

Consultation paper

Confirmation of Payee

Requirements for further
participation in CoP

May 2022

We welcome your views on this consultation. If you would like to provide comments, please send these to us by **5pm on 8 July 2022**.

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

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You can download this consultation paper from our website:
<https://www.psr.org.uk/publications/consultations/cp22-2-cop>

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1 Executive summary

1.1 We are proposing to give a specific direction requiring approximately 400 payment service providers (PSPs) to implement a system to offer Confirmation of Payee (CoP) to their customers (both as payers and payees). This is a continuation of the journey we started when we issued Specific Direction 10 (SD10) in August 2019 to the six largest banking groups, requiring them to send and respond to CoP requests. It represents our ambition to see the widespread adoption of CoP by more PSPs and a greater number of payment system users benefitting from the protection of CoP.

1.2 Our proposed direction would require:

- almost 50 PSPs to have in place, and use, send and respond CoP capability from 30 June 2023. This would increase CoP coverage from 92% of transactions made via Faster Payments¹ to 99%²
- a further 350+ PSPs to have in place, and use, send and respond CoP capability from 30 June 2024

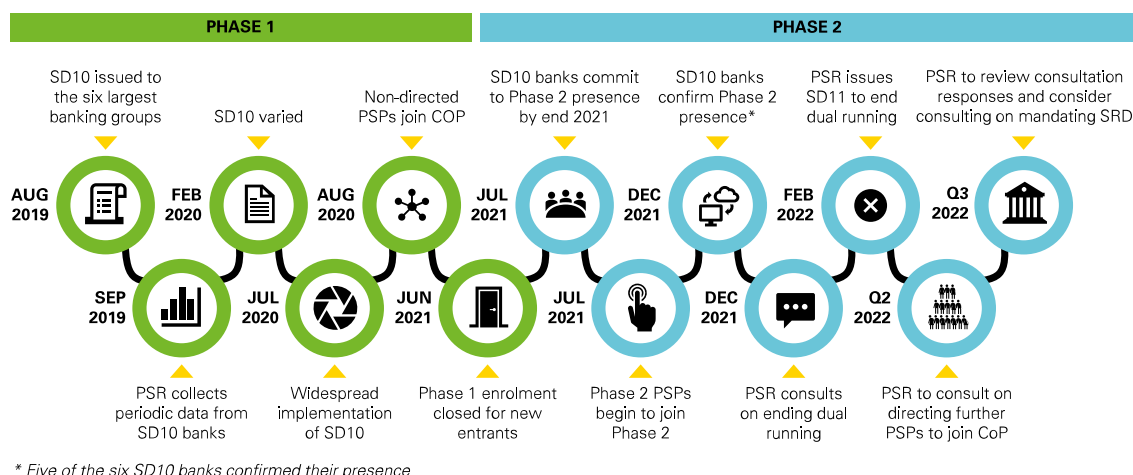
1.3 CoP was designed to help stop some types of authorised push payment (APP) fraud and accidentally misdirected payments by checking whether the name of a payee's account matches the name and account details provided by a payer.

1.4 At the time of issuing SD10, the directed banks covered around 90% of transactions made via Faster Payments and CHAPS. Our rationale at that time for not going further and directing more PSPs was to ensure CoP was established quickly. Since then, a number of non-directed PSPs have voluntarily joined the service, so that there are now a total of 33 PSPs offering the CoP service.

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

2 The volume of faster payments varies from year to year. At the time when we issued SD10, all the directed PSPs accounted for approximately 90% of Faster Payments volumes.

1.5 Our CoP journey so far and planned work:



1.6 Our analysis³ of CoP and anecdotal evidence from CoP participants has shown:

- some evidence that it has helped to curtail the increase in some types of APP fraud
- some evidence of reduced levels of fraudulent funds received into accounts by PSPs that have implemented CoP
- there has been a reduction in accidentally misdirected payments being made to the wrong person/account as CoP has been rolled out⁴

1.7 We think more needs to be done to protect consumers. Because of the benefits of CoP, and because there are PSPs that undertake a sizeable volume of transactions involving end customers, we are concerned that there are still many consumers who are not protected from APP scams and misdirected payments. In addition, we have continued to see a rise in fraud being received by PSPs who do not offer CoP, and despite this, PSPs have been slow to implement CoP.

