed that a specific direction was not required and felt that PSPs should be incentivised to build CoP by showcasing its benefits.

3.7 Of the 35 respondents who agreed with giving a direction, 14 were either concerned about being directed themselves, or with how they had been allocated into groups. Industry bodies and a non-directed respondent also expressed concerns about the groups/PSPs being directed.

3.8 Of the parties we proposed to direct, the most frequent reasons for not wanting to be directed was having low volumes of Faster Payments which they didn't think justified the cost of implementing CoP. Some respondents argued that we should include a minimum level of Faster Payments when making a decision on who should be directed. Some PSPs in Group 1 asked to be included within Group 2 timelines for a number of reasons, including changes in their products and services, or because they were exiting markets.

3.9 Respondents told us that prioritising Group 1 PSPs based on complexity and size of the institution was proportionate. One respondent told us Group 1 could be expanded to require building societies to deliver 'respond' capability only by June 2023 rather than waiting until the 2024 deadline.

3.10 Relating to the number of PSPs to be directed within Group 2, nine respondents agreed that we need to include these PSPs to achieve ubiquity of service. However, 13 respondents felt the definition of PSPs under Group 2 was too broad or captured too many PSPs. One respondent suggested we were going too wide in our direction and that we should take a more targeted approach to extend CoP only to retail-focused banks which see a notable level of APP fraud. Many had this view because of the impact this could have on onboarding for existing CoP participants; it could create onboarding and resourcing challenges for the wider industry, Pay.UK and the Open Banking Implementation Entity (OBIE). Some felt our proposal included PSPs that should not be in scope.

3.11 A couple of respondents felt we had not necessarily gone wide enough – pensions providers, credit unions and insurance companies could be incorporated into Group 2 to ensure these sectors don't become vulnerable to fraud.

3.12 Seven PSPs we proposed to direct had already implemented CoP.

3.13 Some respondents suggested that alternative fraud prevention tools, such as the intelligence sharing system between PSPs currently in development by Pay.UK and UK Finance, might prevent fraud more successfully than a wider implementation of CoP.

Our view

3.14 We agree with the 35 respondents that regulatory impetus is needed. CoP has been more widely implemented since SD10, but coverage is far from ubiquitous. Without widespread implementation there remains a gap in coverage that fraudsters can exploit, and customers won't be fully protected against making misdirected payments. A new Specific Direction will achieve our objective of widespread implementation of CoP.

3.15 We are encouraged that 26[7] PSPs have voluntarily adopted CoP since we directed the closure of the Phase 1 technical environment, but this has been at a slower pace than we think is necessary. We remain concerned about the rise of APP fraud being received by non-CoP offering PSPs and that this increase has not incentivised these PSPs to adopt CoP. We have also been persuaded by the arguments that a mandate will ensure PSPs are able to obtain the funding needed to prioritise CoP

3.16 As such, we do not agree with the respondent who said PSPs should be further incentivised by showcasing the benefits of CoP before making it mandatory. The benefits of CoP are widely known across industry. If we wait for PSPs to implement CoP voluntarily, we are concerned that this will mean a delay in customers benefitting from CoP or PSPs never delivering it.

7 Correct as of 30 September 2022.

3.17 Since our consultation:

- seven of the forty-six PSPs listed in Group 1 have delivered CoP
- three PSPs have also contacted us to confirm that they have no relevant business model that would be in scope of the direction
- four PSPs have been moved to Group 2 timelines as their volume of CoP relevant transactions have decreased and fallen below the threshold that we established when we selected 'large' indirect Faster Payment participants

3.18 These PSPs will be removed from the Group 1 list, meaning that 32 PSPs will now be directed under Group 1.

3.19 In relation to PSPs that currently do not have an applicable business model for the purpose of CoP, should this change so that these PSPs offer products that include customer or business accounts that allow payments to be made from, then they will be captured within the definition of Group 2 PSPs.

3.20 Splitting the delivery of responding and sending CoP messaging of building societies between the Group 1 and Group 2 deadlines could become confusing, as we would be directing the same institutions twice. Any institution being directed is expected to deliver CoP well ahead of the applicable deadline. They can split the delivery between responding and sending, especially if they are able to deliver respond capabilities earlier.

3.21 We have noted respondents' concerns around the broad definition of Group 2. We discuss the size of the proposed group and whether we should be more selective because of industry constraints, or because of small transaction levels, in paragraphs 3.60 to 3.61. In terms of a wider coverage (including insurers and others, for example), we are not directing non-PSPs to deliver CoP. We want CoP to be widely used by anyone setting up a new payee relationship, and we expect that these institutions will use CoP through an existing banking relationship or a future vendor model.

Scope of the direction

3.22 We asked:

- **Question 1d:** Given the significant differences in types of institution covered by our proposed direction, is it clear in the policy and the direction who is covered by it, what is in scope and what/who would be out of scope.
- **Question 1f:** Whether the direction should direct for both 'send' and 'respond' capabilities for Groups 1 and 2.

Respondents' views

3.23 Of the 21 that responded to question 1d, over half considered that the proposals were clear in terms of the scope of the direction.

3.24 Respondents agreed with the direction focusing on CoP for accounts which allow consumers to transfer funds in and out, such as current accounts and e-money accounts. Respondents felt that these account types presented a greater risk of APP fraud and misdirected payments.

3.25 Three respondents called for the scope to be broadened. One suggested that cross border payments should also be brought into scope, as they posed risks too. One respondent also thought bulk payments should be brought into scope, as customers were reporting that a significant level of fraud was being lost via bulk payment files.

3.26 Some respondents asked for more clarity and guidance on the products that were in scope or excluded from our direction. For example, whether mortgage accounts, credit card accounts and linked accounts were in scope and whether the exclusions cover PSPs who offer both savings and lending products. Noting confusion in the industry, one respondent suggested we move to only using 'payment account' terminology and definitions.

3.27 On question 1f, regarding the issue of 'send' and 'respond' capabilities, of the 30 respondents that answered this question, 12 told us that accounts where the consumer can transfer funds in and out, and thus had greater opportunities for APP fraud and misdirected payments, should be required to implement both 'send' and 'respond'.

3.28 Both in responses and roundtable discussions, the issue of directing for 'send' and/or 'respond' capabilities was raised in relation to accounts where customers are restricted to transferring funds only to a 'linked' or 'nominated' account. This primarily affects smaller institutions like building societies that offer structured or longer-term savings products, so would not be relevant to all responders. Fraud on these accounts is low, not only because only one destination account can be used, but also because providers use other products and services to verify the account that the funds can be transferred into.

3.29 Two respondents also said that the introduction of additional CoP steps to authenticate the destination account could create more friction for the customer in these payment journeys. For these account types, respondents suggested that we should direct for 'respond' only. One respondent reported that the deadlines we proposed for institutions with linked accounts are achievable for implementing 'respond' only.

3.30 21 out of 30 respondents said that because of the variety of organisations across Groups 1 and 2, not all organisations would need to implement 'send' and 'respond' capability. Instead, it depended on their business model and associated risks. Pay.UK also highlighted that of the existing participants that offered CoP at the time of their response, 13 participants either undertook 'send' only capability or 'respond' only capability.

3.31 We were also told that some electronic money institutions (EMIs) are indirect participants in payment systems. They provide their Indirect Access Provider (IAP) with a batch file of payments at different times of the day. Institutions are not always open 24 hours a day, 7 days a week, and payments can only be made at specific times, such as 9am to 5pm, Monday to Friday. Some respondents felt that because these payments are made through the system sometime after the customer has initiated them, and the payment files may be a combination of different payment types (not always Single Immediate Payments, for example), these institutions should be exempted from a requirement to send CoP before processing.

3.32 Of those respondents who called for both 'send' and 'respond' to be directed, a third-party provider said that the costs and risks can be managed better by doing both together. An SD10 bank argued in favour of doing both as it will ensure receiving firms take on more liability for APP fraud. Other respondents suggested we should stagger the implementation of send and respond capability, or that PSPs apply for an exemption on a case-by-case basis if their business model called for implementing either 'send' or 'respond'.

Our view

3.33 The proposed direction requires PSPs to implement a CoP system on relevant accounts. The direction is drafted in a way that all accounts are in scope and then specific types of accounts are excluded. We appreciate that this has confused some respondents, as we have had questions and representations about excluding types of accounts, like mortgage and credit card accounts, that are already excluded and out of scope under the terminology, lending products and associated accounts for the repayment of those loans, in the direction. We agree that the direction could be clearer about the accounts in scope and those out of scope. We have also considered further the concept of payment accounts.[8] The terminology in the direction will therefore change and we are considering whether any extra guidance, such as an FAQ, should be placed on our website.

3.34 In terms of cross border payments, once a payment leaves the UK jurisdiction we would be unable to act; in addition, there isn't a universal worldwide system for CoP, or a global standard for open APIs to send and receive CoP messages.

3.35 Name verification in other countries is relatively slow; although since the UK adopted CoP there has been more emphasis on developing CoP systems. We share respondents' views that proceeds from APP scams can leave the UK and some frauds are committed from abroad. We are happy to talk with any jurisdiction about how we have implemented CoP and lessons learned, including the benefits of the system.

8 The definition of 'payment accounts' that we are relying on is from the Payment Services Regulation 2017: '"Payment account" means an account held in the name of one or more payment service users which is used for the execution of payment transactions.'

3.36 In terms of indirect PSPs that send and receive payments to their IAP in batches, our direction is in relation to Faster Payments and CHAPS payments but these files may contain a mixture of other payment types. Bulk payment file submission was out of scope in SD10 and in this direction it is out of scope too; the same applies to unattended payments and any payments processed when the customer is not present, which also remain out of scope. There may still be benefit for PSPs that utilise file submission or that process payments without the customer present, to still deliver send capability on behalf of their customers. This could help to prevent misdirected payments and to prevent the migration of APP fraud, dependent on what checks and processes they already undertake.

3.37 The direction already excludes batched payments under those exemptions. However, there are third-party solutions that allow a PSP to upload a list of account holders against details such as SCAN or roll number, for example, that are online 24/7 to respond to CoP queries. To protect customers of other institutions sending to these accounts, we will still be directing these institutions to provide a respond capability by the appropriate deadline.

3.38 We agree with respondents about the heightened risk of APP scams and misdirected payments on accounts that allow customers to transfer funds in and out, and to multiple accounts. As such, our direction will still require relevant accounts to implement send and respond capability.

3.39 However, we have been persuaded by arguments on whether it is necessary to send CoP requests from accounts associated with a 'linked' or 'nominated' recipient account. Providers of accounts associated with a 'linked' or 'nominated' account limit where the consumer can transfer funds. These respondents have persuaded us they take other steps to either verify the authenticity of the destination account, or to limit the payment only going back to the account the money was first paid from. We will therefore not require the implementation of the 'send' capability, and only a requirement to deliver the 'respond' capability. These PSPs may separately choose to deliver 'send' capability on a commercial or competitive basis.

3.40 Because of the distinction we have drawn between accounts that need to either implement 'send' and 'respond' or 'respond only', we have rejected the suggestion to stagger the implementation of 'send' and respond' capability.

