

Consultation paper

Confirmation of Payee

Response to the first
consultation and draft
specific direction for further
consultation

May 2019

We welcome your views on this consultation. If you would like to provide comments, please send these to us by **5pm on 5 June 2019**.

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

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

We will consider your comments when preparing our response to this consultation.

We will consider making all non-confidential responses to this consultation available for public inspection.

You can download this consultation paper from our website:

www.psr.org.uk/psr-publications/consultations/cp194-consultation-specific-direction-cop

Contents

1	Executive summary	4
2	Background and responses to our previous consultation	6
3	Proposed approach to giving a direction	21
4	Updated cost benefit analysis	26
5	Equality impact assessment	30
6	Next steps	32
Annex 1	Draft specific direction	33
Annex 2	Cost benefit analysis	39
Glossary		42

1 Executive summary

- 1.1** Every year, thousands of individuals and businesses fall victim to authorised push payment (APP) scams – where they are tricked into sending money to an account controlled by a fraudster. There are also a significant number of accidentally misdirected payments that are not recovered. These losses can be significant and life-changing.
- 1.2** Confirmation of Payee (CoP) is a name-checking service that has been identified by the PSR and payments industry as an important tool to help prevent APP scams and accidentally misdirected payments. The service checks whether the name of the account that a payer is sending money to matches the name they have entered.
- 1.3** Our objective is to ensure that CoP is introduced in a way that significantly reduces losses from APP scams and accidentally misdirected payments. This requires widespread introduction in a timely and coordinated manner.
- 1.4** In November 2018, we consulted on giving a general direction for payment service providers (PSPs) to implement CoP. We proposed giving a direction mandating that all PSPs be capable of receiving and responding to CoP requests by 1 April 2019 and that they send CoP requests by 1 July 2019. We received 43 responses to our consultation.
- 1.5** Most respondents, fully or in principle, supported the PSR giving a direction. However, some important issues concerning the scope and design of the proposed direction were raised. The main issues were difficulties meeting the proposed implementation deadlines, the impacts on different types of PSP, and the perceived lack of stability of Pay.UK's standards and guidance on CoP.
- 1.6** After carefully considering the feedback to our previous consultation, we have refined our approach. We now propose giving a specific direction to the PSPs in the six largest banking groups that offer their UK account holders access to the Faster Payments Scheme (FPS) and CHAPS.¹ The six largest groups are the Lloyds Group, Barclays Group, HSBC Group, Royal Bank of Scotland Group, Santander Group and Nationwide Building Society.
- 1.7** We therefore propose giving a specific direction to the following PSPs that are, or sit within, these banking groups: Bank of Scotland plc, Barclays Bank UK plc, Barclays Bank plc, Cater Allen Limited, Coutts and Company, HSBC Bank plc, HSBC UK Bank plc, Lloyds Bank plc, Nationwide Building Society, National Westminster Bank plc, Royal Bank of Scotland plc, Santander UK plc and Ulster Bank Limited.²

1 Size assessment is based on 2017 and 2018 transaction volumes across both FPS and CHAPS, and combines the volume of transactions by those participants in FPS and/or CHAPS who are members of the same banking group.

2 Bank of Scotland plc and Lloyds Bank plc are part of the Lloyds Group; Barclays Bank UK plc and Barclays Bank plc are part of the Barclays Group; HSBC Bank plc and HSBC UK Bank plc are part of the HSBC Group; Coutts and Company, National Westminster Bank plc, Royal Bank of Scotland plc and Ulster Bank Limited are part of the Royal Bank of Scotland Group; Cater Allen Limited and Santander UK plc are part of the Santander Group.

- 1.8** We have recognised that the previous implementation deadlines would be unachievable. We now propose that the directed PSPs introduce CoP according to the following time frame:
- **From 31 December 2019:** Directed PSPs must respond to CoP requests.
 - **From 31 March 2020:** Directed PSPs must send CoP requests and present responses to their customers.
- 1.9** Our updated cost benefit analysis (CBA) indicates that the proposed approach will have a net benefit of £1 billion (under the assumption that without our direction the directed PSPs would not have introduced CoP), and of £150 million (under the assumption that the directed PSPs would have implemented CoP a year later than the direction dates).
- 1.10** Our equality impact assessment indicates that the introduction of CoP will have a positive impact. Our proposed direction will provide significant benefits to payers and payees, including those with protected characteristics. Those benefits should substantially outweigh any negative impacts, including those that disproportionately affect people with certain protected characteristics.
- 1.11** Given the responses to our previous consultation, the effectiveness and proportionality of our proposed approach, the results of our updated CBA and our equality impact assessment, we have concluded that our proposed direction is an appropriate approach to achieving our objective.
- 1.12** The rest of this document is structured as follows:
- In **Chapter 2** we address the responses to our previous consultation (questions 1 to 10 in the previous consultation).
 - In **Chapter 3** we outline our proposed approach and examine its effectiveness and proportionality.
 - In **Chapter 4** we present our updated CBA (questions 11 to 14 in the previous consultation).
 - In **Chapter 5** we present our equality impact assessment.
 - In **Chapter 6** we outline next steps.
 - In **Annex 1** we provide the draft specific direction.
 - In **Annex 2** we provide additional detail on our CBA.
- 1.13** We look forward to receiving your views on the proposed specific direction.

2 Background and responses to our previous consultation

Our objective is to make sure CoP is introduced in a way that significantly reduces losses from APP scams and accidentally misdirected payments. In November 2018, we consulted on giving a general direction requiring all PSPs that use FPS and CHAPS to implement CoP. We received 43 responses. Most stakeholders supported the PSR giving a direction. However, stakeholders also raised important issues concerning the scope and design of the proposed direction. In this chapter, we set out the feedback to our previous consultation and our responses. We detail our revised proposed approach, and look at its effectiveness and proportionality in Chapter 3.

Background

- 2.1** CoP is an industry-agreed way of making sure that, before a payment is made, the name, sort code and account number (or other unique identifiers) that a payer enters are checked against the details of the payee held at their PSP. It is designed to help prevent maliciously and accidentally misdirected payments.
- 2.2** The architectural design for CoP was created, consulted on and agreed by the Payments Strategy Forum (the Forum). The output of the Forum's work was included in its blueprint, which it issued in December 2017.
- Pay.UK agreed to take over the delivery of the CoP rules and standards, in collaboration with PSPs and other relevant stakeholders.
- 2.3** Pay.UK has developed CoP rules and standards for 'phase one'. Common rules and standards are vital for CoP's functionality because the CoP services across different PSPs need to work together. Phase one covers account-servicing PSPs that operate in the UK and have their own unique addressable sort code. Direct participants in the interbank payment systems all have their own sort code. Indirect PSPs may or may not have their own sort code depending on how they are set up to receive and send payments with their indirect access provider.
- 2.4** Indirect PSPs can be agency PSPs or non-agency PSPs. Agency PSPs have their own sort code and payments can be directly addressed to the PSPs' customers, even though an indirect access provider acts as an intermediary in the process. Non-agency PSPs have an account – a Head Office Collection Account (HOCA) – with an access provider, and they use that account to send and receive payments (with one of the access provider's sort codes). Customers of the non-agency PSPs cannot be directly addressed using sort codes and account numbers. Examples of non-agency PSPs are building societies that use roll numbers to identify customers.

2.5 Pay.UK is still settling the scope of phase two of CoP. We anticipate phase two will cover CoP checks at PSPs that use HOCAs, and payment initiation service providers (PISPs). The timeline for the delivery of phase two is yet to be determined as it will be influenced by the implementation of phase one and whether the Open Banking Implementation Entity can make relevant changes to the Open Banking Directory.

Our initial consultation

2.6 In November 2018, we published a consultation paper asking stakeholders for their views on the PSR giving a general direction requiring all PSPs that use FPS and CHAPS to implement CoP.³

2.7 We proposed giving a direction as we considered it a robust approach to ensuring PSPs implement CoP in a timely and coordinated way. The more PSPs that offer CoP to those who send and receive money via FPS and CHAPS, the greater the benefits for users.

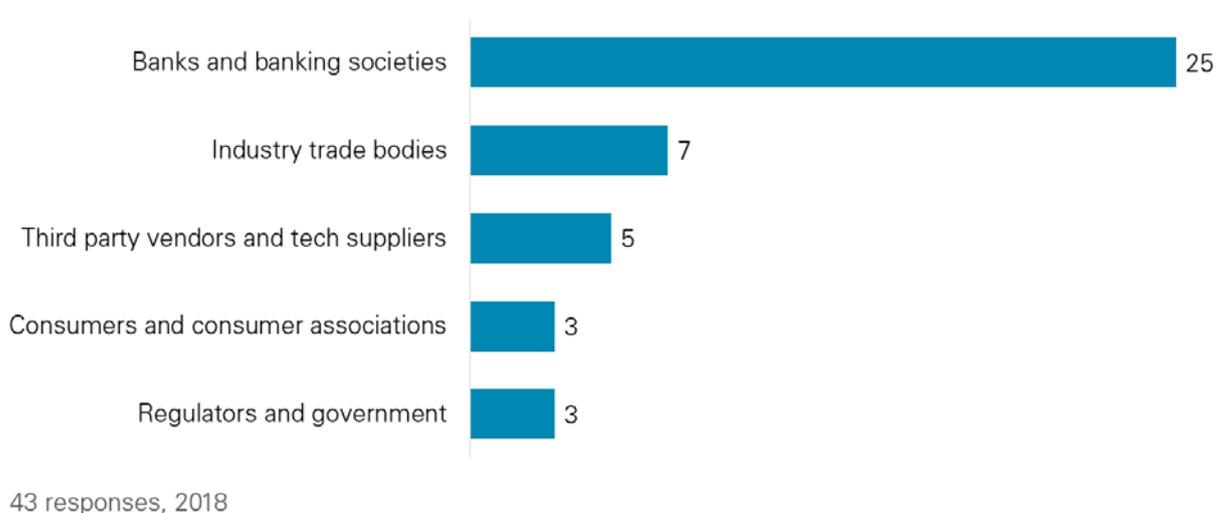
2.8 We consulted on giving a direction as follows:

- **By 1 April 2019:** PSPs must be capable of receiving and responding to CoP requests from other PSPs.
- **By 1 July 2019:** PSPs must send CoP requests and present responses to their customers.