1.8 We have worked with stakeholders to make CoP more accessible to PSPs. Phase 2 aimed to extend the benefits of CoP to other account types, including institutions that rely on different reference information to Phase 1 PSPs, such as Secondary Reference Data (SRD).⁵ This allows institutions that are not currently able to offer CoP to implement the service.

³ This is data that we receive from the SD10 banks as part of the requirement of SD10.

⁴ The volume and value of misdirected payments (as a share of all Faster Payments) has fallen by between a quarter and a third between Q2 2020 and Q4 2021.

⁵ Customer accounts that are not uniquely addressable by a sort code and account number, but instead rely on their PSP to credit their account via SRD – that is, using the reference field in the payment with a further unique identifier.

- 1.9** Our proposed direction seeks to go further and achieve near ubiquity of service by directing approximately 400 PSPs. Because of the volume of PSPs involved, we propose giving a direction that splits the requirements for PSPs to implement a system to provide CoP into two groups:
- **Group 1:** Prioritising PSPs to implement a system to provide CoP based on the complexity and size of the institution, and/or PSPs where the adoption of CoP is likely to have the biggest impact with preventing APP scams. By prioritising PSPs in this group, we will increase CoP coverage from 92% of transactions made via Faster Payments to 99%. **Our direction will require Group 1 PSPs to implement a system to enable send and respond capability by 30 June 2023.**
 - **Group 2:** All other PSPs either using unique sort codes, or that are building societies using a SRD reference type. **Our direction will require Group 2 PSPs to implement a system to enable send and respond capability by 30 June 2024.**
- 1.10** We welcome your views on this consultation document. We are keen to understand the views of all those with an interest in this issue, including PSPs (particularly those we propose to direct) and businesses involved in the transaction process, those who may offer CoP facilities to PSPs, payment system operators, and those who use Faster Payment and CHAPS to send and receive money.
- 1.11** Please provide your comments to us by 8 July 2022.

2 Introduction

This consultation represents a continuation in the journey to achieve widespread adoption and use of CoP.

Because of the benefits that CoP offers in reducing certain types of APP fraud, reducing misdirected payments, and increasing consumer confidence when making electronic payments, we are proposing to direct further PSPs that do not currently offer the service to implement a system to provide the CoP service (both to send and respond to CoP requests).

We want more customers to benefit from the protection of CoP.

A continuation of the CoP journey

- 2.1** This consultation represents a continuation of our journey to achieve widespread adoption and use of CoP.
- 2.2** The service checks the name of the payee's account against the name and account details given by the payer. This gives payers more confidence that they are making payments to the correct account.
- 2.3** CoP helps prevent misdirected payments. In addition, CoP offers benefits in terms of reducing certain types of APP fraud and increasing consumer confidence when making electronic payments. We want to broaden participation so that more consumers and businesses benefit from the protection of CoP.
- 2.4** In August 2019, we directed the six largest banking groups to deliver CoP.⁶ Since then, 22 non-directed participants have voluntarily implemented CoP, resulting in 33 PSPs offering CoP in Phase 1. These PSPs represent around 92% of transactions made via Faster Payments, therefore many consumers and businesses currently benefit from CoP checks.
- 2.5** We are concerned that not all PSPs that we expected to join CoP have done so. Some of the reasons that PSPs have not adopted CoP relate to the cost and complexity of Phase 1. Other PSPs cannot join the service because they rely on reference information other than sort codes and account numbers to identify customers. In addition, we understand that some PSPs have not prioritised joining CoP as it was not a regulatory

⁶ These include the following banks: Bank of Scotland plc, Barclays Bank UK plc, Barclays Bank plc, HSBC Bank plc, HSBC UK Bank plc, Lloyds Bank plc, National Westminster Bank plc, Nationwide Building Society, Royal Bank of Scotland plc, Santander UK plc and Ulster Bank Limited.

requirement. We were told in our 2021 call for views (CP21/6⁷) that without a direction some firms would not be able to secure the budgets needed to implement CoP.

2.6 Nonetheless, we have worked alongside Pay.UK and the Phase 1 participants to enable more PSPs to join CoP:

- In February 2022, under Specific Direction 11 (SD11)⁸, we directed the Phase 1 CoP participants to migrate to Phase 2 of CoP and directed Pay.UK, the owner of the CoP rules and standards and the operator of the service, to ensure the closure of the Phase 1 technical environment.⁹
- When Phase 2 is fully implemented, it will mean that PSPs that rely on different reference information such as SRD will be able to implement CoP.