3.41 We have kept exclusions for PSPs from having to implement a CoP system where they have no applicable accounts in scope. To make this clearer, we are exempting these institutions from the direction and have added a process to do so. If an institution has evidence of why they are exempted from the direction (either completely or in part) they can send us that evidence. For example, valid reasons could be that they don't operate within Faster Payments or CHAPS and/or they don't hold the relevant types of accounts; that they send and receive payments in batches through their IAP; or that they only send via nominated accounts. We will accept representations made through trade associations on behalf of their member PSPs that fall into one or more of the exempted categories.

Dates for implementation and key dependencies

3.42 We asked:

- **Question 1e:** For views on our approach to stagger implementation and how the onboarding process could be managed.
- **Question 1g:** Whether the proposed deadlines for Groups 1 and 2 were achievable.

Respondents' views

3.43 Out of 32 respondents, 14 felt that implementation dates for Groups 1 and 2 were highly dependent on a number of factors, including a more streamlined onboarding process, future vendor models, industry capacity and constraints. Eleven respondents said the implementation dates should be extended and seven respondents said the dates were achievable or should be brought forward.

3.44 Of those who called for an extension, implementation dates suggested were in these ranges:

- Group 1 – between Q4 2023 and June 2024
- Group 2 – June 2025

3.45 Those who considered the implementation dates were realistic or should be brought forward argued this on the basis that it is necessary to protect customers sooner and industry pace should not be dictated by the slowest PSPs. One respondent said the dates should be a maximum, and this shouldn't prevent PSPs from implementing CoP sooner.

Number of PSPs to be directed

3.46 Twenty-four respondents were concerned at the number of PSPs we were directing in Groups 1 and 2. Two respondents estimated that to meet the deadlines, firms would need to onboard and implement CoP at a rate of approximately 17 participants a month, while another thought this was more equivalent to one participant a day. Respondents also suggested that our proposals might be difficult to implement, considering that it took almost two years to onboard 33 participants transitioning from Phase 1 to Phase 2.

3.47 Respondents were concerned about 'concentration' risks ahead of the implementation dates, given the number of PSPs, particularly in relation Group 2. Others were concerned about Pay.UK and OBIE's ability to support this level of onboarding.

3.48 Existing CoP providers and industry bodies were worried about the operational impact for current CoP providers to support the level of PSPs being directed. Concerns were focused around establishing bilateral connections and solving issues when peer to peer connectivity failed. In this instance, PSPs would need to work together to diagnose issues on a case by case basis.[9] A greater number of PSPs would increase the likelihood of delays. Another respondent highlighted the potential for increased costs and staffing that existing participants would need to be able to support the onboarding process.

3.49 Respondents suggested that we may wish to consider refining the number of firms to be directed, including implementing minimum thresholds relating to the volume and value of transactions. One industry body suggested applying thresholds (if a PSP had less than 1,000 payments per month and/or total payments were less than £1 million per month, for example). Five respondents suggested that staggering 'go live' dates within the two groups could avoid bottlenecks happening ahead of deadlines.

The onboarding process

3.50 Seven respondents suggested that Pay.UK need to do more work to ensure that onboarding is managed effectively. This includes:

- Pay.UK working with participants to improve and streamline the onboarding process. Respondents commented that the simulator was not as automated as it should be, and that Pay.UK should make the CoP technical guidelines easier to understand to avoid differing interpretations of the rules and standards.
- Pay.UK adopting a more central management role with CoP. Respondents suggested that Pay.UK work with stakeholders (such as OBIE) and participants to develop a clear business plan to manage and coordinate the onboarding process. This includes outlining contingency plans if implementation timelines are delayed.
- Pay.UK taking a central role in communicating plans to participants and the wider industry, including when there is a CoP incident and outage. Respondents told us that under existing arrangements, CoP participants have to contact other CoP users directly to tell them of any outage. With a greater number of participants this would create an even heavier burden.

3.51 One respondent argued that we may wish to consider directing Pay.UK to make the necessary changes (such as managing the onboarding process) before we direct firms to implement CoP.

3.52 Another respondent also highlighted that we should clarify the consequences of late implementation, to enable firms to plan ahead effectively.

Availability and capacity of third-party providers to support CoP implementation and the development of a vendor model

3.53 Nine respondents were concerned about the availability of third-party providers to support PSPs in Groups 1 and 2. Respondents told us that Group 2 firms in particular would have a reliance on third-party providers. One respondent said that only five

9 Respondents stated this presented significant challenges with the 33 PSPs in Phase 1.

vendors with a viable product currently service the market. Other respondents were concerned that smaller PSPs may not be viewed as a priority and industry would need assurances that third-party providers would be willing to provide services and adapt solutions for them. Others were concerned about third-party providers increasing costs, which would disproportionately impact smaller institutions.

3.54 Respondents supported amending the CoP rule book to help with vendor accreditation (vendors being able to provide services to PSPs in a similar manner to the Faster Payments system aggregator model). This would allow vendors to provide a single-entry point to establish connections between new and existing CoP-enabled PSPs, without having to make peer to peer connections across all 400 PSPs. Respondents felt this could reduce costs for new participants and be more cost effective for the wider market. Others thought this could encourage more vendors to enter the market, which in turn would scale up capability and speed up the onboarding process.

3.55 Several respondents were concerned that our proposals placed an over-reliance on this vendor model being available in time to provide a pathway for firms to implement CoP to our timelines. One respondent commented that the model had yet to be sufficiently developed and that key issues related to transparency of customer data, liability and compliance and monitoring had not been resolved. Others indicated that this model was not expected to be in place until early 2023, and thereafter would need to go through an accreditation process before going live with Groups 1 and 2. Others felt the timelines are currently uncertain and could impact implementation dates.

Budgets, business plans and other regulatory commitments which may impact implementation timelines

3.56 Six respondents believed implementation dates for Groups 1 and 2 would be challenging, as budgets and business plans for complex IT projects will already have been set for 2023, and in some cases even for 2024. Respondents were concerned that some PSPs would not be able to start their CoP build in time, while another respondent highlighted that as smaller PSPs had less resource and budgets, this was likely to disproportionately impact them. Those who suggested delaying implementation timelines argued it would allow PSPs to secure the funding to implement CoP at a later date.

3.57 An industry body referenced other regulatory initiatives, including the real-time gross settlement (RTGS) renewal programme, as having an impact on the proposed timetables. Another respondent pointed out that the remainder of 2022 would be focused on delivering highly complex projects and continuing to support existing regulatory mandates both within the UK and wider EMEA region. As such, this would not give PSPs enough time and resources to focus on a CoP build which would meet proposed timelines.

Our view

3.58 Our objectives in aiming for near ubiquity of the CoP service is to protect a greater number of payment system users and to give certainty to customers that they will have the protection of CoP when making and receiving payment transactions. We are mindful of respondents' concerns over the number of PSPs we are proposing to direct and that implementing CoP could impact heavily on smaller PSPs. We have made changes removing the requirement on send capabilities for many smaller institutions that have less sophisticated ways of making payments or have linked or nominated accounts.

3.59 Requiring respond only for these account types will mean that implementing a CoP system will not be as resource intensive as originally proposed, meaning these PSPs are more likely to be able to meet the dates in our direction.

3.60 We don't think it would be appropriate to change the structure of Groups 1 and 2, refine the number of PSPs to be directed through establishing a threshold or stagger the implementation of 'send' and 'respond' capability. The level of data collection we would need on an ongoing basis to monitor whether a PSP is below a threshold would place a burden on these PSPs and on us. We would also need to consider how long a PSP needs to exceed any limits before the requirement to implement a CoP system is applied, and then how long they have to implement it.

3.61 If a PSP fell below that limit, the impact of this is also questionable as we do not want PSPs to revoke CoP once it is implemented. We think that would be confusing and not as transparent as expected. We also think that a customer of a PSP is unlikely to know how many other payment transactions it makes, or why that should impact whether that customer receives protections or not. We believe a customer should not be excluded from the benefits of CoP because the PSP they bank with is a smaller institution.

3.62 Instead, we agree with respondents that Pay.UK (and, where relevant, OBIE) will need to resource improvements to streamline the onboarding process. We recognise the points made by respondents regarding the challenges faced by the 33 participants who migrated from Phase 1 to Phase 2 of CoP. We also agree with respondents that there is a heightened risk of bottlenecks occurring, as firms may rush to meet the implementation dates ahead of the direction timelines. We don't propose splitting Groups 1 and 2 down any further at this stage or think it appropriate to address these wider concerns directly in the direction.

3.63 Instead, we expect Pay.UK to draw on lessons from the migration to Phase 2 and make improvements that will ensure new and existing participants are able to handle the number of PSPs implementing CoP. In relation to third-party providers, Pay.UK have told us they are considering introducing a vendor model and/or an indirect agency model, which are expected to reduce the time, complexity and costs associated with onboarding. We endorse these changes to the CoP rules and standards and believe that, if developed and implemented correctly, these models will facilitate faster and smoother onboarding of Groups 1 and 2 and can prevent bottlenecks. OBIE will also need to be part of the discussion as the CoP infrastructure supplier. OBIE may need to consider whether changes are required to facilitate these models and whether they also have a role in improving the onboarding process.

3.64 Successfully delivering the vendor model and making it available will avoid each PSP having to manage hundreds of direct PSP to PSP connections. As we understand, this model is likely to be particularly impactful for Group 2. In addition, Pay.UK is undertaking work to understand whether further changes will make onboarding easier and where possibly fully automated. In September 2022, Pay.UK began collaborating with existing participants, those to be directed, vendors, and other parties, to better understand what changes would be required, including bringing in a vendor model. It is not expected that the vendor model will be available until end Q1 2023. Industry will then need to work through issues associated with testing and accreditation. We understand there may be alternative changes that will also be beneficial.

3.65 We accept that our reliance on Pay.UK making changes as well as implementing the vendor model is a risk, but a vendor-style model will reduce the complexity for existing participants to onboard with new participants – they will instead onboard with a vendor who then connects onwards to multiple directed PSPs. This should also lower the complexity of developing a solution for smaller PSPs.

3.66 We have also discussed with third-party providers respondents' concerns regarding a limited availability of suppliers to support the market. We understand there is capacity with existing vendors that already have a solution to onboard the number of PSPs we are directing. However, there are a number of other providers that have either entered the market already or are looking to do so. On that basis, we understand the market will deliver solutions for the directed PSPs without requiring any further market stimulation. We agree that the number of vendors and solutions they are offering need to be transparent, and note that previously vendors have been allowed to demonstrate products to potential PSPs via events organised by Pay.UK and UK Finance. We think further events like these may be useful to PSPs that have less awareness of the number of vendors and their products.

3.67 We also agree with respondents that, given the number of PSPs in Groups 1 and 2, and as Pay.UK is the owner of the CoP rules and standards and the operator of the service, it needs to take a central role with planning and coordinating the onboarding process where PSPs go direct.[10] PSPs need to engage with Pay.UK at the earliest opportunity, to discuss their plans including key milestones. Pay.UK should provide an aggegrate view of PSPs plans to the wider industry and PSPs should work with Pay.UK on an ongoing basis, so that Pay.UK can track progress. Pay.UK will need to communicate these plans to us. This will allow us to monitor whether implementation plans are on track for individual PSPs and whether we need to intervene.