Responses to our consultation

2.9 We received 43 responses. Most were from banks/PSPs and banking societies (see Figure 1). We also received responses from industry trade bodies, technology suppliers, consumer associations and regulators.

Figure 1: Breakdown of respondents by organisation type



³ Under the Financial Services (Banking Reform) Act 2013 (FSBRA).

Views on the PSR giving a direction

2.10 Our objective is to make sure CoP is introduced in a way that significantly reduces losses from APP scams and accidentally misdirected payments. We asked stakeholders to provide their views on whether giving a direction to PSPs requiring them to introduce CoP is the right approach to securing our objective.⁴

A strong majority of respondents, fully or in principle, supported the PSR giving a direction

2.11 Most stakeholders that responded to the question expressed in-principle or full support for the PSR giving a direction to achieve our objective.

2.12 Stakeholders who supported the proposal in principle backed the PSR giving a direction but had some concerns over aspects of our proposal. The main issues were the feasibility of the proposed implementation timeframe; the impact on certain types of PSPs, particularly smaller businesses; and the perceived lack of stability of Pay.UK's standards and guidance on CoP.

2.13 Three stakeholders were against the PSR giving a direction. They were concerned about the lack of industry coordination in building and testing CoP, the negative impact on smaller firms, and possible data protection issues.

Our response: giving a direction is the right approach to achieving our objective

2.14 We have carefully considered the views and issues that stakeholders raised. There was significant support for a direction and we have concluded that giving a direction to some PSPs requiring them to introduce CoP is the right approach to achieving our objective.

2.15 One area of concern was the stability and maturity of Pay.UK's design and documentation. At the time of our consultation Pay.UK was still working on its CoP documentation:

- **Proposition documentation:** Issued on 28 September 2018, with a revised version issued on 22 October 2018.
- **Rule book and operating guide:** Updated three times since the first drafts were issued on 28 September 2018, with the latest versions issued on 21 January 2019.
- **Technical guide:** Issued on 13 December 2018, with a revised version issued on 4 April 2019.
- **Technical specifications:** Issued in draft on 28 September 2018 with three updates since, the latest on 24 January 2019.

⁴ Question 1: Is giving directions under section 54 of FSBRA to PSPs requiring them to introduce CoP the right approach to securing our objectives, in particular to reduce significantly losses and harm from APP scams and accidentally misdirected payments as soon as possible? Are there other approaches that would lead to the same outcomes that we should consider, and, if so, what are they? Do you have any other comments on the issues raised above?

- 2.16** To look into the stability and maturity of the documentation, in February 2019 we issued an extensive data request to Pay.UK. We found that Pay.UK worked with its PSP advisory group in defining the CoP proposition. And while the Forum’s blueprint formed the basis of the design, Pay.UK and its advisory group made changes where necessary. We also found that Pay.UK looked at best practice from other countries and made changes based on lessons learned.
- 2.17** We recognise that Pay.UK is yet to complete all the CoP documentation. It is currently drafting the terms and conditions for participation, and the CoP pricing schedule and related Direct Debit instructions. These are important documents that give clarity to PSPs implementing CoP. However, PSPs do not need them for the planning and building stages of CoP phase one. We expect that the full set of documentation will be available before any testing and implementation dates.
- 2.18** Overall, Pay.UK’s response to our data request confirmed that its documentation is stable enough for phase one accounts. Pay.UK does not expect to make any material subsequent changes, except to produce the terms and conditions and pricing schedules.
- 2.19** We also looked at whether there were alternatives to requiring PSPs to introduce a CoP process that meets the Pay.UK rules and standards. The main alternatives would be either developing our own detailed rules and standards, or requiring CoP’s introduction without setting out the precise CoP process. Both options would have significant downsides.
- 2.20** With the first option, there would be a significant risk of delaying the rules and standards compared to the progress made by Pay.UK. The second option would mean uncertainty and delay while industry settled the arrangement, and would most likely lead to PSPs adopting the Pay.UK rules and standards.
- 2.21** For these reasons, we have concluded that the Pay.UK CoP documentation, standards and guidance for phase one are the most appropriate to mandate in the direction, and that they are stable enough for the directed PSPs to plan and build their CoP services.
- 2.22** As well as the issues raised over the CoP documentation, stakeholders raised some issues with the detail of our proposed direction. We have considered these issues and followed up with industry participants where necessary to refine our approach. In the rest of this chapter, we set out the issues and our responses in detail.

Views on the scope of the direction

2.23 We asked stakeholders if there are any types of PSP that should not be given a direction.⁵

Most respondents said all PSPs should be given a direction but there were concerns about smaller PSPs

2.24 Most of the responses to the question said that all PSPs should be given a direction. One of the main reasons given was that fraud might shift to PSPs without CoP capability. Fraudsters could open or take over accounts at PSPs that are unable to respond to CoP requests.

2.25 One stakeholder said that a direction should also cover third parties, such as PISPs, when Pay.UK issues the relevant CoP documentation.

2.26 Six respondents supported giving a direction to all PSPs, but suggested that small PSPs should be given a more flexible implementation timeframe. One response said the proposed timeframe would be onerous for small PSPs, particularly businesses working with third-party providers. However, another respondent suggested that the emerging vendor market may be able to develop and support a CoP service for smaller firms.

2.27 One respondent said that the PSR should consider a phased approach to directing, starting with FPS and CHAPS direct participants. One respondent said new banks, especially those without transactional banking services, should be excluded from responding and sending, or they should be given an extended timeframe to comply with the direction.

2.28 Seven respondents said that a direction should not apply to all PSPs. Three of these stakeholders said it would be better to only give a direction to direct PSPs, and to allow indirect PSPs to implement CoP voluntarily.

2.29 Some respondents were concerned that smaller PSPs without the 24/7 systems necessary for CoP would need significant and costly IT upgrades.

Our response: limiting the direction to the PSPs in the largest banking groups is an effective and more proportionate approach to achieving our objective

2.30 Although many respondents supported giving a direction to all PSPs, some did raise several important issues.

2.31 Pay.UK's CoP documentation is only available for phase one. It only covers PSPs that operate accounts with their own unique addressable sort code. Many smaller PSPs operate accounts that are in phase two of Pay.UK's CoP design roll-out. The phase two documentation is not available and the release date has not yet been settled. Therefore, at present, we cannot direct PSPs that operate accounts outside the scope of phase one.

⁵ Question 2: Assuming directions in respect of FPS and CHAPS are given, are there any types of PSP that should not be given the directions? What is the basis for your view, particularly having regard to the likelihood of achieving the benefits of CoP?

- 2.32** Some FPS and CHAPS participants do not offer UK accounts, and therefore do not provide payment services to customers – for example, certain wholesale banks. Directing these firms would not help us to achieve our objective. We have therefore excluded them from the proposed direction.
- 2.33** Of those remaining that offer accounts covered by phase one, the PSPs in the six largest banking groups that offer their UK account holders access to FPS and CHAPS are involved in the vast majority of FPS and CHAPS transactions. We estimate that, based on 2017 and 2018 transaction data, they are involved in around 90% of FPS and CHAPS transactions as either the sending or receiving PSP.^{6, 7}
- 2.34** Given the significant share of total transactions covered by these PSPs, we now propose limiting the direction to them.
- 2.35** We estimate that directing the PSPs in the six largest banking groups with our proposed deadlines would have a net benefit of at least £150 million (see Chapter 4 and Annex 2 for full details on our CBA).
- 2.36** Not including smaller PSPs that offer accounts covered by phase one in the direction affords them flexibility as to when to introduce the CoP service. However, these PSPs should have a strong incentive to implement CoP as soon as they can. We expect that they will want to give their customers the same level of protection that is on offer at the larger firms.⁸
- 2.37** Although there is a risk that some fraud could move from PSPs that offer CoP to those that do not, we expect that any such movement will be limited and will not materially undermine the benefits of having widespread coverage at the earliest practical opportunity. If the movement of fraud is material, this will strengthen the incentive for smaller PSPs to introduce CoP as soon as they can.
- 2.38** We will continue to observe the introduction of CoP and consider whether any further regulatory action is appropriate.

Most respondents were in favour of requiring the same PSPs to both respond to and send CoP requests

- 2.39** We asked stakeholders whether the same PSPs should be required to respond to CoP requests as those that are required to send requests.⁹

6 Transaction data provided to the PSR by FPS and CHAPS participants. We acknowledge that a proportion of the 90% estimate will involve PSPs that we are not proposing to direct as either a sending or receiving PSP. Data that specifies the exact sending and receiving PSPs involved in each transaction is not available. However, given the significant proportion of total transactions carried out by the directed PSPs, we expect most FPS and CHAPS transactions to occur between them.

