

CP21/6: Confirmation of Payee – Call for views

Payment Systems Regulator

June 2021

Response from the Emerging Payments Association

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Introduction

The Emerging Payments Association (EPA) welcomes the opportunity to contribute to the Payment Systems Regulator's Call for views "*CP21/6: Confirmation of Payee*". The community's response contained in this paper reflects views expressed by our members and industry experts recommended by them who have been interviewed and who are referenced. As the EPA's membership includes a wide range of companies from across the payments value chain, and diverse viewpoints across all job roles, this response cannot and does not claim to represent the views of all members fully. We are grateful to the EPA's members and the experts they have recommended to us, who have contributed to this response which has been drafted based on interviews and collaboration with them by Riccardo Tordera Ricchi, the EPA's Senior Policy Manager. We would also like to express our thanks to the PSR for their continuing openness in these discussions. We hope it advances our collective efforts to ensure the UK's payments industry continues to be progressive, world-leading and secure, and effective at serving the needs of everyone who pays and gets paid.

With special thanks to:

- Jane Jee, Chair at Kompli-Global Limited
- Jonathan Jensen, Regulatory Policy Advisor, GBG Plc
- Mike Chambers, Chairman, Answer Pay

Tony Craddock

Director General

Emerging Payments Association

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The section numbering below corresponds to the numbering of the 'questions' from page 22 in the Call for Views.

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

APP scams are still significant because of gaps in the way CoP works, mainly due to non-mandatory adoption for the entire industry. Nonetheless, we believe that the impact of CoP in fighting fraudsters has been positive. Whilst not a silver bullet, CoP is an excellent example of a preventive mitigant (i.e. not post-event like CRM). Ideally, CoP will become more consistent in the way it is implemented and more standardised throughout the industry, possibly stating a single way for when the matching is confirmed or not. At present, this does not happen and it causes confusion.

Overall, customer experience has improved but backtracking is still an issue, and in some cases the liability shifts onto the one who pays, which seems unfair. Ultimately, whoever is the custodian of the operation of the COP scheme should treat this as a unified offering with very clear boundaries, standards and framework. We would welcome an obligatory and standardised process which makes every single step clear.

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

Yes, we agree. But non-offering or non-implementing CoP is not the only response to scams continuing to grow, even though fraudsters act through those banks which have not implemented CoP yet. We notice that, from a consumer perspective, issues arise when no matching happens: the consumer does not really know what to do, usually ending up in trusting the system the way it is and potentially becoming an easy victim. One possible solution might be to look at the payment scope and to start applying CoP beyond CHAPS and Faster Payments, including a wider set of payment instruments such as BACS direct debit and direct credit.

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

Phase 2 looks confusing, and we need to unwrap why it is so complex and seems complicated (in respect of payment types covered and PSPs in scope and types of account in scope). We would welcome a continuous roll-out, with clarity and general adoption without differentiation about SRD.

We would also appreciate the regulator making it mandatory for all PSPs to join CoP, in the smoothest and easiest possible way. Moreover, we support that everybody's bank account should be protected by CoP, and that includes SRD. Perhaps this outcome can be delivered in the short term.

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

We believe that the focus should not be on costs and benefits, but on the obligation to protect customers from fraud. Thus, the real question behind this should be the scope of CoP and its obligatory implementation (which we support).

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

We are agnostic on the solution but we think that it is vital that both the sender and the receiver are protected with CoP checks.

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

We believe that the process of adoption of CoP should be clearer and less complex. And we restate that all organizations that could now technically participate should be obliged to participate.

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

We would welcome a more consistent user experience, based on consistent messaging. However, agreement on standardising messages might result in unnecessary effort whereas benchmarking messaging against criteria set by Pay.UK could be an easier way forward.

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

Banks will be unable to act by the end of 2021, mainly because of lack of build and implementation time. We believe that the real point here is service ubiquity, the main question being whether it is incumbent on the regulator and the operator of CoP to ensure the ubiquitous roll out of CoP, because consumers do not distinguish between Phase 1 or Phase 2. And we think that this should happen quickly.

About dual running, we do not wish to comment.

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

We do not wish to comment in detail, but we reaffirm our view: to achieve the goal of beating fraudsters we need all banks and PSPs to apply CoP, in order to protect consumers by putting forward ubiquity of service.

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

We do not wish to comment but our view is the same as above.

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

We understand that not everyone might be supportive of Pay.UK being the custodian of the CoP service. Nonetheless we believe it should be and should have the same rights and obligations of the other schemes they operate. Its role would help the CoP to be implemented more consistently.

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

We believe that:

- a) Yes, SD10 has achieved its objectives and it is technically redundant
- b) SD10 should be replaced with a regulatory direction on all banks to offer CoP for all of its customers

Other comments

In addition to our answers, we would like the PSR to consider the impact of putting obligations as such might have on smaller companies. At present the obligation is on the banks but there is no

consideration of costs, which may well become a problem for small PSPs. We do not want a mandatory adoption of CoP to end up being a disadvantage for small companies, just because the cost will fall on them.

Furthermore, we would like the PSR to reflect on these open issues in order to steer the direction towards the next step more swiftly:

- Does CoP sit as a complete overlay or a piece of core validation (this ship may have sailed to the detriment of CoP)?
- Has the liability shift to the consumer been too great (i.e. has the pendulum swung too far)?
- The CoP PSR Direction was on six banks, a few banks have voluntarily joined in, but we need to ask why CoP participation is not a 'no brainer' for all PSPs?

About the EPA

The Emerging Payments Association (EPA), established in 2008, sets out to make payments work for everyone. To achieve this, it runs a comprehensive programme of activities for members with guidance from an independent Advisory Board of 16 payments CEOs.

These activities include a programme of digital and (when possible) face-to-face events including an online annual conference and broadcast awards dinner, numerous briefings and webinars, CEO Round Tables, and networking and training activities. The EPA also runs six stakeholder working groups. More than 100 volunteers collaborate on the important challenges facing our industry today, such as financial inclusion, recovering from Covid-19, financial crime, regulation, access to banking and promoting the UK globally. The EPA also produces research papers and reports to shed light on the big issues of the day and works closely with industry stakeholders such as the Bank of England, the FCA, HM Treasury, the Payment Systems Regulator, Pay.UK, UK Finance and Innovate Finance.

The EPA has over 130 members that employ over 300,000 staff and process more than £7tn annually. Its members come from across the payments value chain including payments schemes, banks and issuers, merchant acquirers, PSPs, retailers, TPPs and more. These companies have come together to join our community, collaborate, and speak with a unified voice.

The EPA collaborates with its licensees at EPA EU and EPA Asia to create an interconnected global network of people passionate about making payments work for all.

See www.emergingpayments.org for more information. Contact malik.smith@emergingpayments.org for assistance.