3.68 Where appropriate, Pay.UK should include in their plans a prioritisation process to avoid bottlenecks. They need to tell us of any concerns they have about PSPs' reluctance to avoid bottlenecks by making changes. We expect directed PSPs to work with Pay.UK to support the coordination of the onboarding process. We also expect directed firms to adhere to requests made by Pay.UK in relation to the implementation plans of individual PSPs, and where these plans impact the industry's ability to deliver CoP to the deadlines in our direction.

10 PSPs that connect PSP to PSP directly without using a vendor-aggregator model. After the development of the vendor-aggregator model, on the assumption that the vendor has already connected to each PSP, we would expect the vendors to then manage their own pipeline of new customers connecting to them, informing us and Pay.UK of their own plans and when new customers have gone live.

3.69 Pay.UK taking on these critical roles will give new and existing participants greater certainty and transparency. It will also allow firms to plan internally if they need to budget and manage work associated with the expansion of CoP alongside other priorities. In September 2022, Pay.UK started working with new participants and existing CoP PSPs to work through issues with onboarding. Discussions of how to make onboarding easier and potentially faster and cheaper are at an early stage. Those discussions have illustrated the activity required by everyone to enable potential new access models and use cases to allow the directed PSPs to onboard smoothly.

3.70 We have noted the extended timeframes proposed by respondents to give industry time to effectively plan and manage the onboarding process. However, we agree with the respondent who stated that timeframes for implementation should not be dictated by the slowest PSP. We therefore reject proposals made by respondents to extend the Group 1 timeline to June 2024 and Group 2 timeline to June 2025.

3.71 Instead, we are persuaded by respondents that industry require more time to plan and coordinate delivery more effectively, especially to avoid bottlenecks. This will also allow Pay.UK to make the necessary changes to the CoP rules and standards in relation to a vendor model and/or indirect access model. We have concluded that PSPs in Group 1 should have 12 months from when we give the direction and Group 2 should have 24 months. This means we will require:

- Group 1 to have and use a CoP system with send and respond capability after **31 October 2023**.
- Group 2 to have and use a CoP system with send and respond capability after **31 October 2024**.

3.72 We expect firms to implement a CoP system well ahead of the deadlines, rather than targeting the last possible date for implementation. We strongly support PSPs working collaboratively with Pay.UK and other industry partners to adopt CoP at the earliest opportunity. We also expect PSPs to build in contingencies into their plans, in order to meet the deadlines we have set. As part of their planning, firms will need to consider what contingency they may require, to make changes or work through any technical issues. For example, a PSP may not want to miss the deadline because they planned for a last-minute implementation date (for example, within the last month), only to discover issues that meant they could not go live in time.

3.73 While appreciating that our proposals call upon existing CoP participants to undertake additional work, we do expect them to galvanise their support and work with Pay.UK and others. We also expect existing CoP participants to adhere to requests made by Pay.UK in relation to what is necessary to support the successful implementation of CoP for Groups 1 and 2. We expect Pay.UK to inform us if any existing CoP participant is unwilling to support the directed PSPs or make any necessary changes to do so.

3.74 In enforcing compliance with our direction, we will take account of the relevant factors, including any external factors outside a PSP's control that materially impact their ability to comply. However, we will also take account of how well a PSP has planned their implementation in advance, including whether PSPs have chosen to adopt a high-risk plan which targets implementation to the last possible date.

Directing more than the proposed 400 PSPs

3.75 We asked:

- **Question 1i:** For views on our proposal not to direct every indirect HOCA[11] PSP.

Respondents' views

3.76 13 respondents provided views on this question, with the majority (eight) supporting our proposals as given and therefore not going further. Respondents who were existing CoP participants did not think it would be proportionate or effective to direct every HOCA PSP to join CoP.

3.77 Other respondents noted that current numbers of PSPs within Groups 1 and 2 were already significant and directing more PSPs could create even more coordination and capacity issues.

3.78 Of those who preferred us going further, one respondent suggested that if an account can receive and send payments, then it should be subjected to CoP. Another respondent stated that the inclusion of credit unions over a certain size could be incorporated, even if this is solely on a respond basis. Another felt that not directing every PSP left a gap which may result in many vulnerable user cases and APP losses.

Our view

3.79 We agree that there could be capacity issues if we went further than the proposed number of around 400 PSPs. This will significantly increase the risk of bottlenecks and increase the resourcing burden on existing participants and Pay.UK. We are therefore not proposing to direct HOCA PSPs beyond building societies at this stage. We are mindful that the vast majority of respondents raised concerns about the number of PSPs that we are proposing to direct in Groups 1 and 2. This presents challenges to industry capacity and onboarding – directing further PSPs will add to this.

11 Head Office Collection Account: PSPs that use one account, the HOCA, held with a sponsor bank to make and receive all payments on behalf of their customers. Typically, these PSPs will use a secondary method of identifying customers on their ledger, such as through roll numbers.

3.80 We also highlighted in our consultation that the volume of transactions through HOCA PSPs is small in comparison to those we are proposing to direct. While we note the concern raised by respondents that by not directing every PSP may leave a gap, we have not seen evidence to indicate that fraud is migrating to these institutions at the current time. Should evidence suggest that fraud is migrating to these institutions, we would consider whether we need to take further regulatory action after 2024.

Secondary Reference Data (SRD)

3.81 We asked:

- **Question 2:** For views on whether we need to consult on a requirement to implement SRD because of the proposed direction.

Respondents' views

3.82 Of the 26 responses we received to this question, 13 respondents felt that we should consult or direct some or all Phase 1 participants to deliver SRD. These respondents were concerned that the wider industry had not had sight of the SRD roadmap developed by Pay.UK and Phase 1 participants.

3.83 There were 12 respondents who felt that further regulatory intervention was not required. Those views were primarily from Phase 1 PSPs and industry bodies. They were satisfied that SRD capability was being delivered to industry timelines, in line with our proposed implementation timeframes. Respondents also supported our approach to monitor progress against industry timelines, and suggested that we should only need to take targeted intervention on individual firms that were not delivering to schedule.

3.84 One respondent said that there was already significant pressure across the industry to deliver the wider adoption of CoP and further regulatory intervention on SRD may not be helpful at this stage.

3.85 One respondent did not give a view on whether we needed to take regulatory action but pointed out that a further consultation on SRD would have a knock-on impact and could jeopardise Group 2 timelines.

Our view

3.86 The ability of Phase 1 PSPs to send SRD will be required for building societies within Group 2 in order to deliver CoP by October 2024.

3.87 Since our consultation, the majority of existing CoP participants delivered SRD capabilities by August 2022. We are aware that two PSPs have applied for a waiver from Pay.UK, and have a later delivery date, but we understand this is for very small volumes of traffic and the capability will be delivered in line with our timelines.

3.88 On this basis, we will not direct for SRD implementation; however, we may consider giving a specific direction on any participant who has received a waiver but fails to meet their new agreed date.

Rule changes, Faster Payments and CHAPS

3.89 We asked:

- **Question 3:** Views on our expectation that Pay.UK and/or the Bank of England as the operator of CHAPS (in respect of retail payments) consider a rule change requiring CoP for payments in those systems to be consistent with the Group 1 timeline.

Respondents' views

3.90 We received 26 responses to this question, of which 16 respondents supported Pay.UK and/or the Bank of England bringing in a rule change with the respective schemes. Respondents felt that it was important to capture new PSPs, such as start ups or international PSPs launching a product in the UK, that join these schemes as a direct participant at a later date.

3.91 Respondents did query how CoP might be mandated for indirect PSPs, as the rules currently apply only to direct PSPs.

3.92 However, respondents also raised some concerns. They said requirements on new joiners of the respective schemes to implement CoP may create unintended consequences, such as a barrier to entry, or reduce competition. Another respondent also highlighted that some new participants may have no use for CoP and therefore the mandatory requirement on them would not benefit their business. One respondent called for an impact assessment to be conducted on the rule changes.

3.93 Pay.UK, the operator of Faster Payments, highlighted potential legal risks in setting rules which relate to overlay services that operate outside of (in this case, prior to) the transfer of funds through Faster Payments. Pay.UK suggested that we may wish to consider giving an enduring general direction, which would capture future direct Faster Payments participants, and also other PSPs whose customers might benefit from an account checking service.

Our view

3.94 We agree with the majority of respondents that the requirement to undertake a CoP check being part of the payment transaction within relevant scheme rules will be of benefit. We understand the issue of direct versus indirect PSPs – noting the policy is not to direct all HOCA indirect PSPs at the current time. There are different solutions to addressing indirect PSPs. We are aware that the risks are greater with new direct PSPs than smaller indirect PSPs. We wish to capture those that present more risks, but not at the expense of trying to find a solution that fits both direct and indirect PSPs.

3.95 We agree that there could be a potential barrier to entry of new PSPs joining Faster Payments and/or CHAPS if the cost of implementation is high. However, we balance this with the protections afforded by CoP and the fact that all other Faster Payments and CHAPS retail participants will require CoP. We also wish to avoid any competitive advantages for new joiners to provide less protection, and face a lower cost base through doing so, than peer PSPs.

3.96 We agree that in some cases CoP would not be applicable (noted in our direction-specific business models), such as specific lending and acquiring products that are out of scope. We expect any rule would be based on there being a customer or business making the payment. We note that operators of payment systems are familiar with exemption and waiver processes to allow this to happen.

3.97 We agree with Pay.UK that there are other methods that could achieve the same outcome. However, on principle, the requirement to have made the relevant checks ahead of a payment being made (in order to verify that payment will be correct), sits as part of the payment journey. CoP specifically leads to a reduction in some types of APP scam and misdirected payments, which leads to fewer errors across the payment system. As such, it is an error prevention method as well as an APP scam prevention tool. In our view, CoP is an integral part of the payments journey already. An enduring direction will not be required as customers now expect CoP to be part of their payment journey – because name checking is now widespread and the benefits known, a PSP is unlikely to remove the service. The requirement to have CoP for new entrants would be within the Faster Payments rules.

3.98 While we agree with respondents, we are not at this time proposing to direct Pay.UK to make a rule change. As we have noted in paragraphs 3.62 to 3.69, we want Pay.UK to resource the planning and coordination of implementing CoP for around 400 PSPs. However, we expect Pay.UK to make rule changes in the future – for example, as a package when other changes are made and/or for the new NPA rulebook. We will also consider whether there is merit in achieving a rule change through the use of our powers – for example, under FSBRA sections 54 or 55 to amend rules accordingly. As part of this, Pay.UK should review what level of monitoring and assurance is required to ensure PSPs continue to meet any new rules.

Monitoring and compliance

Respondents' views

3.99 We did not ask a specific question on the monitoring regime that will accompany our direction; however, one respondent asked for clarification on how we intended to ensure that firms had implemented CoP. This included what data we would require and how often we planned to monitor the CoP regime.