7 The remaining direct FPS and CHAPS participants are involved in about 5% of total FPS and CHAPS transactions. Given their relatively small transaction shares, we consider the potential risks of directing these PSPs would outweigh the benefit of directing them as per our proposed deadlines.

8 PSPs may choose to develop CoP in-house or outsource all or part of it to a vendor. We recognise that smaller and newer PSPs without large IT teams and extensive technological resources are more likely to rely on vendors. From discussions with industry, we understand that the vendor market is developing.

9 Question 3: Should the same PSPs be subject to a requirement to respond to a CoP request as those that are required to send a request?

- 2.40** Eleven respondents were in favour of giving a direction that required the same PSPs to both respond to and send CoP requests.
- 2.41** Two stakeholders proposed a more nuanced approach, suggesting that, while all PSPs should be required to do both, the direction should allow PSPs to make their own decisions for certain account types.
- 2.42** One stakeholder agreed with the proposition but suggested that a partial solution might be designed for agency PSPs because of their different business hours.
- 2.43** Four stakeholders disagreed with the proposition completely. One said that account-servicing PSPs should be required to both receive and send, but that other types of PSP should be subject to a different set of requirements. Another said the process should be staggered – a first direction should require sending and responding for account-servicing PSPs only, and a second direction should require PISPs to send requests.
- 2.44** One respondent suggested that smaller PSPs should be required to respond to but not to send requests. Another stakeholder said responding was the most difficult part of delivering CoP, and that a direction is likely to disproportionately affect smaller PSPs unless vendor products are available.

Our response: directed PSPs must both send and respond to CoP requests

- 2.45** We are now proposing to only direct the PSPs in the six largest banking groups as this will ensure the introduction of CoP is widespread. Since the proposed direction would only apply to these PSPs, there is no need to distinguish between different business models, such as agency banking and PSP sizes.
- 2.46** For CoP to work, PSPs need to be able to both send and receive messages. If they cannot, there is a risk that confirmations will not happen and we may not achieve our objective. We have therefore concluded that directed PSPs must both send and respond to CoP requests.

Most stakeholders agreed that a direction should be given for both FPS and CHAPS

- 2.47** We asked stakeholders if we should give a direction covering both FPS and CHAPS transactions.¹⁰
- 2.48** Nineteen respondents agreed that a direction should be given for both FPS and CHAPS, and did not suggest any other payment systems. Three of these respondents said that, if only one of FPS and CHAPS was included, fraudsters would target the other. One stakeholder said it would be technically impossible to separate FPS and CHAPS.

¹⁰ Question 4: Do you think that we should consider giving directions in relation both to FPS and CHAPS transactions? If you believe that we should consider giving directions in relation to only one of these payment systems, or more than FPS and CHAPS, please set out why. Are there any other issues that we should consider when deciding which payment systems should be in scope?

- 2.49** Three respondents said they would prefer we give a later direction for CHAPS. One argued this was because CHAPS payments have more protections, including fraud checks. Another argued that FPS was the priority given its prevalence in online and digital banking channels.
- 2.50** One stakeholder said we should not give a direction for both FPS and CHAPS. They said we should first limit CoP to one payment system so the systems and procedures can be tested before being expanded to others.
- 2.51** Seven stakeholders supported giving a direction for both FPS and CHAPS but suggested we consider giving a direction for BACS credit transactions as well. Two of these respondents believed fraudsters would target BACS if it were excluded.
- 2.52** As well as supporting a direction for both FPS and CHAPS, two stakeholders suggested that we consider covering SWIFT/SEPA. However, they did note that there would be significant challenges to including international transactions. Two other stakeholders recommended that we include UK international bank account numbers (IBANs).
- 2.53** Three stakeholders recommended a system-agnostic basis for the direction. One respondent said it may be technically more difficult for PSPs' IT systems to treat payment systems differently.

Our response: the direction should only cover FPS and CHAPS transactions

- 2.54** International payments are outside the scope of Pay.UK's CoP rules and standards. Also, requiring CoP for international transactions would mean that some international banks operating outside the UK would have to implement the UK CoP standard, which is not an internationally agreed standard. We therefore do not consider it appropriate to include international payments in our proposed direction.
- 2.55** BACS credit payments are also outside the scope for Pay.UK's phase one CoP design because payments are submitted in batches. It is worth noting that companies are expected to have separately checked the names of the accounts they are paying into before making a BACS payment. Since CoP rules and standards are only available for phase one, we do not consider it appropriate to include BACS in our proposed direction.
- 2.56** We maintain that the most appropriate approach is to give a direction covering both FPS and CHAPS transactions. In 2018, the biggest APP scam losses by value were through FPS and CHAPS.¹¹ Therefore, a direction covering these two systems should help address a significant proportion of these losses.¹²

11 UK Finance, *Fraud the facts 2019* (March 2019):

ukfinance.org.uk/system/files/Fraud%20The%20Facts%202019%20-%20FINAL%20ONLINE.pdf

12 We note that some payments are made between accounts held at the same PSP (book transfers). These may happen over internal systems within the PSP instead of FPS or CHAPS. As book transfers are not done over a regulated payment system, we cannot give a direction in relation to them. However, requiring CoP for FPS and CHAPS transactions, as we propose, may incentivise directed firms to introduce an equivalent process for their book transfers.

Stakeholders had mixed views on whether a direction should apply to all payment channels

- 2.57** We asked stakeholders if a direction should apply to all payment channels that can initiate an FPS or CHAPS payment.¹³
- 2.58** Eleven respondents were in favour of a direction that applied to all payment channels. Of these, two respondents, who agreed that this would prevent fraudsters targeting channels without CoP, suggested a phased approach to implementation where online and mobile channels would be first, as they have the highest transaction volumes.
- 2.59** Eleven stakeholders disagreed with the proposition and, of these, six supported a direction covering online and mobile channels only. Those against the proposition in general said it would be difficult to introduce CoP for other channels because non-internet channels would need staff training and potential changes to business processes. One respondent said it would be useful for industry to test and learn from online and mobile channels first. Another said it would be useful to build customer awareness on online and mobile channels first.
- 2.60** Two respondents said PSPs should decide which channels CoP would apply to. Another suggested the PSR should require PSPs to provide implementation plans that set out channel coverage, and the reasons behind any exclusions, rather than requiring them to apply CoP to particular channels.

Our response: the direction should apply to all payment channels

- 2.61** We are concerned that APP scams could move to channels not covered by CoP if we limited the direction to online and digital channels. Indeed, one CoP technology provider gave examples of fraud migrating away from channels protected by CoP in another market.
- 2.62** Inconsistent levels of protection across payment channels could lead to confusion and uncertainty among consumers. Some may also mistakenly think that all payments will be checked using a CoP process, regardless of the channel.
- 2.63** The CoP process can be implemented on all payment channels. Our revised implementation deadlines also take into account channel-related implementation challenges and testing. We therefore consider it most appropriate to apply the direction to all payment channels.

Most respondents supported applying CoP to both new and changed payment mandates

- 2.64** We asked stakeholders if a CoP request should only apply when a new payment mandate is being set up or changed.¹⁴

13 Question 5 – part 1: Should the directions apply to all payment channels that an FPS or CHAPS payment can be initiated from?

14 Question 5 – part 2: Should a CoP request only apply when a new payment mandate is being set up or changed?

- 2.65** Twelve respondents supported the proposition.
- 2.66** Three respondents suggested checking mandates older than a set period (ranging from six months to two years) as well as applying CoP to new or changed mandates.
- 2.67** One stakeholder was in favour of applying CoP to new mandates and existing disused mandates, but not to changed mandates as this could compromise the customer experience.
- 2.68** Three stakeholders supported applying CoP to all mandates. One of these said they could support limiting the service to only new or changed mandates as long as the arrangement is properly communicated to customers.
- 2.69** Two respondents said PSPs should be able to choose which mandates CoP applies to.

Our response: the direction should only apply to new or changed payment mandates

- 2.70** CoP will be a new part of the payment experience. Until it is introduced, some payers are unlikely to give due attention to the name of the payee when setting up a payment. As a result, if a CoP check is run on payments to pre-existing payees, it is likely to result in many incorrect mismatches. CoP will therefore appear to be of little use and consumers will be less likely to accept it.
- 2.71** In coming to this view, we have considered the risk that some pre-existing payee mandates may be incorrect or fraudulent. We consider that the number of these is likely to be relatively small.
- 2.72** We have concluded that an appropriate balance between having CoP coverage to prevent misdirection and potentially compromising its perceived usefulness is achieved by requiring directed PSPs to send a CoP request when either: it is the first time the payer initiates a payment to the account with the proposed unique identifiers; or the payer has previously initiated a payment (or payments) but each of those previously initiated payments did not happen. This means that a CoP check will not be required for payments to established payees.

Stakeholders had mixed views on allowing end users to opt out of CoP

- 2.73** We asked stakeholders how a direction should deal with the possibility of people opting out of the CoP process – that is, not having their account name checked as a payee.¹⁵
- 2.74** Eleven stakeholders said there should be an option to opt out, although several had doubts or qualifications.
- 2.75** Three stakeholders said the industry needs guidance on how to deal with opt-outs. They said any direction must be worded in such a way as to leave open the possibility of opting out.

¹⁵ Question 6: How should any directions deal with the potential for people to opt out of the CoP process?

2.76 Nine stakeholders said end users should not be able to opt out because gaps in CoP coverage could undermine the service. They argued that the aggregate benefits of fraud prevention through CoP heavily outweigh any consumer benefit from opting out. One respondent also highlighted the technical difficulties of incorporating an opt-out provision.

2.77 One stakeholder suggested that PSPs should have discretion over opting-out customers. They said a key issue is working out who would bear liability for an APP scam if a customer had opted out of CoP. Another respondent said PSPs should be able to opt customers out of the service, and take on the liability for any APP scams that may occur.

Our response: PSPs should use Pay.UK's guidance to develop their opt-out processes

2.78 Pay.UK's rules and standards recognise that CoP involves participants processing the personal data of their customers and the customers of other PSPs. The General Data Protection Regulation (GDPR) says there must be a legal basis for processing this data.

2.79 Pay.UK concluded that the most appropriate legal basis was the legitimate interests of participants. Following best practice as set out by the Information Commissioner's Office, Pay.UK has carried out a legitimate interest assessment.

2.80 As part of this assessment, Pay.UK has followed the Information Commissioner's Office's recommended approach and pursued the following three-part test:

- **The purpose test:** Identifying the legitimate interest.
- **The necessity test:** Considering whether the processing is necessary.
- **The balancing test:** Considering the individual's interest.

2.81 In the balancing test, Pay.UK considered whether it should be possible to allow individuals to opt out. They identified that scammers could use an opt-out to get around the protections offered by CoP by using UK accounts that have opted out of the service so that no name check can occur on their account. However, we must make sure that CoP does not unduly burden, disadvantage or exclude customers, particularly those who are vulnerable.

2.82 Although Pay.UK has, on behalf of the industry, sought to undertake a legitimate interest assessment on CoP, it is the PSPs that control the data and who have a duty to ensure that all CoP processes are compliant with GDPR.

2.83 Pay.UK has explained to us that each PSP has its own risk profiles, processes and systems that make it difficult, if not impossible, to have one consolidated view of when opt-outs should be allowed. Pay.UK has instead suggested that each PSP should have its own opt-out metric.

2.84 Pay.UK has provided guidance about the opt-out process in its CoP rules and standards. We expect PSPs to use this guidance when developing their opt-out processes.

Most respondents favoured CoP covering both individual and business accounts

- 2.85** We asked stakeholders if a direction should require CoP for both individual and business accounts.¹⁶
- 2.86** Twenty stakeholders favoured covering both, as both individuals and businesses are victims of APP scams and businesses generally sustain high value losses.
- 2.87** Four stakeholders were concerned about the technical challenges and uncertainties of implementing CoP for bulk/batch files – a payment method used by larger businesses.
- 2.88** One respondent emphasised that it would be difficult to apply CoP to business accounts, not just technically but also in terms of staff training and customer messaging.

Our response: the direction should cover both individual and business accounts

- 2.89** Both individuals and businesses fall victim to APP scams and accidentally misdirected payments, and fraudsters use both types of account for their scams. We have therefore concluded that the direction should require sending and responding to CoP requests for transactions initiated from both individual (including joint accounts) and business accounts (excluding bulk/batch files, which are not in scope for phase one).
- 2.90** As noted earlier, we have revised our proposed implementation deadlines. One of the reasons for this is to accommodate any challenges in implementing CoP for business accounts, such as carrying out staff training.

Stakeholders had mixed views on whether a direction should separate out responding to CoP requests from sending CoP requests

- 2.91** We asked stakeholders if a direction should separate out responding to CoP requests from being able to send CoP requests.¹⁷
- 2.92** Sixteen stakeholders said a direction should cover both sending and receiving to ensure broad enough coverage.
- 2.93** One stakeholder, while supporting both sending and receiving, said PSPs should be allowed to choose which type of account they send CoP requests for – individual, business, or both.
- 2.94** Sixteen stakeholders were in favour of separating the delivery deadlines for responding to and sending CoP requests. Eight of these respondents said a direction should cover responding but not sending. This was because they believed PSPs would not be able to meet the proposed deadlines, especially the sending deadline.

¹⁶ Question 7: Should any directions cover the sending of money from both individual and business accounts?

¹⁷ Question 8: Should the directions separate out responding to CoP requests from being able to send CoP requests? Should directions cover both sending and responding?

2.95 Three stakeholders said industry should be left to introduce sending requests. Two respondents said the Contingent Reimbursement Model (CRM) Code would sufficiently incentivise PSPs to introduce CoP sending capability.

Our response: the direction should cover both sending and responding to CoP requests and separate them out

2.96 For a CoP check to work, a PSP needs to send a request and receive a response from the payee's PSP. If the direction covered only one of sending or responding there would be a significant risk that the full process would not occur. This would compromise the achievement of our objective.

2.97 The staging of CoP's delivery is important. Directed PSPs must be able to respond to requests before other PSPs can send them. This is because PSPs can only send requests if they know, and can test, what other PSPs will respond with. The implementation date for responding to CoP requests therefore needs to be earlier than the date for sending them, with enough time to carry out relevant testing.

2.98 We have therefore concluded that the direction needs to cover both sending and responding capabilities, and it needs to separate the two to make sure that delivery of CoP is in line with our objective.

Views on the proposed timeframe

2.99 In our previous consultation, we proposed giving a direction requiring that PSPs be capable of receiving and responding to CoP requests by 1 April 2019 and send CoP requests by 1 July 2019. We asked stakeholders for their views on these proposed deadlines.¹⁸

Stakeholders said they needed more time to implement CoP

2.100 Although many PSPs supported the PSR giving a direction requiring CoP, only three stakeholders supported our proposed dates.

2.101 Most respondents said the dates were too challenging or impossible to meet. Many said they were already engaged in a heavy programme of regulatory change related to Open Banking, the Second Payments Services Directive and the UK's exit from the European Union. These changes would make it difficult to implement CoP by the proposed deadlines.

2.102 Fourteen respondents were concerned that the April and July deadlines would not allow enough time to test their CoP services. PSPs said they want to avoid a situation where CoP is rolled out to customers too soon with major updates required after implementation.

2.103 Eight stakeholders said the proposed deadlines were not feasible because the Pay.UK specifications and guidance were not available to them or were unclear.

¹⁸ Question 9: Do you agree with the deadlines for the introduction of CoP?

- 2.104** Three stakeholders specifically identified difficulties in name-matching protocols and achieving tolerable matching rates as factors that meant our proposed deadlines were unachievable.
- 2.105** Nine stakeholders said the lack of appropriate vendor products in the market meant the proposed deadlines were unachievable. Some were sceptical of the current ability of vendors to build CoP services. One stakeholder said the tight deadlines may force some firms to choose a vendor based on speed of delivery rather than quality.
- 2.106** Five stakeholders emphasised the need to consider the impacts of the proposed deadlines on smaller PSPs. They argued that, as small PSPs would have to rely on the few vendor products available, they would likely need to pay high prices. Another stakeholder said new PSPs should be given 12 to 18 months to comply with the direction.
- 2.107** Only five stakeholders suggested alternative deadlines. These ranged from June 2019 to September 2019 for responding to CoP requests and from August 2019 to January 2020 for sending CoP requests, with one respondent suggesting June 2020 for responding and receiving for 'lower-risk PSPs'.

Our response: we have revised our CoP implementation deadlines

- 2.108** As discussed in paragraphs 2.25 to 2.33, we have revised our proposed direction, limiting its scope to the PSPs in the six largest banking groups.
- 2.109** To determine implementation timeframes that PSPs could meet, we issued notices under section 81 of FSBRA to a range of PSPs, including those we propose to direct. In response, they provided detailed information on their achievable CoP implementation timeframes, and the underlying reasons for their milestones and final delivery dates. The PSPs we propose to direct provided implementation timeframes that we used to inform our proposed dates. We considered their explanations for their achievable implementation timeframes, and concluded that the timeframes were not unduly conservative.
- 2.110** Our proposed direction requires directed PSPs to respond to CoP requests from 31 December 2019 and send them from 31 March 2020. Based on the information we have gathered, we are confident that the directed PSPs can comply with the deadlines.

Views on alternative approaches

- 2.111** We asked stakeholders to suggest alternative approaches that we should consider in place of giving a direction to PSPs.¹⁹

Most respondents did not provide alternatives to giving a direction

- 2.112** Most of those that responded to the question said there are no suitable alternatives to the PSR giving a direction.

¹⁹ Question 10: Are there any alternative approaches that we should consider instead of giving directions to PSPs as set out in this document?

- 2.113** A small number of stakeholders suggested other approaches. Some favoured developing an industry delivery programme led by a suitable body from the payments sector, such as Pay.UK. The lead body would be responsible for coordinating the industry's approach to building, testing and launching CoP.
- 2.114** Other respondents said PSPs should deliver CoP in their own time, with one suggesting that the PSR should require PSPs to provide detailed CoP implementation plans.
- 2.115** One respondent suggested relying on the CRM Code to drive the take-up of CoP.