3.100 Another respondent urged us to consider the implications of introducing transparency measures identifying which PSPs had implemented CoP. This respondent felt that making such information known publicly may give fraudsters insight as to which PSPs had not implemented CoP, targeting them for fraudulent transactions.

Our view

3.101 In terms of compliance with our direction, we will require directed parties to notify us in writing within 28 days of having put the CoP system in place. Where a directed party considers it unlikely that it will meet its obligation under our direction they must contact us, explaining the reason for this, within 28 days of coming to this view. As we also set out in SD10, we will be including a provision to allow us to require information from any directed party about how the PSP is complying (or planning to comply) with the direction.

3.102 We are also considering how we design the monitoring regime. For example, we could collect data from some or all directed parties and pre-existing CoP providers, which would allow us to assess the effectiveness of CoP. Currently, we collect data from the six largest banking groups on a regular basis, with further ad hoc collections from some other CoP PSPs. Given the increasing number of CoP PSPs, we do not think that this method alone will give us enough data for monitoring the effectiveness of CoP.

3.103 We are considering how we design a wider and more effective monitoring regime. As part of this more detailed design work, we will consider what data we may require from CoP-enabled PSPs that have already implemented CoP and those PSPs that we propose to direct in Groups 1 and 2.

Summary

3.104 Given the preceding sections, we have decided to give a specific direction amending the direction in the following ways.

3.105 We have removed seven PSPs listed in Group 1 that have delivered CoP since our consultation. Three additional PSPs have been removed as they have no applicable business model that would be in scope of the direction. Another four PSPs have been moved to Group 2 timelines, as their volume of relevant transactions in relation to CoP have decreased and fallen below the threshold that we established. 32 PSPs will now be directed under Group 1.

3.106 We have made changes to clarify that the direction only applies to PSPs that have customer or business accounts that fit the definition of payment account.

3.107 Accounts that allow customers to transfer funds in and out, and to multiple accounts, will still be required to implement 'send' and 'respond' capability.

3.108 Accounts that are associated with a 'linked' or 'nominated' account need only to implement 'respond' capabilities and not 'send' capabilities.

3.109 We will give 12 months to Group 1 to implement CoP and 24 months to Group 2 to implement CoP. This will give industry time to plan and coordinate delivery more effectively, especially to avoid bottlenecks, and allow Pay.UK to make the necessary changes to the CoP rules and standards in relation to a vendor model and/or indirect access model. This means we will require:

- **Group 1:** PSPs named in Annex 1 to have and use a CoP system with send and respond capability after **31 October 2023**.
- **Group 2:** all other PSPs either using unique sort codes, or that are building societies using a SRD reference type, to have and use a CoP system with send and respond capability after **31 October 2024.**

3.110 We will not direct for SRD implementation. However,we may consider giving a specific direction on any participant who has received a waiver from Pay.UK but fails to meet their new implementation date.

3.111 At this time we are not proposing to direct Pay.UK on making rule changes to the Faster Payments scheme, but we will revisit this as part of a wider package of other rule changes that we may require in future.

4 Cost benefit analysis

Since we consulted on our proposed direction, we have updated our assessment of the relevant benefits and costs.

The baseline scenario we assessed the impact against remains one where the directed PSPs would have introduced CoP more slowly or not at all (in the case of some PSPs), without direction. However, we have now also taken account of related policy changes that could impact some of the same outcomes as the extension of CoP checks to these additional PSPs.

In our consultation, we stated that extending the requirement to deliver CoP to the wider group of PSPs was likely to have benefits through making APP fraud less likely overall in the wider system. This would have very significant benefits for customers and businesses. Our updated assessment includes additional analysis and evidence from respondents to our consultation which inform both the relevant costs and benefits. While significant elements remain hard to quantify precisely, we consider that the expected benefits materially outweigh the relevant costs that are likely to arise as a result of our direction.

How the proposal will improve outcomes

4.1 Extending the coverage of CoP checks to additional PSPs should benefit customers and businesses, as well as PSPs, most directly in two ways:

a. There are some types of APP scams where customers or businesses make a payment to an account which is not in the name of the person they thought the payment was for. Ensuring that both sending and receiving PSPs provide the payer with a CoP check should help to reduce the number of 'malicious redirection' scams – where a scammer tricks the victim into sending money for a genuine payment to the wrong account. Reducing the number of these types of APP scams will bring financial benefits to customers and businesses by reducing losses. Even where such losses are later reimbursed, preventing them in the first place will benefit customers and save PSPs the expense of investigating and (partially or fully) reimbursing losses.

b. Extending CoP to additional PSPs will also help reduce the number of misdirected payments where the wrong account identifier numbers are entered by accident. This will bring benefits to payers and payees, both in terms of preventing losses and removing the costs associated with correcting the error, and where the customer would have recovered the misdirected funds anyway.

4.2 There is evidence that the provision of CoP checks (now provided by over 50 PSPs, accounting currently for over 90% of Faster Payments transactions) has been associated with reduced numbers of APP scams, as well as accidentally misdirected payments.

4.3 In addition to money lost to the fraud itself, customers may face psychological effects and other costs associated with these crimes. Even if they are fully reimbursed (weeks or months later), they will still suffer a cost for losing the money in the first place, and will face the stress and anxiety of not knowing if and when they will be reimbursed. Making scams less likely to happen in the first place will mitigate these issues.

Baseline

4.4 We have analysed the impacts of the direction against a baseline, or counterfactual, scenario, where the policy is not implemented. The starting point for our baseline is that the introduction of CoP checks by these PSPs would take place more slowly or not at all (in the case of some PSPs), in the absence of the direction. In coming to a view on the appropriate baseline, we have considered what assumptions to make in relation to:

- the PSR's other proposed policies in relation to APP scams (Measures 1, 2 and 3), which are currently being considered, but have not yet been finalised or implemented[12]
- the likelihood that some of the directed PSPs would have introduced CoP checks voluntarily in the absence of our direction
- the level of relevant APP scam fraud and accidentally misdirected payments in the future

Other PSR policy interventions

4.5 In relation to the two other APP scams policy measures we are working on, we have assumed, for the purposes of this assessment, that these are likely to be in place in our baseline scenario.

- **Measure 1 – Publishing scam data:** Having consulted on the proposed approach to collecting and publishing data on APP scams and reimbursement rates[13], we undertook a voluntary trial of reporting on APP scams data in June. We continue to engage with PSPs and trade bodies to aid the development of our final guidance and data template. We plan to publish these, along with a policy statement, before the end of the year. We will ask directed PSPs to submit data to us during spring 2023, and we will publish the first set of data in summer 2023. For this assessment, we have assumed that this measure is likely to be in place and having an impact on APP scam prevention in 2023.[14]

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12 PSR CP22/4, *Authorised Push Payments (APP) scams: Requiring reimbursement* (September 2022)

13 PSR CP21/10, *Authorised Push Payment (APP) scams* (November 2021)

14 We note that our November consultation included a draft cost benefit analysis of the impact of the information publication under Measure 1, including pointing to its likely impact on reimbursement and fraud prevention (page 49).

- **Measure 2 – intelligence sharing**: Progress has been made on developing an intelligence-sharing system, and provisional results on the effectiveness of it in identifying scam payments are positive. UK Finance and Pay.UK are now building rules and standards to allow data to be shared on a real-time basis, and we expect PSPs to implement the capability to send and receive this data in 2023. For this assessment, we have assumed that this measure is likely to be in place and having an impact on APP scam prevention in the near future.

- **Measure 3 – mandatory reimbursement**: We recently published our consultation on our proposal to require all PSP sending payments over Faster Payments to fully reimburse APP scam victims, with only limited exceptions.[15] Our proposed policy would also allocate the costs of reimbursement equally between sending and receiving PSPs, with a default 50:50 split. For this assessment, we have assumed that this measure is likely be in place and having an impact on APP scam prevention in 2024.

4.6 **PSPs introducing CoP checks voluntarily without the direction**: Since we required the six largest banking groups to implement CoP for their customers, over 40 other PSPs have voluntarily introduced CoP too. It's unclear whether some of these PSPs anticipated being required to implement CoP so decided to go ahead early. These PSPs may have recognised the benefit of having CoP for themselves, their customers, or to be part of a wider network.

4.7 Our baseline scenario does not include an estimate of what share of around 400 PSPs that will be directed could have been expected to introduce CoP checks in any case. This does imply that any estimate of the costs of all c.400 PSPs adopting CoP is likely to be an overestimate – some of those costs would have been incurred even without our intervention. However, it also implies that some of the relevant benefits could also have arisen from some PSPs voluntarily introducing CoP checks. As such, the overall effect on our analysis here is broadly neutral.

4.8 **Level of APP scam fraud and misdirected payments**: Based on recent trends, we would expect APP scam numbers (which rose by 39% in value between 2020 and 2021) and Faster Payments transaction numbers (which rose by 24% in value between 2020 and 2021) to continue to increase, absent our intervention. We would also expect the level of misdirected payments to increase in line with increased in Faster Payments transactions. We have not sought to quantify likely future increases in fraud or payments numbers, but note that the expectation that these will increase over time is relevant to our assessment, especially in relation to benefits.

15 PSR CP22/4, *Authorised Push Payments (APP) scams: Requiring reimbursement* (September 2022)

Respondents' views

4.9 We received 28 responses to our initial consultation: 11 respondents agreed with our assessment of the benefits and costs; two felt that our costs were overstated or benefits were understated; and 11 felt that the benefits were overstated or costs were understated. The remaining four respondents did not give a view on the overall cost benefit analysis from the consultation.[16] Respondents' views on specific benefits and costs are set out in the relevant sections below. In this section, we summarise views on a number of points that are broader than – or outside the scope of – the cost benefit analysis.

Alternative fraud prevention measures

4.10 Four PSPs submitted that the benefits of adopting CoP were likely to be diminishing, pointing to fraudsters adapting their approach to PSPs that had adopted CoP checks by socially engineering customers, and argued that there should be more focus on other fraud prevention mechanisms. Another PSP argued that the CBA in our consultation discounts the opportunity cost involved; the money and time spent implementing CoP could be spent elsewhere on fraud prevention activity that they believe potentially offers greater returns and benefits more customers, such as Bank Account Verification.

4.11 On the effectiveness of CoP, we have presented our estimates of its likely impact on fraud levels in our assessment of benefits below, noting that our quantified estimates are likely to be conservative. Our analysis of the costs and benefits of extending CoP does not extend to comparing its relative costs and benefits against other anti-fraud measures that individual PSPs may introduce. Rather, we are assessing the extension of CoP in the context of its existing use, the likely effects of closing the remaining gaps in coverage, and the effects on consumers, businesses and PSPs that achieving near ubiquity of that system is likely to achieve.

Approach to the CBA

4.12 Three respondents suggested that the assessment should include more detailed analysis:

a. One PSP pointed out that the CBA covered such a wide and varied range of firms, business models, products and services that 'a single, aggregated CBA, that presents a single figure, verges on being meaningless'. It argued that we should have considered the specific business models at a more granular level, as costs and benefits accrue differently according to the different business models employed by firms, the different products they offer, and firms' relative sizes.