Our response: directing is the most appropriate tool to make sure CoP is introduced effectively

- 2.116** We need to be confident that CoP will be introduced, and introduced in a way that works best to reduce APP scams and accidentally misdirected payments. This requires industry coordination.
- 2.117** The aim of the direction is to facilitate this by providing a clear and coordinated timeframe for the relevant industry participants to work to when implementing CoP. Pay.UK has also developed standards and guidance for implementing CoP. The combination of the two should provide enough guidance and coordination to industry participants to introduce the service.
- 2.118** We recognise the CRM Code as an important initiative in the progress toward protecting payment system users from APP scams. The voluntary Code, announced on 28 February 2019, sets out the protections and standards that will be implemented by PSPs with respect to APP scams. It is set to operate from 28 May 2019 (although the standards in the Code on CoP do not yet have a start date).
- 2.119** Although it is a crucial step in increasing protection from APP scams, the Code focuses on protecting consumers, micro-businesses and charities. Our proposed direction will require CoP requests and responses for **all** new payment mandates sent from an individual (including joint) account or business account. This means our direction will cover more accounts than the Code.
- 2.120** CoP also works to prevent accidentally misdirected payments, only around a third of which are recovered. Accidentally misdirected payments are not covered by the Code.
- 2.121** We have therefore concluded that giving a specific direction is the most appropriate approach to ensuring the widespread introduction of CoP in a timely and coordinated manner.

3 Proposed approach to giving a direction

Given the stakeholder feedback to our first consultation and our follow-up analysis, this chapter outlines our revised approach to giving a direction (full direction text in Annex 1). It also details the approach underpinning our decision to pursue the proposed direction, and examines its effectiveness and proportionality.

- 3.1** Our objective is to make sure that CoP is introduced in a way that significantly reduces losses from APP scams and accidentally misdirected payments. The stakeholder feedback to our first consultation and our follow-up analysis detailed in Chapter 2 indicate that giving a direction to PSPs requiring CoP is the right approach to achieving this objective.
- 3.2** Our previous consultation gave us useful feedback on our original approach to directing PSPs to implement CoP. As a result, we have refined our approach to directing. We previously consulted on giving a general direction that would have applied to all PSPs. We now propose to give a specific direction to certain PSPs. The full direction text is set out in Annex 1.
- 3.3** The proposed direction should result in widespread coverage of CoP over transactions between UK accounts using FPS and CHAPS. Our proposed deadlines are the earliest dates by which we believe this outcome can be reasonably achieved.

Our proposed direction at a glance

- 3.4** We are proposing to issue our direction to Bank of Scotland plc, Barclays Bank UK plc, Barclays Bank plc, Cater Allen Limited, Coutts and Company, HSBC Bank plc, HSBC UK Bank plc, Lloyds Bank plc, Nationwide Building Society, National Westminster Bank plc, Royal Bank of Scotland plc, Santander UK plc and Ulster Bank Limited. They are all participants in FPS and/or CHAPS.
- 3.5** The proposed direction covers transactions that start and end at UK-based accounts and that happen exclusively over FPS or CHAPS.
- 3.6** If a directed PSP is the holder of the account that is to receive the money, they must respond to any CoP request (whether from a directed PSP or another PSP) that is sent after 31 December 2019.
- 3.7** If a directed PSP is the holder of the account from which the money is to be sent, after 31 March 2020, they must send a CoP request (whether the money is being sent to a directed PSP or another PSP) in connection with the proposed transaction. A CoP check is only required when a first payment is initiated by the payer to the account identified by the unique identifiers or where previous payments have been initiated but no payment in fact went through on those occasions (i.e., a mandate was not established).

We are requiring the directed PSPs to use the CoP rules and standards developed by Pay.UK. We are not requiring a directed PSP to respond to a CoP request unless it is sent in accordance with those rules and standards.²⁰

We considered effectiveness and proportionality in deciding the best approach

3.8 In deciding whether to direct and, if so, which PSPs to direct and what requirements to include in the direction, we considered the following:

- **Effectiveness:** Our proposed direction must achieve the objective we have identified and it must be feasible to implement, monitor and enforce.
- **Proportionality:** Our proposed direction must be proportionate. We have considered whether it is proportionate by reference to four questions:
 - Is the objective of our proposed direction sufficiently important to justify its imposition?
 - Is our proposed direction rationally connected to that objective?
 - Could a less intrusive measure, or no measure, be used to achieve that objective?
 - Is the severity of the effects of the direction on the directed PSPs, in particular on their right to decide if, how and when to introduce CoP, outweighed by the importance of the objective to the extent that the measure will contribute to its achievement?

Effectiveness

3.9 As outlined in Chapter 2, we have considered the views received from our consultation, including the responses to the questions, when deciding the scope and content of the proposed direction.

3.10 In deciding the scope and content of the proposed direction, we considered a range of options to ensure it would be effective:

- **Who we direct:** As outlined in paragraphs 2.25 to 2.33, given the significant share of total FPS and CHAPS transactions covered by the PSPs in the six largest banking groups, we now propose limiting the direction to them.
- **Whether to require the Pay.UK rules and standards:** We have chosen to require compliance with the CoP rules and standards developed by Pay.UK. See paragraphs 2.10 to 2.16.

²⁰ To mitigate the risk of fraudsters gaining an advantage in carrying out their crimes through knowledge of the rules, Pay.UK only makes its rulebook on CoP available to those that need to see it (e.g., PSPs involved in developing those standards and implementing them) and who give the necessary assurance to protect its confidentiality. We are confident that all those who need to see the rulebook to comply with this direction have appropriate access to it. A description of CoP and Pay.UK's work on confirmation is available here: www.wearepay.uk/confirmation-of-payee

- **Different types of transactions:**
 - *International payments:* for the reasons given in paragraph 2.49, we have not included international payments within the scope of the direction.
 - *Different payment systems:* for the reasons given in paragraphs 2.50 and 2.51, we have included transactions carried out over FPS and CHAPS within the scope of the direction (but not, for example, BACS).
 - *Business and individual accounts:* for the reasons given in paragraph 2.84, we propose to require CoP for all transactions where a UK account holder is intending to transfer funds directly to another UK account holder. Either account holder may be a business or individual.
- **Limiting the application of the direction over channels:** As discussed in paragraphs 2.56 to 2.58, the proposed direction applies to all channels over which an FPS or CHAPS payment can be made.
- **When to undertake a CoP check:** As discussed in paragraphs 2.65 to 2.67, we have chosen to require a CoP check when a first payment is initiated by the payer to the account identified by the unique identifiers or where previous payments have been initiated but no payment in fact went through on those occasions.
- **Separating out sending and responding:** For the reasons set out in paragraphs 2.91 to 2.93, we have decided to require both sending and receiving and to have different deadlines for each.

Implementing, monitoring and enforcing

- 3.11** We have drafted the proposed direction so that it is clear when a directed PSP must respond to and send a CoP request.
- 3.12** We are also proposing to require the directed PSPs to report on their plans for implementing the direction. This will help us manage implementation risks, and therefore the risk of not achieving our objective.
- 3.13** Directing a smaller number of PSPs will make monitoring and enforcement easier because we will be able to concentrate on the actions of a small group rather than all PSPs.

Conclusion

- 3.14** Given the discussion above, we are satisfied that the proposed approach will achieve the objective we have identified and be feasible to implement, monitor and enforce.

Proportionality

Is the objective of our proposed direction sufficiently important to justify its imposition?

- 3.15** Our objective is to make sure that CoP is introduced in a way that significantly reduces losses from APP scams and accidentally misdirected payments.

- 3.16** Each year misdirected payments cause millions of pounds in losses to individuals and businesses. Based on information from PSPs, our CBA estimates the unrecovered loss from misdirected payments to be around £145 million a year. These financial losses often cause emotional distress, such as acute stress and anxiety.
- 3.17** This is a significant amount of harm. We expect our proposed direction to prevent a substantial amount of this harm, thereby providing benefits to payment system users. It will also reinforce and increase confidence in payment systems, particularly FPS and CHAPS. We therefore consider the objective sufficiently important to justify imposing a direction to achieve it.

Is our proposed direction rationally connected to that objective?

- 3.18** As set out in Chapter 2, we have designed the direction to achieve our objective. It will do this by ensuring that PSPs responsible for the majority of transactions in the UK over FPS and CHAPS are required to introduce a CoP process. Our proposed deadlines are the earliest dates by which we have sufficient confidence that the directed PSPs can introduce CoP in a way that achieves our objective.
- 3.19** The direction requires compliance with the rules and standards developed by Pay.UK, the most obvious standards setting body. Those rules and standards provide a clear approach for PSPs to introduce CoP.
- 3.20** Each part of the direction – for example, whether a check is required on all transactions or only new or changed mandates – was directly informed by our objective.

Could a less intrusive measure, or no measure, be used to achieve that objective?

- 3.21** We considered not directing and instead leaving it entirely up to individual PSPs to introduce CoP. Some PSPs have told us they plan to introduce CoP for FPS and CHAPS transactions but none has yet done so.
- 3.22** We also considered whether the CRM Code meant we no longer needed to give a direction. One respondent raised this possibility. However, we have concluded that we most likely would not achieve our objective if we relied on the Code.
- 3.23** The Code focuses on protecting consumers, micro-businesses and charities. Our proposed direction requires CoP requests and responses for **all** new payment mandates sent from an individual (including joint) account or business account. This means that our direction would cover more accounts than the Code.
- 3.24** CoP also works to prevent accidentally misdirected payments, only around a third of which are recovered. The Code does not cover accidentally misdirected payments.
- 3.25** By its nature, a CoP process over FPS or CHAPS involves different PSPs interacting. Even if the PSPs that we propose to direct were to introduce a CoP process themselves, they would likely introduce CoP at different times.
- 3.26** Uncoordinated implementation would risk our objective and would undermine or delay CoP's benefits. Customers of PSPs would face greater uncertainty as to whether their transaction would be subject to a CoP check, potentially diminishing its perceived usefulness.

3.27 In contrast, our proposed direction will lead to widespread coverage by requiring the introduction of CoP by those who are involved in around 90% of FPS and CHAPS transactions as either the sending or receiving bank (or both). Although our direction is not requiring complete coverage of CoP, customers will have much more confidence as to whether their transaction will or will not be subject to a CoP check.

3.28 As discussed earlier, we are no longer proposing to direct all PSPs. We have limited the directed PSPs to those necessary to achieve our objective. We give the reasons in paragraphs 2.25 to 2.33.

Is the severity of the effects of the direction on the directed PSPs, in particular on their right to decide if, how and when to introduce CoP, outweighed by the importance of the objective, to the extent that the measure will contribute to its achievement?

3.29 We understand that all the PSPs we propose to direct have plans to introduce CoP at some stage. We expect that the CoP process they would have introduced without the direction would have been in line with the Pay.UK rules and standards. Also, the direction deadlines for responding to and sending CoP requests are dates that we believe those PSPs are reasonably capable of meeting.

3.30 The direction ensures that the directed PSPs will introduce CoP by the deadlines included in it (if not, a directed PSP would be at risk of enforcement action). The coordination provided by the direction means that CoP should be introduced in a way that significantly reduces losses from APP scams and accidentally misdirected payments. The benefits of this (both in terms of preventing financial loss and the social cost to people) significantly outweigh any difficulties that a directed PSP might face because of the direction.

Conclusion

3.31 For the reasons given above, considering all its impacts, we have concluded that our proposal is proportionate.

3.32 **Question: Do you have any comments on our proposed direction as set out in Annex 1?**

4 Updated cost benefit analysis

We presented a CBA in our November 2018 consultation paper, in which we estimated the benefits and costs of implementing CoP as per our original timeframe.

This chapter presents our updated CBA. We have updated our CBA because we now propose giving a specific direction to only the PSPs in the six largest banking groups instead of all PSPs. We have also incorporated stakeholder feedback on the CBA in our first consultation. Annex 2 sets out the full details of our CBA.

Views on our assessment of CoP's benefits

- 4.1** We asked stakeholders to provide their views on whether our assessment of the benefits was right.²¹
- 4.2** Only a few stakeholders commented on our CBA. Three supported our approach, agreeing with our assessment of the benefits.
- 4.3** Nine stakeholders said the benefits were overestimated. These respondents believed that the benefits would be lower than our estimate, mainly because fraudsters would adapt their methods to get around the CoP service.
- 4.4** Three stakeholders said the value of APP scam fraud that we used in the original CBA included fraud from BACS and international payments, systems that are out of scope of the proposed direction.

Our response: we have refined our benefits estimate using stakeholder feedback and data provided by PSPs

- 4.5** Fraudsters may adapt their methods to get around CoP and we have accounted for this through a lower prevention rate – the estimated percentage of misdirected payments actually prevented by CoP (discussed in detail later in this chapter).
- 4.6** We have also revised our APP scam loss calculations by removing the losses from BACS and international payments.
- 4.7** In our original CBA, we said that, unlike APP scams, accidentally misdirected payments tend to be returned to the payer. We therefore assumed that there was no benefit from preventing accidentally misdirected payments. We said we would ask for views and evidence on whether this was right.

²¹ Question 11: Is our assessment of the benefits the right one? If you do not agree, please set out what you consider would be more appropriate and your view of the impact that would have.

- 4.8** We issued information notices to a range of PSPs under section 81 of FSBRA. We asked them to provide data on maliciously and accidentally misdirected payments across FPS and CHAPS over the last few years. The data we collected from the PSPs showed that on average a little more than a third of the money is recovered when a payment is accidentally misdirected in FPS or CHAPS.
- 4.9** We have therefore adjusted the total loss figure to include the proportion of accidentally misdirected payments not recovered.
- 4.10** Given the additional benefit from including accidentally misdirected payments and the exclusion of BACS and international transactions, we now estimate that CoP will prevent around £145 million in losses in its first year of operation.

Views on our assessment of CoP's costs

- 4.11** We asked stakeholders to provide their views on whether our assessment of CoP's costs was right.²²
- 4.12** Four respondents said the costs were underestimated. One respondent highlighted that we had not included some costs, such as the cost of reissuing customer terms and conditions where a reissue has not already been scheduled. Another respondent said customer queries were likely to increase as CoP would add friction to the payment process. This would have an impact on wider business functions, such as call centres and branches, increasing costs.

Our response: we have refined our costs estimate in response to stakeholder feedback and data provided by PSPs

- 4.13** As in the original CBA, we have included the following costs associated with the proposed direction:
- PSPs' capital costs to implement CoP
 - PSPs' annual running costs for maintenance and support
 - costs incurred for customer awareness campaigns
- 4.14** The PSPs' capital cost estimate includes costs due to changes in terms and conditions.
- 4.15** For capital and running costs, we previously used the Payments Strategy Forum's CoP implementation cost estimates in its blueprint for the New Payments Architecture. We set the total capital cost across industry at £200 million, with an annual running cost of £20 million.
- 4.16** We have amended our capital and running cost figures to reflect stakeholder feedback, the data provided by PSPs in response to our section 81 notices, and the revised scope of the direction (since we now propose only directing the PSPs in the six largest banking groups instead of all PSPs).

²² Question 12: Is our assessment of the costs the right one? If you do not agree, please set out what you consider would be more appropriate and your view of the impact that would have.

4.17 Our updated estimate of the total capital expenditure across the directed PSPs is now £45 million, with an annual running cost of £1.8 million.

4.18 The cost of customer awareness campaigns remains unchanged from the original CBA (£10 million in the year of implementation). This was based on the cost of consumer awareness campaigns for the Current Account Switching Service.

Views on our assessment of the trade-off between the costs and benefits

4.19 We asked stakeholders to provide their views on whether our assessment of the trade-off between costs and benefits was right. We also asked for their views on the impact of our proposed dates on the trade-off.²³

4.20 Nine stakeholders said the timeframe as proposed in the first consultation was likely to have a negative impact on the trade-off assessment. Some mentioned that our trade-off assessment assumed there were no barriers to high-quality implementation in 2019, such as the risk of immature name-matching algorithms. One respondent said early implementation would be counter-productive, with no net benefit.

Our response: our revised CBA indicates that the proposed direction will have a net benefit

4.21 Our revised implementation dates address the concerns raised by stakeholders.

4.22 As in our original CBA, we assume two counterfactuals:

- Counterfactual 1 (C1) assumes that, without the proposed direction, CoP would not be introduced by PSPs.
- Counterfactual 2 (C2) assumes that CoP is implemented one year later than the proposed direction – in the middle of 2021.

4.23 The only change to the counterfactuals relative to the original CBA is the CoP implementation date in C2. We have set the date back to account for the revised deadlines in our direction.

4.24 We have calculated the net present value of the total benefits and total costs over time for each counterfactual. The key change to the assumptions underlying the net present value calculations is the CoP prevention rate.

4.25 In our original CBA, we assumed that CoP would prevent 90% of maliciously misdirected payments where the name entered does not match the account details. We did not consider a prevention rate for accidentally misdirected payments because they were not a part of our benefits calculation.

²³ Question 13: Is our assessment of the trade-off between costs and benefits the right one? If you do not agree, please set out what you consider would be more appropriate and your view of the impact that would have.
Question 14: What is your view on the impact of the proposed dates in our approach to the trade-off between costs and benefits? Do you consider that imposing April and July deadlines impacts either the costs or benefits of implementing CoP relative to a later implementation date – for example, 2020 or later?

- 4.26** Based on data from stakeholders who have implemented CoP-style services in other countries, we have lowered the prevention rate for misdirected payments to 70% in the first year of implementation, with it moving to 75% thereafter.
- 4.27** We have also amended the timeframe for the net present value from 2019–2028 to 2020–2029. This reflects the change to the CoP implementation dates in the direction.
- 4.28** We did not receive any comments on the other assumptions for the net present value calculations and they remain unchanged. The social discount rate remains at 3.5%, the firm discount rate at 5%, the annual growth in APP scams at 5%, and the annual growth in CoP's running costs at 3%.
- 4.29** Based on these assumptions, we estimate that our proposed direction will have a net benefit of about £1 billion under C1 and £150 million under C2. Full details on the CBA are in Annex 2.
- 4.30** We also did a sensitivity analysis around our key assumptions. The net benefit remains positive under both counterfactuals even under more conservative assumptions on the time period, the rate of growth in APP scams, the prevention rate, the firms' discount rate and CoP-related capital expenditure.

5 Equality impact assessment

In line with our public-sector equality duty under the Equality Act 2010, we must assess the likely equality impacts and reasons for giving a direction. In this chapter, we explore the impacts we believe CoP, and its implementation through giving the direction we are proposing, will have, including on people with relevant protected characteristics.

- 5.1** In deciding whether to direct, who to direct and what should be in the direction, we have considered the matters set out in section 149 of the Equality Act 2010 (the public sector equality duty), particularly the impact of our proposed direction on people with protected characteristics.²⁴
- 5.2** We included an initial impact assessment in our first consultation and asked for comments.²⁵ We received 14 responses. This updated assessment takes into account those responses.