16 Of the four remaining respondents that did not give an overall view: two PSPs pointed to the evolution of fraudsters' tactics in response to CoP, with one of these also pointing to the alternative use cases for CoP; a consumer body emphasised the importance of a level playing field for consumers; and one PSP argued that CoP can be beneficial, but that it depends on a PSP's client base and its payment-initiation channels.

b. On a related point, another large PSP argued that there should be separate analyses for PSPs in Groups 1 and 2.

c. A large PSP submitted that more quantification is needed in relation to the costs, including of the costs to existing participants.

4.13 In contrast, a trade body argued that the importance of mitigating fraud, ensuring safer payments, protecting payers and payees, and achieving ubiquity of coverage were such that the direction should be put in place regardless of the cost benefit analysis.

4.14 On the level of detail that the CBA should cover, we have carried out an assessment of the direction that we are imposing, rather than presenting different options, and have added a substantial amount of detail to the analysis that we published in our consultation in May, including in relation to costs to PSPs, both those that will be directed and existing CoP participants. As set out below under the relevant costs and benefits, the level of detail of the evidence that has been submitted to us would not support a robust analysis that sought to estimate the costs and benefits in relation to, for example, PSPs with different business models. As set out in Chapter 3, above, where PSPs do not operate relevant accounts – and so the benefits of CoP checks are likely to be lower – there is scope for their exclusion from the direction. Similarly, some PSPs will only need to implement 'respond only' CoP functionality for their accounts, which will reduce the costs for those PSPs. As such, our policy will take account of different business models, where relevant, even if this is not reflected in detail in the cost benefit analysis.

Our updated assessment of the impacts

4.15 We have analysed the impacts of the proposal against a baseline scenario. This is that the introduction of CoP checks by these PSPs would take place more slowly or not at all (in the case of some PSPs) in the absence of the direction.

4.16 Our assessment of the likely costs and benefits of the proposal as they relate to the baseline is based on a combination of qualitative, as well as quantitative, evidence. It has not been possible to estimate the likely impacts of all the relevant benefits and costs with precision, but we have given some indicative numbers where possible.

4.17 There are four main areas where we expect the policy to lead to relevant benefits, and two areas where we expect it to generate relevant costs, as set out in Table 1. As set out below, and in more detail in our updated assessment of each relevant benefit and cost, those elements of benefits and costs that we have been able to quantify point to their being on a similar scale. However, for a number of reasons set out below, the quantified benefits of fraud reduction are likely to materially understate the expected benefits of extending CoP coverage to almost all relevant PSPs. In addition, there are important non-quantified benefits, intangible benefits, which support an assessment that our direction will benefit consumers, businesses and PSPs overall.

Table 1: Summary of main benefits and costs

Benefits	Relative magnitude	Costs	Relative magnitude
Reduction in the level of APP scam frauds	High – indicative estimate of £6.5m to £19m per annum, which is likely to materially understate the impact	Costs to PSPs of introducing CoP checks	High – indicative estimate in the region of £20m per annum, although we have seen a wide range of estimates
Reduction in the level of accidentally misdirected payments	Medium – indicative estimate of £2m per annum, which may overstate the impact, as some misdirected payments are promptly returned to senders	Disproportionate cost impact on some PSPs affects competition	Medium – some costs may disproportionately affect smaller PSPs, impacting entry and innovation
Reduction in psychological costs to victims	Medium – related to the reduction in financial losses (above) but likely to be significant for many cases and victims		
Level playing field between PSPs in relation to consumer protection	Medium – important for customers to have the same level of protection across different PSPs		

4.18 We consider that the benefits of our direction requiring additional PSPs to provide CoP checks are likely to outweigh the costs of the direction.

Benefits

Reduction in the level of APP scam frauds

4.19 A wider adoption of CoP is likely to result in fewer APP scams, as some types of scams are likely to be prevented by CoP checks. The types of APP scams where CoP is likely to have an impact include those involving impersonation, where payers are able to check whether the payees' details match the name of the account holder they had intended to transfer funds to.

4.20 Even where the customer is eventually reimbursed (partially or fully) by their PSP, they may have to incur costs in terms of time and expense needed to pursue a claim. They could also potentially suffer costs arising from not having access to their money while going through that process. Examples include borrowing costs, loss of interest or investment income, or other opportunity costs from losing access to their funds, even if only temporarily. In terms of impact on PSPs, identifying APP scams also represents a saving in terms of the time and expense needed to investigate and pursue claims.

4.21 Given that a proportion of APP scam losses are reimbursed by PSPs, then the benefits to the customer from preventing these losses may have been lower (notwithstanding the costs of pursuing a claim, waiting for reimbursement and so on, as above). However, for those reimbursed payments where customer losses are reduced, there is still an important benefit to prevention, as the PSP in question benefits by avoiding the need to reimburse the customer for the lost funds.

4.22 One PSP agreed that some types of fraud, including impersonation fraud, are likely to be prevented by CoP, and preventing these frauds from happening in the first place should reduce reimbursement costs to PSPs and reduce costs for the fraud victims. Another PSP argued that wider implementation would 'add a layer of protection for customers' but only in the short term: there is a risk that criminals will either migrate efforts to another type of fraud or more likely find tactics that circumvent CoP, leading to rises in other scam types CoP is unable to prevent.

4.23 Two trade bodies argued that it was difficult to draw the conclusion that CoP has 'made a significant dent in the number of APP scams' in the UK. One of these also pointed out that the benefits of bringing PSPs accounting for 5% of transactions should be reconsidered in light of the costs involved.

Quantification of the effect on APP scams

4.24 Estimating the effect of requiring an additional 400 PSPs to implement CoP with precision is difficult for a number of reasons:

a. Only certain types of APP scams are likely to be prevented by a system of CoP checks, including impersonation scams or CEO fraud.[17] Even within those categories of APP scams where CoP checks are likely to have an impact, these are only likely to help prevent some of these frauds, so even focusing on this subset of fraud may not accurately measure the impact of CoP checks.

b. As the number of PSPs providing CoP checks increases, fraudsters are likely to adapt their tactics.

c. We have seen some evidence of fraud and fraudsters 'migrating' from targeting PSPs that now provide CoP checks to those that do not.

d. Isolating the effect of CoP checks from the effect of other trends and changes in PSPs' fraud controls is inherently challenging.

4.25 We have looked at a number of different pieces of evidence in coming to a view on the likely impact of requiring additional PSPs to implement CoP.

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17 Out of the eight categories of APP Scam fraud (based on UK Finance data, see below), there are four categories where a CoP check is likely to help prevent fraud: Impersonation: Police/Banks Staff; Impersonation: Other; Invoice and Mandate; CEO Fraud. These accounted for around 50% of APP scams, by value, in 2021. See: UK Finance, *Fraud Report 2021* (June 2022), pages 49 to 71.

4.26 We have looked at data on relevant APP scam fraud sent from the six largest banking groups to those PSPs that do not provide CoP. Following the introduction of CoP checks by the six largest banking groups under SD10, we have seen a fall in these APP scam types, relative to those PSPs that have not introduced CoP checks. The exact scale of that impact varies depending on the measure (value or volume) and on the time period examined, as set out in Table 2.

Table 2: Estimated impact of CoP checks on rate of relevant APP scam fraud

Period		Impact	
From	**To**	**Value**	**Volume**
Q3 2020	Q3 2021	-10%	-35%
Q3 2020	Q4 2021	-17%	-43%
Q3 2020	Q1 2022	-16%	-21%
Q3 2020	Q2 2022	No discernible impact from CoP	

4.27 Based on the value of relevant APP scams received by non-CoP providers[18], this experience leads us to estimate that extending the requirement of CoP to those non-CoP providers is likely to reduce this type of fraud by between £5.5 and £9 million per year. This is based on the assumption that extending CoP checks to PSPs that currently do not provide these will reduce relevant APP scam fraud by between 10 and 17%, and applying this to the level of fraud currently received by non-CoP PSPs. This range is likely to underestimate the likely impact of extending CoP checks to around 400 additional PSPs for a number of reasons.

4.28 First, the introduction of CoP is likely to help prevent fraud sent from non-CoP PSPs to PSPs with CoP. While we do not have PSP-level data on these APP scams, we know that these PSPs account for less than 5% of Faster Payments transactions (by value), and that they receive 15 to 18% of relevant APP scams from the six largest banking groups. Given these shares, non-CoP PSPs are likely to send somewhere between £8 million and £51 million in relevant APP scam fraud. If we assume that the introduction of CoP checks is likely to reduce this fraud by 10 to 17% (as above), then we could expect a reduction in the value of relevant APP scams of between £0.9 million to £9.7 million per annum. This reduction in fraud sent by relevant PSPs is in addition to the likely reduction in fraud received by them, as set out above.

18 PSPs that do not provide CoP were the receiving PSPs in relation to relevant APP scams fraud of £43 million in 2021. Given that those six largest banking groups account for around 80% of relevant APP scam fraud overall, the total received by the non-CoP providers is likely to be around £55 million per year.

4.29 Second, APP scams are more common with non-CoP PSPs. At present, PSPs that do not provide CoP checks account for less than 5% of Faster Payments transactions, but account for 15 to 20% of the value of relevant APP scams.[19] As these PSPs account for a disproportionate share of this type of fraud, we would expect that extending CoP checks to these PSPs would be particularly beneficial. It would greatly reduce the scope for fraudsters to 'migrate' from PSPs that provide CoP checks towards those that do not. As such, it might well lead to a higher reduction in APP scams than previous CoP implementation. If non-CoP PSPs' share of relevant APP scams was in line with their share of Faster Payments transactions, the amount of fraudulent payments received they account for would reduce by around 80% – a fall of around £40 million. This is likely to overstate the effect of CoP on these PSPs, but it does illustrate how much higher their share of scams is than their share of transactions.

4.30 Third, a number of respondents pointed to the benefits of having ubiquitous (or near-ubiquitous) CoP coverage across Faster Payments participants. One consumer body attributed the 'limited impact' of previous CoP measures to 'significant gaps in coverage across the payment services market'. It argued that a ubiquitous service will reduce losses by significantly more than £4 million (as we had set out in our consultation[20]), as there will be fewer places for fraudsters to operate. A third-party provider pointed to the experience in another European country where the CoP checks covering almost all PSPs and transactions had led to a very substantial reduction in both fraud and misdirected payments – both falling by over three quarters. This may overstate the expected effect of additional PSPs providing CoP in the UK, but it does demonstrate the potential for near-ubiquitous coverage to prevent fraudsters migrating to non-CoP PSPs.