Payers

- 5.3** In our initial assessment, we said CoP will introduce an appropriate and necessary level of friction for those making payments because they will need to consider the CoP result. However, we said there is a higher risk of poor outcomes for some people with protected characteristics, including some elderly people and people with certain physical or mental health disabilities.
- 5.4** CoP will make the authorisation of transactions more involved for a payer because they will need to enter the payee's name correctly. Payers will also need to consider the response to the CoP check done on that name. If there is no match or a close match, the payer will need to decide whether to proceed with the transaction.
- 5.5** This additional complexity is more likely to affect people with certain attributes linked to protected characteristics. As respondents said, this includes people with cognitive impairment because of age or disability, and those who do not speak English as a first language.
- 5.6** However, given the significant benefits of CoP, we consider it appropriate to give the proposed direction. We expect PSPs to take steps to mitigate the impact of any additional complexity associated with CoP – this would include educating customers, especially those who are most likely to be negatively affected.

²⁴ The relevant protected characteristics under section 149 are age; disability; gender reassignment; pregnancy and maternity; race; religion or belief; sex; sexual orientation.

²⁵ Question 15: Do you have any comments on our assessment of the impacts of the directions we are considering on protected groups or vulnerable consumers? Do you have any evidence that will assist the PSR in considering equality issues, and in particular complying with its public equality duty, in deciding whether to give directions and considering alternatives?

Payees

- 5.7** Several responses to the consultation mentioned vulnerable payees. A payee may be vulnerable for several reasons – for example, because of an abusive relationship.
- 5.8** Pay.UK's CoP rules and standards provide guidance on the categories of vulnerable customer that PSPs may consider opting out. We expect PSPs to follow this guidance.
- 5.9** One respondent also mentioned potential difficulties that CoP may place on those with complex first and family names – for example, their name may have been rendered from a different alphabet into the Latin alphabet.
- 5.10** Under the CoP process, a payer will need to know a payee's name and how to spell it. Pay.UK's rules and standards 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 consider this an appropriate way to deal with close matches. This may also mitigate the difficulty raised by the respondent. We encourage PSPs to ensure their approach to identifying close matches accounts for this issue.

Our conclusion

- 5.11** No respondent to the first consultation suggested that we should not give a direction because of its impact on issues of equality. We are satisfied that our proposed direction requiring CoP will bring significant benefits to payers and payees, including those with protected characteristics. The benefits will substantially outweigh the negative impacts, including those that disproportionately affect people with certain protected characteristics.

6 Next steps

How to respond

- 6.1** If you wish to respond to this consultation paper, please send us your answers to our questions and any other comments by **5pm on 5 June 2019**.
- 6.2** You can email us at cop.consultation@psr.org.uk or write to us at the following address:

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

Our next steps

- 6.3** We will consider all responses to this consultation in deciding on next steps. If we decide to proceed with giving the proposed direction, we plan to do so by **the end of July 2019**.

Disclosure of information

- 6.4** Generally, we seek to publish views or submissions in full or in part. This reflects our duty to have regard for our regulatory principles, which include those in relation to:
- publication in appropriate cases
 - exercising our functions as transparently as possible
- 6.5** We will not regard a standard confidentiality statement in an email message as a request for non-disclosure. If you wish to claim commercial confidentiality over specific items in your response, you must identify those specific items that you claim to be commercially confidential.
- 6.6** We may nonetheless be required to disclose all responses that include information marked as confidential in order to meet legal obligations – in particular, if we are asked to disclose a confidential response under the Freedom of Information Act 2000. We will endeavour to consult you if we receive such a request. Any decision we make not to disclose a response can be reviewed by the Information Commissioner and the Information Rights Tribunal.
- 6.7** We take our data protection responsibilities seriously and will process any personal data that you provide to us in accordance with the Data Protection Act 2018, the GDPR and our PSR Data Privacy Policy. For more information on how and why we process your personal data, and your rights in respect of the personal data that you provide to us, please see our website privacy policy: psr.org.uk/privacy-notice.

Annex 1

Draft specific direction [x]: Confirmation of Payee

1 Recitals

Whereas:

- 1.1** Confirmation of Payee is a process that aims to reduce fraud and misdirected payments in electronic bank transfers. It checks the name of the payee against the details given by the payer.
- 1.2** The Payment Systems Regulator (PSR) expects that introducing Confirmation of Payee for transactions made between accounts held in the United Kingdom will significantly reduce the number of authorised push payment scams. In these scams, a fraudster tricks someone into sending money to an account that the payer believes is legitimate, but is in fact under the control of the fraudster.
- 1.3** Without Confirmation of Payee, banks use unique identifiers (usually sort code and account number) entered by the payer to identify the receiving account – but these do not include the payee’s name. This means there is no way to check that the other identifiers are associated with an account matching that name. Confirmation of Payee checks should significantly lower the risk of payments being misdirected by accident or because of fraud.
- 1.4** Therefore, introducing Confirmation of Payee for the Faster Payments Scheme (FPS) and CHAPS will be a valuable tool in preventing fraudulent or accidental misdirection. These are the biggest volume push payment systems in the United Kingdom used for sending money between different payment service providers (PSPs).

PSPs may still decline to process transactions for commercial reasons, or if they:

- suspect fraud or the likelihood of accidental misdirection
- are otherwise prevented by law from processing a payment

- 1.5** Although a range of PSPs have indicated that they will introduce a Confirmation of Payee process for payments involving accounts at different PSPs held in the United Kingdom, progress on implementing Confirmation of Payee has been slow. The benefits associated with Confirmation of Payee depend, to a significant degree, on its widespread introduction. This is because transactions that use FPS and CHAPS take place between accounts held at different PSPs, and Confirmation of Payee will only work if both PSPs involved in a transaction offer the service.

- 1.6** FPS and CHAPS are designated by HM Treasury under section 43 of the Financial Services (Banking Reform) Act 2013 ('the Act') for the purposes of Part 5 of the Act. This means we may give a direction in relation to them under section 54 of the Act.
- 1.7** The PSR has decided to require certain PSPs to introduce processes for sending and responding to Confirmation of Payee requests. They must introduce the processes to specific deadlines. Giving this direction will ensure that Confirmation of Payee is introduced in a way that is highly likely to achieve our objective – significant reduction in losses due to APP scams and accidentally misdirected payments.
- 1.8** In deciding whether to give the direction, who to direct, the deadlines to be imposed and what the Confirmation of Payee process should be, the PSR has taken the following into account:
- a. The PSPs that we give this direction to were either the sending or receiving PSPs, or both, for approximately 90% of the total volume of transactions over FPS and CHAPS in 2018 (and that it is appropriate, where participants in FPS and/or CHAPS are members of the same banking group, to aggregate the volume of transactions by those PSPs when considering which PSPs should be directed).
 - b. Therefore, directing those PSPs to introduce the Confirmation of Payee process as required by this direction will result in its widespread use for transactions over FPS and CHAPS.
 - c. This will make it highly likely that the PSR's objective will be achieved.
 - d. Based on information provided, the PSR considers that:
 - the directed PSPs will be able to comply with the deadlines in the direction for responding to, and sending, Confirmation of Payee requests
 - those deadlines are the earliest dates that we can require Confirmation of Payee to be introduced
 - e. Pay.UK has developed rules and standards for Confirmation of Payee. PSPs, in particular those that we give this direction to, are aware of these rules and standards.
 - f. Those rules and standards, if implemented, would provide an appropriate Confirmation of Payee process.
 - g. Those rules and standards currently only relate to transactions between accounts identified by sort code and account number.
 - h. Those rules and standards do not currently provide for a Confirmation of Payee process where a PSP uses an account receiving the money to aggregate sums of money before sending them to the relevant accounts of individuals (these are often known as Head Office Collection Accounts).
 - i. Those rules and standards do not currently provide for a Confirmation of Payee process where the sending or receiving account (or both) for a transaction is held abroad. Only that part of an international payment journey that takes place within the United Kingdom will be done over FPS or CHAPS as they are UK payment systems.

- j. Those rules and standards do not currently provide for a Confirmation of Payee process where the transaction being made is a bulk payment.
- k. The direction should only cover transactions involving accounts that the Pay.UK rules and standards currently relate to.
- l. With the introduction of Confirmation of Payee, a payer will face an additional process, and therefore friction in carrying out the transaction – particularly if the response to the Confirmation of Payee request is that there is no match, or a close match that requires further consideration.
- m. Therefore, the direction should only require a Confirmation of Payee check to be carried out:
 - the first time the payer initiates a payment to a new account, or
 - the payer has previously initiated a payment to an account but the payment was not made
- n. It is appropriate to require directed PSPs to report on their progress in meeting the requirements of this direction, so that the PSR can ensure they have the necessary processes in place.

2 Power exercised and purpose

2.1 The PSR makes this direction in accordance with section 54 (Regulatory and competition functions – directions) of the Act. In accordance with section 54(3)(c), this direction applies to persons of a specified description.

2.2 The purpose of this direction is to ensure that the benefits of the Confirmation of Payee process, in particular the reduction in misdirected payments (both as a consequence of fraud and error), are widely available for transactions over FPS and CHAPS.

Direction

NOW the Payment Systems Regulator gives the following specific direction to: Bank of Scotland plc, Barclays Bank UK plc, Barclays Bank plc, Cater Allen Limited, Coutts and Company, HSBC Bank plc, HSBC UK Bank plc, Lloyds Bank plc, Nationwide Building Society, National Westminster Bank plc, Royal Bank of Scotland plc, Santander UK plc and Ulster Bank Limited.²⁶

3 Requirement to introduce a Confirmation of Payee process

3.1 After 31 December 2019, a directed PSP must respond to every Confirmation of Payee request made to it that:

- complies with the CoP rules and standards, and
- is made in connection with an applicable transaction.