Reduction in the level of accidentally misdirected payments

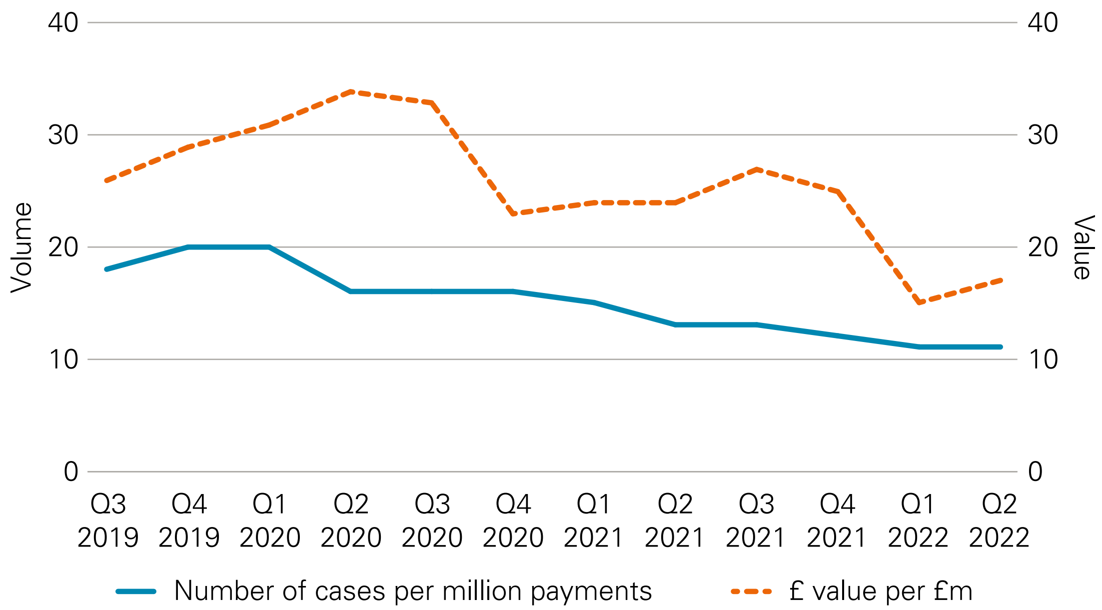
4.31 Expediting the wider adoption of CoP will result in fewer accidentally misdirected payments. Even where the customer manages to recover some or all of their payment, there may be costs in terms of cashflow and financing costs, as well as the time and expense required to pursue a claim. Preventing accidentally misdirected payments also represents a saving for PSPs in terms of the time and expense of investigating and pursuing claims.

4.32 During the first full year of CoP checks by the six largest banking groups, the value of misdirected payments fell by 35% (see Figure 3). Assuming that the level of misdirected payments sent by the additional PSPs is roughly proportionate to their share of Faster Payments transactions, extending CoP checks to these PSPs should reduce accidentally misdirected payments by around £2 million a year. PSPs may be able to recover some of these payments and refund the payer. However, even then there are likely to be costs to the payer, the PSPs involved and the accidental payee. As such, even a modest reduction in the number of accidentally misdirected payments is likely to bring material benefits to consumers, businesses and PSPs.

19 In volume terms, PSPs that do not provide CoP account for 15-30% of relevant APP scams and less than 10% of Faster Payments transactions. For both value and volume, these are based on those PSPs' share of relevant APP scams received from the six largest banking groups and on their share of Faster Payments transactions received.

20 CP22/2, *Confirnation of Payee: Requirement for further participation in CoP* (May 2022), paragraph 5.10.

Figure 3: Evolution of the relevant types of misdirected payments by SD10 banks



4.33 Two PSPs agreed that reducing accidentally misdirected payments was an important benefit of CoP, with one pointing to the fact that the benefits of CoP also accrue to legitimate payees, as they are less likely to suffer from missed payments or to have to refund payments sent to them in error. This makes direct account-to-account payments a more attractive option for payees, as the cost to administer accounts receivables through this method potentially falls.

Reduction in psychological costs to victims

4.34 In addition to the quantifiable financial costs of fraud, we also note that many cases of APP fraud involve individuals being scammed out of life-changing sums of money, which ends up in the hands of criminals. Many of these consumers face psychological costs associated with losing their money to fraudsters. Even if they are fully reimbursed (weeks or months later), they will still suffer the stress and anxiety of losing the money in the first place and of not knowing if or when they will be reimbursed. Preventing scams from happening will prevent these costs. Therefore, we consider that even a modest increase in fraud prevention as a result of this policy is likely to have material benefits for people concerned, especially people with vulnerable characteristics who could be disproportionately affected by these types of frauds.

4.35 Three respondents (a PSP, a third-party vendor and a trade body) welcomed the inclusion of the reduction in psychological costs in our analysis. They said that this is a big factor in people losing confidence in payment systems after a scam.

Level playing field between PSPs in relation to consumer protection

4.36 In principle, we might expect competition between PSPs to lead to the speedy introduction of CoP, if customers expected it as standard. However, many consumers are unlikely to decide which PSP to open an account with based on CoP provision. This competition is unlikely to drive PSPs to provide CoP to near ubiquitous levels. As we want CoP to be as close to universal as possible, requiring PSPs to provide it is necessary to create a level playing field – rather than some PSPs incurring the costs of introducing CoP when their competitors do not have to.

4.37 Two respondents pointed to the importance of a level playing field across different PSPs in relation to consumer protection: a consumer body emphasised the importance of consumers in Northern Ireland receiving the same level of protection as consumers in Great Britain. One respondent, while arguing that most of the benefits outlined in the draft cost benefit analysis in our consultation did not apply to most building societies, stated that implementing CoP for such PSPs was more about 'delivering on consumer expectations and ensuring that there is a level playing field rather than a two-tier service'.

Overall conclusion on benefits

4.38 We consider that our quantified estimated benefits, while not precise and based on limited data, provide a useful indication of the likely impact of our direction. However, they are likely to materially understate the benefits, given that our fraud prevention estimates are likely to be an underestimate and there are important benefits to consumers and businesses from a reduction in misdirected payments, reduced psychological costs to consumers and a more level playing field between PSPs. We also note that the reductions in fraud, in misdirected payments and in psychological costs are benefits that persist over time – with consumers and PSPs avoiding these costs in future years. In that context, we have not made any assumption about future changes in APP scam numbers (which rose by 39% in value between 2020 and 2021) or Faster Payments transaction numbers (which rose by 24% in value between 2020 and 2021). It would be reasonable to assume that, without our intervention, the scale of relevant APP scam fraud would continue to grow – so we also expect the benefits of preventing more scams to grow over time.

4.39 We also note that a number of respondents pointed to further benefits to CoP that are relevant to smaller PSPs, which were not set out in our consultation. A number of third-party providers pointed to building societies and pension funds attracting new customers to open accounts, which had then been unable to receive funds from those new customers. This was due to those customers' CoP-enabled PSPs issuing warnings about the destination account not being CoP-enabled and the customer deciding not to transfer the funds. As a result, many accounts remained unused, with the building societies/pension funds in question having incurred the cost of attracting and onboarding the customers already.

4.40 A number of respondents also pointed to other uses for CoP checks: PSPs using CoP checks for 'confirmation of payer'; utility providers onboarding new customers – for example, to check their age; and banks using CoP checks in the course of their own business, rather than only for their account-holders' transactions. Overall, this points to our quantified benefits significantly understating the benefits of CoP to consumers, businesses and PSPs.

Costs

Cost to PSPs of introducing CoP

4.41 The costs to PSPs of introducing CoP is the most direct effect of our proposed direction. As set out below, a number of respondents have given estimates and views of the likely costs, both in relation to the one-off costs of setting up CoP checks and the ongoing costs of providing it. These costs are likely to depend on the size of the PSP, the volume of payments it sends and receives, and the functionality of its existing systems. PSPs may decide to develop their own solution 'in-house' or use a third-party provider (which is more likely given the size of most of the directed PSPs). In the latter case, the costs of connecting a new PSP can depend on whether the third party has an existing live product or needs to build a bespoke connection and service for the PSP.

4.42 In our consultation, we said that, while we have not collected detailed cost data from PSPs or third-party vendors, the estimates that we have seen provided a broad range, with the cost of onboarding 400 PSPs with existing third-party vendors possibly being between the low and mid tens of millions.

4.43 Ten respondents argued that the costs in our consultation were understated, with a number pointing to the risk of disproportionate costs on smaller PSPs, particularly those with non-consumer-facing business models and low fraud rates. Of these ten, four (two large banks, a mid-sized bank and a trade body) submitted specific cost estimates, which are noted below. The respondents also highlighted the potential for these costs to negatively impact competition and innovation in the market.

4.44 Based on the additional information from respondents, the range of cost estimates for smaller PSPs to provide CoP checks using an existing third-party vendor remains broad. Annual costs ranging between £30,000 and £100,000 a year were put forward, implying an annual cost to PSPs of between £12 million and £40 million a year.

4.45 Two PSPs agreed with higher end of our cost estimates for onboarding all 400 PSPs to the CoP scheme, reporting their own estimates of implementation to be £100,000 and £125,000 per PSP respectively. Another trade body reported that the implementation cost of CoP for small firms could total up to £100,000 in the first year, and could be over £1.5 million for a medium-sized PSP. Another mid-sized PSP estimated its own costs to be several million pounds.

4.46 Respondents pointed to two other sources of costs that should be taken into account:

a. Five respondents pointed to one-off set-up costs that PSPs would need to incur in addition to the annual costs of providing CoP checks, while a number of third-party providers submitted that their pricing model was focused on annual fees rather than large up-front, one-off charges for smaller PSPs.

b. Two respondents pointed to the costs that would be incurred by existing CoP participants in facilitating additional PSPs joining the system.

4.47 A number of respondents also pointed to reasons why costs could be expected to fall as CoP was expanded:

a. Many respondents pointed to the benefits of a third-party provider or vendor model, with one such provider expecting the vast majority of the industry to outsource CoP implementation to external providers.

b. Four respondents (two PSPs and two third-party providers) argued that competition between these providers will provide choice and offer competitive pricing and keep costs down, with two pointing to some PSPs paying annual costs below £50,000 as a result of competition between third-party providers, with one submitting that costs had fallen since third-party providers began offering their services and another predicting that economies of scale (for example, one provider onboarding 20 small PSPs) could result in prices of a low as £20,000 per year.

4.48 Given these mixed views and the heterogeneous PSPs that will be directed, quantifying a robust estimate of the relevant costs is inherently difficult. In coming to an overall view, we have:

a. focused on the annual costs of CoP provision for additional PSPs, as most submissions focused on those costs, and many smaller PSPs that are likely to use a third-party provider will mainly be paying annual, rather than one-off, fees

b. assumed that the vast majority of the directed PSPs will be small PSPs, especially given the number of mid-sized PSPs that have voluntarily adopted CoP checks, both over the past two years since the initial 'Big Six' PSPs began providing checks in mid-2020, but also in the short period since our consultation in May (see Chapter 3)

c. assumed that an effective third-party or vendor model will be the relevant model for adopting CoP for the vast majority of smaller PSPs

d. assumed that an effective third-party or vendor model will result in competitive pricing for smaller PSPs, and is likely to lead to reduced Open Banking and Pay.UK membership fees for individual smaller PSPs

4.49 As such, our indicative estimate is that annual costs to individual PSPs are likely to be in the range of £30,000 to £100,000, implying an overall annual cost in the region of £12 million to £40 million, with our best estimate in the region of £20 million per annum.