3.2 The response must comply with the CoP rules and standards.

3.3 After 31 March 2020, a directed PSP must send a Confirmation of Payee request for every applicable transaction that complies with the CoP rules and standards. It must deal with the response to that request (or the absence of a response) in accordance with those rules and standards.

3.4 'A directed PSP' means each of the PSPs to which this direction is given.

3.5 A 'Confirmation of Payee request' means a request sent by a PSP to check the name of the person the payer wishes to pay.

3.6 The 'CoP rules and standards' means the rules and standards for Confirmation of Payee set out in the rule book developed by Pay.UK²⁷, as they stand at the time the payer initiates the transaction.

3.7 A transaction is 'applicable' if:

- o. it is to take place by way of FPS or CHAPS
- p. both the account from which the payer proposes to send the money ('the sending account') and the account to which the unique identifiers given by the payer as the account to which the money is to be sent ('the receiving account') are UK accounts

²⁶ Bank of Scotland plc and Lloyds Bank plc are part of the Lloyds Group; Barclays Bank UK plc and Barclays Bank plc are part of the Barclays Group; HSBC Bank plc and HSBC UK Bank plc are part of the HSBC Group; Coutts and Company, National Westminster Bank plc, Royal Bank of Scotland plc and Ulster Bank Limited are part of the Royal Bank of Scotland Group; Cater Allen Limited and Santander UK plc are part of the Santander Group.

²⁷ Pay.UK is a company limited by guarantee, incorporated in England. Company Number 10872449. For more on their work on Confirmation of Payee, see: wearepay.uk/confirmation-of-payee.

- q. the unique identifiers used to identify both the sending and receiving accounts take the form of a sort code and account number
- r. the transaction does not consist of a bulk payment
- s. the receiving account is not a PSP collection account and
- t. for the purposes only of paragraph 3.3, the transaction:
 - is the first time the payer has initiated a payment to be sent from the sending account to the receiving account, or
 - the payer has previously initiated a payment from the sending account to the receiving account, but no payment actually occurred.

3.8 'Unique identifier' has the same meaning as in the Payment Services Regulations 2017.

3.9 An account is a 'UK account' if it is provided by a PSP in the course of that PSP's business within the United Kingdom.

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

3.11 An account is a 'PSP collection account' if a PSP uses it to collect funds in aggregation before transferring them to the appropriate individual accounts of its customers.

4 Monitoring

4.1 A directed PSP must send the PSR a written report on how it proposes to introduce a Confirmation of Payee process to the deadlines required by this direction.

4.2 That report must contain at least the following information:

- a. The PSP's timetable for implementation of Confirmation of Payee in accordance with the requirements of this direction.
- b. The key milestones in each month that the PSP intends to meet to implement the required Confirmation of Payee process.
- c. The key risks to the PSP meeting the deadlines set out in paragraphs 3.1 and 3.3, and the mitigations it has put in place.

4.3 A directed PSP must submit its first report on or before 29 September 2019. It must then submit a report every two months until the PSR informs it in writing that it does not need to submit any more.

4.4 Where this direction has been given to more than one PSP in the same banking group, those PSPs may submit a joint report.

- 4.5** The PSR may, in writing, in respect of any directed PSP provide that:
- a. it must submit its first report on or before a different date
 - b. it must submit reports more or less frequently than every two months
 - c. it must submit a report on or before a particular date that we did not previously require
 - d. it does not need to submit a report where otherwise one would be required.

5 Application of specific direction [X]

This direction applies to the directed PSPs.

6 Commencement and duration

This direction comes into force on [DATE].

This direction continues in force until such time as it is varied or revoked by the PSR.

7 Citation

This direction may be cited as **Specific Direction [X] (Confirmation of Payee)**.

8 Interpretation

- 8.1** The headings and titles used in this direction are for convenience and have no legal effect.
- 8.2** The Interpretation Act 1978 applies to this direction as if it were an Act of Parliament.
- 8.3** 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.

Annex 2

Cost benefit analysis

In this annex, we set out the details of our cost benefit analysis (CBA). Table 1 details the assumptions in the original CBA and the updates to those assumptions; Table 2 sets out the updated net present value analysis; and Table 3 details our sensitivity analysis.

Table 1: Assumptions in the original cost benefit analysis versus updated assumptions

Key variables	Original assumptions	Updated assumptions
Benefits of CoP direction		
Overall losses due to misdirected payments	£150m in first year, growing at 5% thereafter	£145m in first year, growing at 5% thereafter
Costs of CoP direction		
Capital expenditure	£200m in first year	£45m in first year
Running costs	£20m annually	£1.8m annually
Customer awareness campaigns and support	£10m in first year	£10m in first year
Other variables		
Time period	10 years	10 years
Social discount rate	3.50%	3.50%
Growth in APP scams	5% annual growth	5% annual growth
Firms' discount rate	5%	5%
Prevention rate	90%	70% in first year, 75% thereafter
Growth in running costs	3% annual growth	3% annual growth

Table 2: Net Present Value analysis based on updated assumptions (£ millions)

Counterfactual C1:											
Confirmation of Payee not implemented											
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	NPV
Benefits											
Losses from misdirected payments	145	152	160	168	176	185	194	204	214	225	
Prevention rate (%)	0.70	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	
<i>Total discounted benefits</i>	102	110	112	114	115	117	119	120	122	124	£1,154
Costs											
Capital expenditure + education campaign	55										
Annual running costs	1.8	1.9	1.9	2.0	2.0	2.1	2.1	2.2	2.3	2.3	
<i>Total discounted costs</i>	56.8	1.8	1.7	1.7	1.7	1.6	1.6	1.6	1.5	1.5	£72 (A)
Net Benefit											£1,082
Counterfactual C2:											
Confirmation of Payee implemented one year later											
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	NPV
Benefits											
Losses from misdirected payments	145	76									
Prevention rate (%)	0.70	0.75									
<i>Total discounted benefits</i>	102	55									£157
Costs											
Capital expenditure + education campaign	0	55									
Annual running costs	0	1.9	1.9	2.0	2.0	2.1	2.1	2.2	2.3	2.3	
<i>Total discounted costs</i>		54	1.7	1.7	1.7	1.6	1.6	1.6	1.5	1.5	£67 (B)
<i>Incremental cost of implementing one year earlier [(A) - (B)]</i>											£5
Net benefit of implementing one year earlier											£152

Table 3: Sensitivity analysis

Key variables	Scenario 1	Scenario 2
Capital + awareness campaign cost	£110m	£110m
Time period	5 years	10 years
Social discount rate	3.5%	3.5%
Growth in APP scams	0%	5%
Prevention rate	60%	90%
Firms' discount rate	3.5%	9%
Net benefit comparison		
Net benefit under C1	£288m	£1,269m
Net benefit under C2	£16m	£83m

Glossary

Expression or abbreviation	Definition
Account number	A number that identifies the account of a customer. Often used together with sort code to route payments.
Account servicing PSP	A payment service provider that provides and maintains a payment account for a payer and offers online access.
Agency PSP	An indirect PSP that has its own sort code provided by its indirect access provider.
BACS	The regulated payment system used to make payments directly from one bank account to another. Primarily used for Direct Debits and direct credits from organisations.
Business Identifier Code (BIC)	A SWIFT code that is used internationally to identify a bank. Often used in high-value and international payment systems to make sure the money is going to the right PSP.
CHAPS	The UK's real-time, high-value regulated payment system, where payments are settled over the Bank of England's Real-Time Gross Settlement system.
Contingent Reimbursement Model (CRM) Code	An industry code that sets out the standards expected of PSPs when an APP scam occurs.
Direct PSP	A payment service provider that is directly connected to the payment clearing infrastructure and that also settles its obligations from its account at the Bank of England.
Faster Payments Scheme (FPS)	The regulated payment system that provides near real-time payments as well as standing orders.
FSBRA	Financial Services (Banking Reform) Act 2013.
GDPR	General Data Protection Regulation; Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC.
Head Office Collection Account (HOCA)	An account used by businesses to collect funds from clients that may then be routed by a further reference code, such as a roll number.
International Bank Account Number (IBAN)	Used when making and receiving cross-border payments. IBAN codes often use a combination of BIC, sort code and account numbers.

Expression or abbreviation	Definition
Indirect PSP	A payment service provider has indirect access to a payment system if it has a contractual arrangement with an indirect access provider to enable it to provide payment services to its customers using that payment system. An indirect PSP may be classified as either an agency or non-agency PSP.
Open Banking Implementation Entity	Created by the Competition and Markets Authority in 2016 to deliver Open Banking – an initiative that enables customers and small and medium-sized businesses to share their current account information securely with other third-party providers.
Payment initiation service provider (PISP)	A payment service provider that provides an online service to initiate a payment order at the request of a user with respect to a payment account held at another PSP.
Payment service provider (PSP)	Any person who provides services to consumers or businesses, who are not participants in the system, for the purposes of enabling the transfer of funds using that payment system. This includes direct PSPs and indirect PSPs.
Roll number	A reference code with numbers and letters traditionally used by building societies instead of sort codes and account numbers.
SEPA	The Single Euro Payments Area, which allows consumers, businesses and public administrations across Europe to make and receive payments under the same basic conditions.
Sort code	A six-digit number, usually written as three pairs of two digits, used to route payments in certain UK interbank payment systems.
SWIFT	A global payment network that facilitates international payments.

PUB REF: CP19/4

© The Payment Systems Regulator Limited 2019
12 Endeavour Square
London E20 1JN
Telephone: 0300 456 3677
Website: www.psr.org.uk

All rights reserved