Level playing field between PSPs in relation to costs

4.50 Given that the costs of setting up CoP and some elements of ongoing running costs are likely to be fixed, there is a risk that smaller PSPs face higher 'per click' costs relative to larger PSPs. This has the potential to negatively affect competition and innovation, if this means that disproportionate costs are imposed on smaller, newer, innovative PSPs, particularly those with a 'no-frills' business model.

4.51 As above, the estimated costs for smaller PSPs that respondents put forward covered quite a wide range, and some of these costs are likely to be fixed to an extent. A number of respondents argued that the costs of implementing CoP would be higher than our consultation has assumed, with the impact on smaller PSPs being a factor in many of those responses. Many PSPs welcomed our recognition that costs of implementing CoP fall disproportionately on smaller institutions. One of the most frequently raised points when it came to concerns about a level playing field was the lack of readily available third-party suppliers that could facilitate CoP adoption for smaller PSPs:

a. A PSP noted that, even as a low-volume user, its set-up costs were likely to exceed £100,000, which may be disproportionate for some other PSPs, and stressed the importance of contracting and of a market for competitive services in order to ensure the implementation of CoP by the relevant deadline.

b. Another added that if the direction is implemented with the date we proposed, vendors that support CoP would be likely to be inundated with requests for support. This would lead to an inflated demand and high prices due to the short implementation timeframe.

c. Two trade bodies pointed to the challenging timescales and the importance of Pay.UK making the service accreditation changes needed to give third-party suppliers a role.

4.52 A PSP argued that appropriate fee structures for both Pay.UK and Open Banking were important for ensuring costs for very small PSPs were not prohibitive. Another (large) PSP argued that there is likely to be 'strong merit in exploring a central solution that smaller PSPs could call and leverage without creating detailed technical solutions', and this could be a more cost-effective, efficient, competition friendly alternative for smaller PSPs.

4.53 A trade body argued that the potential for smaller PSPs to face disproportionate costs that could negatively affect competition and innovation also applied to small building societies. It pointed to:

a. their smaller budgets for financial crime, with the risk that spending on CoP adoption would reduce their scope for spending on other anti-fraud measures or other improvements that could deliver greater processing efficiency and improved customer service

b. the importance of managing the costs for Pay.UK and the Open Banking Implementation Entity to deliver their part of CoP implementation and the costs of PSR's own supervision of the programme, on the assumption that those costs would be passed on to PSPs

4.54 As set out above, while many respondents did point to the risk of the costs of introducing CoP checks being disproportionate for some smaller PSPs, there were also a number of responses that pointed to the potential for much lower costs, where there is a competitive vendor model and restructured Open Banking and Pay.UK membership fees.

4.55 In addition, as above, there are advantages in terms of a level playing field to mandating that all PSPs provide CoP checks, as this may not be an element of current account services that consumers are sufficiently aware of, in order to incentivise PSPs to provide CoP voluntarily.

Conclusion

4.56 Considering these impacts in the round, our overall judgement is that the benefits of requiring approximately 400 PSPs to implement a system to offer CoP checks to their customers (both as payers and payees) is likely to outweigh the costs of the direction. This judgement is based on the expectation that the quantifiable benefits are likely to increase over time (as fraud and Faster Payments volumes have been rising) and that there are significant non-quantifiable benefits which need to be taken into account (as noted by a number of respondents). We also recognise the risk that some smaller PSPs may face disproportionate costs. As set out in Chapter 3, where PSPs do not operate relevant accounts – and so the benefits of CoP checks are likely to be lower – there is scope for their exclusion from the direction. Similarly, some PSPs will only need to implement 'respond only' CoP functionality for their accounts, which will reduce the costs for those PSPs.

5 Public Sector Equality Duty

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

Consideration of our duties

5.1 In proposing the direction and its contents, we have considered section 149 of the Equality Act 2010 (the public sector equality duty), particularly the impact of our proposed direction on people with protected characteristics.

5.2 The proposed direction is designed to ensure that more PSPs implement CoP than is currently the case. This means more payers and payees will experience CoP as part of the payment process.

5.3 We previously gave the six largest banking groups in the UK a Specific Direction to implement CoP. In deciding to give SD10, we did an equality impact assessment that examined the impact of CoP on payers and payees.

5.4 In relation to our proposal to direct more PSPs, we re-evaluated the equality impact assessment for SD10 and asked for views on our assessment.

Respondents' views

5.5 We received ten responses to this question. Eight respondents agreed with our assessment that widening the coverage of CoP would enhance customer protection. Respondents felt that CoP will give customers peace of mind and confidence when making transfers.

5.6 One respondent had concerns about the inconsistent approach with 'close matches' between different PSPs. This respondent argued that poor matching logic had the potential to degrade the scheme and lead to customers disregarding the result and falling victim to APP fraud.

5.7 Another respondent raised concerns about there not being a provision within CoP for a consumer to have their details checked by a 'preferred name' system. The respondent raised this issue in relation to transgender users of CoP, where some users may not wish to be identified by their legal name.

Our view

5.8 Pay.UK are aware of the differing approaches adopted by PSPs in relation to CoP messaging. In summer 2022, Pay.UK worked with a number of CoP participants to examine the customer journey in order to provide guidance and best practice to the wider industry on communicating messages and warning to consumers.

5.9 Pay.UK's rules and standards for Phase 2 of CoP specify that in the case of a close match, the actual name associated with the proposed payee's account will be returned to the payer. We continue to consider this an appropriate way to deal with close matches. In addition, we expect that clearer guidance to firms on how they can be more effective at communicating messages to customers will reduce some of the ambiguity that respondents have cited. We will continue to keep this under review.

5.10 On the issue relating to customers who may wish to have their name checked against a preferred named as opposed to their legal name, we think this increases the possibility of fraud occurring. In our view, this will allow fraudsters to exploit a system where a customer can opt out of using their legal name and instead rely on using an alias, which may be unable to be checked or verified. Where there are specific cohorts of payment system users who may wish to safely re-identify themselves with the appropriate checks in place, this would be a matter for the PSPs involved and is an issue outside our remit.

5.11 Given the evidence on the benefits of CoP, the additional information provided by respondents does not change our initial assessment. We are therefore satisfied that our proposed direction requiring more PSPs to implement a CoP system will bring significant benefits to payers and payees, including those with protected characteristics. The benefits will substantially outweigh the negative impacts, including any that disproportionately affect people with certain protected characteristics.

5.12 Having considered matters relevant to the public sector equality duty, we consider it appropriate to give the direction. We continue to expect PSPs to take steps mitigating the impact of any additional complexity associated with CoP – this would include educating customers, especially those who are most likely to be negatively affected.

Annex 1
Group 1 PSPs

No.	PSP
1	Citibank UK Limited
2	Ardohr Limited[1]
3	Elavon Financial Services DAC
4	Goldman Sachs Bank USA, London Branch
5	LHV UK[2]
6	Metro Bank plc
7	Prepaid Financial Services Limited
8	Revolut Limited
9	The Bank of London Group Limited
10	Turkish Bank UK Limited
11	Tide Platform Limited
12	Think Money Limited
13	Bank of Ireland (UK) plc
14	Contis Financial Services Limited
15	CB Payments Limited
16	Yorkshire Building Society
17	Clear Junction Limited
18	Banking Circle S.A
19	Paymentsense Limited
20	BCB Payments Limited
21	Skipton Building Society
22	Hargreaves Lansdown Asset Management Limited
23	Al-Rayan Bank plc
24	Moorwand Limited
25	Coventry Building Society
26	Sainsbury's Bank plc
27	CAF Bank Limited
28	Standard Chartered Bank
29	BNP Paribas
30	AIB Group (UK) plc
31	Deutsche Bank AG
32	Bank of America NA

[1] CreDec is the registered trading name of Ardohr Limited

[2] Part of AS LHV Group

Annex 2
Specific Direction 17: Expanding Confirmation of Payee

Specific Direction 17 on expanding Confirmation of Payee

October 2022

Specific Direction 17: Expanding Confirmation of Payee

1 Recitals

Whereas:

1.1 Confirmation of Payee (CoP) is a valuable tool in reducing certain types of authorised push payment (APP) scams and accidentally misdirected payments. It checks the name of the payee's account against the other details given by the payer.

1.2 Specific Direction 10 required certain payment service providers (PSPs) from the six largest banking groups to send and respond to CoP requests. Since then, a number of other PSPs have voluntarily introduced CoP.

1.3 Specific Direction 11 imposed requirements intended to extend the benefits of CoP to more accounts. It required:

- the closure of the initial technical environment used to process CoP requests (Phase 1)
- PSPs to process CoP requests in the newer technical environment (Phase 2)

Phase 2 facilitates wider availability of CoP requests. Specific Direction 11 also revoked Specific Direction 10.

1.4 The PSR's objective is to see more PSPs adopt CoP, so that a greater number of CHAPS and Faster Payments users benefit from it.

1.5 The PSR has therefore decided to require the directed PSPs to put in place and use a system to provide CoP.

1.6 This requirement applies to Group 1[1] and Group 2[2] PSPs. Group 1 must have and use the system after 31 October 2023, and the Group 2 PSPs after 31 October 2024.

1.7 The PSR may decide to exempt a directed PSP from an obligation under this direction, or change the date for compliance, to take relevant circumstances into account.

1 See the definition of 'Group 1 PSP' at paragraph 9.9.
2 See the definition of 'Group 2 PSP' at paragraph 9.9.

1.8 The direction will cease to be in force on 1 November 2026 (subject to the potential for the PSR to vary, revoke or extend it). By that point, the PSR expects that CoP will be an everyday part of a directed PSP's processes and a service that their customers expect. However, the PSR will continue to monitor this.

2 Powers exercised and purpose

2.1 Faster Payments and CHAPS are designated by the Treasury under section 43 of the Financial Services (Banking Reform) Act 2013 (FSBRA) for the purposes of Part 5 of FSBRA.

2.2 The PSR makes this direction in accordance with section 54 (Regulatory and competition functions – directions) of FSBRA. In accordance with section 54(3)(c), this direction applies in relation to specified persons (Group 1 PSPs) and persons of a specified description (Group 2 PSPs).

2.3 The purpose of this direction is to achieve wider adoption of the CoP service in the UK, to protect more customers when they use CHAPS and Faster Payments.

Direction

NOW the PSR gives the following specific direction to Group 1 and Group 2 PSPs.

3 Requirement to implement Confirmation of Payee

3.1 After the applicable date, a directed PSP must have and use a system to:

- send CoP requests for its customers
- respond to CoP requests made to it

3.2 The system must send, and respond to, CoP requests in compliance with the CoP rules and standards.

3.3 In respect of sending requests, the system must, as a minimum, send CoP requests in the circumstances described in paragraphs 3.4 and 3.5.

3.4 The first circumstance is when a customer holding an account with a directed PSP provides to the PSP, by an appropriate method, the necessary information about a new payee.

3.5 The second circumstance is when a customer provides to a directed PSP, by an appropriate method, an amendment to the unique identifiers of an established payee.

3.6 Once a directed PSP has put a system in place, it must notify the PSR in writing within 28 days.

3.7 If a directed PSP considers that it is unlikely to be able to put the system in place in time to meet its obligations under paragraphs 3.1 to 3.5, it must notify the PSR of that in writing. The notification must include the reason for its view and the steps it is taking to meet its obligations. It must provide this notification within 28 days of coming to that view.

3.8 The applicable date mentioned in paragraph 3.1 is:

- for Group 1 PSPs, 31 October 2023
- for Group 2 PSPs, 31 October 2024

3.9 For the purpose of complying with this section, a directed PSP may enter into arrangements with another person for the system to be provided on its behalf. (But doing so in no way removes the duty on the part of the directed PSP to comply with the obligations that are imposed on it under this direction, including under this section).

4 Application of Section 3

4.1 The system required under Section 3 need only provide for CoP requests to be made, or responded to, if both of the following are UK accounts:

- The payer's account, which the funds are to be sent from (the sending account).
- The payee's account, as identified by the unique identifiers given by the customer (the receiving account).

4.2 This paragraph applies where the applicable date in relation to a system required under Section 3 is 31 October 2023. Despite that, it is only after 31 October 2024 that the system must provide for sending and responding to a CoP request in respect of a transaction where funds are being sent to a receiving account which is identified by Secondary Reference Data.

4.3 The system required under Section 3 does not need to provide for the sending of a CoP request in respect of a transaction from an account where that account can only be used to send funds to one other account (a nominated account), and that nominated account is in the payer's name (or the payer is one of the names on that account).

Exempt transactions

4.4 The system required under Section 3 does not need to provide for sending a CoP request, or responding to a CoP request, for an exempt transaction.

4.5 For so long as a directed PSP only conducts exempt transactions it does not need to have a system which complies with Section 3.

4.6 A directed PSP must notify the PSR in writing if it considers that it falls under paragraph 4.5. It must do so within 28 days of the first day on which paragraph 4.5 applies to it.

4.7 A directed PSP must notify the PSR in writing within 28 days of paragraph 4.5 ceasing to apply to it.

5 Exemptions and changes to deadlines

5.1 If it considers it necessary or appropriate, the PSR may:

- exempt a directed PSP from an obligation imposed by this direction

- impose a different applicable date (see paragraph 3.8) in respect of all or any aspects of the system

5.2 In doing so, the PSR may impose conditions that it considers appropriate in light of its decision. For example, it might impose a different revocation date in respect of a PSP.

5.3 The PSR may publish any decision it takes under paragraph 5.1. The PSR may also publish any applications PSPs make to it.

5.4 The PSR will have regard to its obligations in respect of confidential information in deciding whether to omit or redact information when it publishes an application or decision.

5.5 If the PSR exempts a directed PSP or changes a date under paragraph 5.1, directed PSPs must comply with this direction subject to the exemption or different date, and subject to any conditions imposed.

6 Monitoring

6.1 The PSR may, in writing, require a directed PSP to provide it with information about how the PSP is complying, or proposes to comply, with this direction. The PSP must provide the information by the date given by the PSR.

6.2 If a PSP is a successor PSP, or begins, or ceases, to be a PSP meeting the definition of a Group 2 PSP after this specific direction comes into force, it must inform the PSR in writing within 28 days.

7 Commencement, revocation and application

7.1 This specific direction comes into force on 24 October 2022.

7.2 It ceases to be in force on 1 November 2026, unless the PSR varies, revokes or extends it before that date.

7.3 A PSP that is a successor PSP is a directed PSP on the same basis as the PSP it has succeeded (the original PSP) in respect of the accounts it provides as successor. If the original PSP is a Group 1 PSP or continues to satisfy the definition of Group 2 PSP, it remains a directed PSP despite the successor PSP also being a directed PSP.

7.4 In respect of being directed as a Group 2 PSP, a PSP is a directed PSP for so long as it meets the definition of Group 2 PSP (but a PSP ceasing to be a directed PSP because it no longer meets the definition continues to be directed for the purposes of paragraph 6.2). This applies whether or not a PSP meets the definition on the date this direction comes into force and whether or not it had previously been a directed PSP but had then ceased to be. If a PSP meets the Group 2 definition after this direction comes into force, the PSP is a directed PSP from the day after it meets that definition.

7.5 For the purposes of a PSP satisfying the definition of Group 2 PSP after the date this direction comes into force, the reference in that definition to 'does not have a CoP system in regular operation on the date this direction comes into force' is to be read as 'on the date it satisfies all of the other provisions of this definition, does not have a CoP system in place that complies with paragraphs 3.1 to 3.5.'

8 Citation

8.1 This specific direction may be cited as Specific Direction 17 (Expanding Confirmation of Payee).

9 Definitions and interpretation

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

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

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

9.4 A reference to a customer providing information or an amendment to a directed PSP includes someone doing it on the customer's behalf (where permitted under the appropriate method).

9.5 A transaction consists of a 'bulk payment' when the payer is proposing to use it to make payments to more than one account.

9.6 An 'unattended payment routing' is where a PSP gives a customer technical access to send payments through Faster Payments or CHAPS, and as a result the PSP does not carry out the actions it would normally do as a sending PSP.

9.7 A PSP has a CoP system in regular operation on the date this direction comes into force[3] if:

- it has a CoP system that would comply with paragraphs 3.1 to 3.5
- it has used the system for at least the preceding eight weeks, in a way that complies with paragraphs 3.1 to 3.5
- it is reasonable to conclude that it intends to use the system on an ongoing basis

3 See the definition of 'Group 2 PSP' at paragraph 9.9.

9.8 A PSP conducts relevant business[4] if:

- it provides UK accounts and
- not all of its transactions are exempt transactions[5]

9.9 In this specific direction:

- **Applicable date** has the meaning given in paragraph 3.8.
- **Appropriate method** means a method that a directed PSP's customers use to set up a new payee on their account, where they may make payments using Faster Payments or CHAPS.
- **CHAPS** means the regulated payment system known as CHAPS designated by order dated 19 March 2015.
- **CoP request** means a request a PSP sends when a payer enters account details for a payee, to check the name they enter against the name on the account that the other unique identifiers refer to.
- **CoP rules and standards** means the rules and standards for CoP in the rule book developed by Pay.UK:
  - in respect of responding, as they stand at the time the request is received
  - in respect of sending, at the time the PSP receives the necessary information (or amended unique identifiers) from the customer
- **Directed PSP** means every PSP subject to this direction.
- **Established payee** means a payee that the customer has already provided the necessary information for, which the directed PSP still holds.
- **Exempt transaction** means a transaction which is:
  - a repayment (whether whole or partial) associated with a lending product where the account the funds are sent to is in the payer's name (or the payer is one of the names on that account)
  - a payment from an account which has been established to repay a lending product, and has no other purpose
  - a payment to or from a suspense account
  - a bulk payment
  - being sent by way of an unattended payment routing

4 See the definition of 'Group 2 PSP' at paragraph 9.9.
5 See the definiton of 'Exempt transaction' at paragraph 9.9.

- a PSP sending funds on its own behalf
- a CHAPS 'MT202 general financial institution transfer' (within the meaning of the CHAPS technical requirements published by the Bank of England[6])
- a transfer of funds from or to an account of a financial market infrastructure (within the meaning of the 'Principles for financial market infrastructures' published by the Bank for International Settlement and the International Organization of Securities Commissions[7]) (central counterparties etc.)
- in connection with the provision of merchant acquiring services
- in connection with the provision of payment processing services to other PSPs
- a transaction where the necessary information (or amended unique identifiers) is received by the customer's PSP by post, email or fax, or is contained in instructions that are hand delivered to a branch (or other office) of the PSP but which are not processed with the customer present

- **Faster Payments** means the regulated payment system known as the Faster Payments Scheme designated by order dated 19 March 2015.
- **FSBRA** means the Financial Services (Banking Reform) Act 2013.
- **Group 1 PSP** means a PSP which is listed in the Schedule.
- **Group 2 PSP** means a PSP which:
    - is a participant[8] in Faster Payments or CHAPS
    - is not a Group 1 PSP
    - conducts relevant business
    - does not have a CoP system in regular operation on the date this direction comes into force, and
    - is a building society, or has a unique sort code listed on the Extended Industry Sort Code Database (EISCD)
- **Lending product** means a lending product provided in the course of business including:
    - mortgages
    - credit cards
    - secured loans

6 See: www.bankofengland.co.uk/-/media/boe/files/payments/chaps/chaps-technical-requirements
7 See: https://www.bis.org/cpmi/publ/d101a.pdf
8 This covers PSPs which have indirect access as well as those with direct access (see FSBRA, in particular the definitions of 'participant' and 'payment service provider' in section 42).

  - unsecured loans

- **Necessary information** means the information a directed PSP needs to execute a payment from the customer's account; it includes the name of the intended payee and the unique identifiers for the receiving account.
- **New payee** means a payee that the directed PSP does not already hold the necessary information for.
- **Participant** has the meaning given by section 42 of FSBRA.
- **Payment system** has the meaning given by section 41 of FSBRA.
- **Payment Systems Regulator** or **PSR** means the body corporate established under Part 5 of FSBRA.
- **Pay.UK** means the company limited by guarantee incorporated in England under company number 10872449; and a reference to it includes a reference to any successor body.
- **PSP** means payment service provider and has the meaning given by section 42(5) of FSBRA.
- **Regulated payment system** means a payment system designated by the Treasury under section 43 of FSBRA.
- **Secondary Reference Data account** means an account that is not uniquely addressable by a sort code and account number, but instead relies on including a further unique identifier in the reference field in the payment order.
- **Successor PSP** means a PSP which takes over responsibility for providing UK accounts (whether all or some) from a directed PSP.
- **Suspense account** means an account a PSP uses to store funds temporarily for accounting purposes, or where there is uncertainty as to where the funds should be sent.
- **UK account** means an account a PSP provides in the course of its business in the United Kingdom.
- **Unique identifier** has the same meaning as in the Payment Services Regulations 2017 (see regulation 2).

Made on 10 October 2022

Chris Hemsley
Managing Director
Payment Systems Regulator

Schedule – Group 1 PSPs

No.	PSP
1	Citibank UK Limited
2	Ardohr Limited[1]
3	Elavon Financial Services DAC
4	Goldman Sachs Bank USA, London Branch
5	LHV UK[2]
6	Metro Bank plc
7	Prepaid Financial Services Limited
8	Revolut Limited
9	The Bank of London Group Limited
10	Turkish Bank UK Limited
11	Tide Platform Limited
12	Think Money Limited
13	Bank of Ireland (UK) plc
14	Contis Financial Services Limited
15	CB Payments Limited
16	Yorkshire Building Society
17	Clear Junction Limited
18	Banking Circle S.A
19	Paymentsense Limited
20	BCB Payments Limited
21	Skipton Building Society
22	Hargreaves Lansdown Asset Management Limited
23	Al-Rayan Bank plc
24	Moorwand Limited
25	Coventry Building Society
26	Sainsbury's Bank plc
27	CAF Bank Limited
28	Standard Chartered Bank
29	BNP Paribas
30	AIB Group (UK) plc
31	Deutsche Bank AG
32	Bank of America NA

[1] CreDec is the registered trading name of Ardohr Limited
[2] Part of AS LHV Group

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