2.7 We are now considering whether to use our powers to require delivery of CoP by more PSPs.

Our previous Call for Views and why we are proposing a new specific direction

2.8 We previously asked whether we needed to do more to achieve broader participation in CoP in our Call for Views, CP21/6. We asked whether it would be effective and proportionate to direct PSPs that had not adopted CoP to implement CoP under Phase 2. As outlined in our response to our Call for Views, RP21/1¹⁰ from October 2021, respondents overwhelmingly agreed that CoP needed to be extended to provide ubiquity of service.

2.9 Some respondents noted that a direction would provide a clear timeline for extending CoP's coverage and protections. Respondents also noted that the six largest banking groups only implemented CoP once they had been directed by SD10. These respondents were less convinced that greater adoption and ubiquity of CoP service could be achieved without further regulatory intervention.

2.10 Another respondent argued that customer demand and fraud migrating to non-CoP participants would provide incentives to PSPs to deliver CoP. In CP21/6, we also previously published our analysis that highlighted fraud migrating to PSPs that had not adopted CoP.

7 <https://www.psr.org.uk/media/ehfnk4gh/cp21-6-confirmation-of-payee-call-for-views.pdf>

8 https://www.psr.org.uk/media/luqfljsp/psr-ps22-1-cop-policy-statement-and-direction_feb-2022.pdf

9 SD11 requires Phase 1 PSPs to send and respond to CoP requests in the Phase 2 environment only. SD11 also has the effect of revoking SD10 following the closure of the Phase 1 environment.

10 <https://www.psr.org.uk/media/ktonkca3/psr-rp21-1-confirmation-of-payee-response-paper-oct-2021.pdf>

- 2.11** One respondent noted that access to CoP relied on third-party suppliers, while another noted the need for an indirect agency model, which would allow financial institutions to deliver CoP through their indirect access provider. We cover these issues in Chapter 3. We have seen good progress in the number of third-party providers and their capacity to provide services for new PSPs. We have also seen indirect agency models beginning to be delivered.
- 2.12** We remain concerned about the rise of APP fraud being received by non-CoP PSPs, and while some PSPs have waited until Phase 2 of CoP was available before they adopted CoP¹¹, others have been slow to implement CoP. We are aware that some PSPs have made inquiries with Pay.UK about implementing CoP but have not progressed their plans, while others have been slow in implementing credible plans. We are also aware that other PSPs that we would have expected to have made inquiries with Pay.UK on implementing CoP have not done so.
- 2.13** We believe CoP should be widely implemented by PSPs that send and receive Faster Payments and CHAPS payments, and it should represent a priority for any PSP that has yet to implement it. Given little progress to date, and even with some PSPs seeing an increase of APP fraud not providing the incentive for PSPs to voluntarily implement CoP¹², widespread adoption of CoP is necessary to protect more consumers. We welcome respondents' general support to our previous Call for Views, that widespread implementation will not be achieved without regulatory action on our behalf.¹³
- 2.14** In addition, we have had evidence from customers (of PSPs that have not implemented CoP), that they want their PSP to implement CoP but have not been given confidence by their PSP that this would happen.
- 2.15** We are also concerned that waiting for PSPs to decide whether to deliver CoP on a competitive basis risks delaying the delivery of CoP and resulting in APP scams and losses for consumers through misdirected payments.
- 2.16** For these reasons, we are proposing to issue a specific direction (under section 54 of FSBRA) to require participants in payment systems to implement a system to provide CoP by a specific date. This direction will help us to achieve our objective for wider adoption of CoP in the UK, and ensure more consumers and businesses are better protected when making electronic payments.

11 Phase 2 is aimed at broadening participation in CoP to all account-holding PSPs, not just those that operate accounts with a unique sort code and account number. Phase 2 also allows PSPs to access the Open Banking Directory without full Open Banking membership, meaning that, in total there will be lower set-up costs. This enhances accessibility.

12 Any PSP who is not signed up to the CRM code is unlikely to face any financial responsibility for the level of fraudulent payments they send or receive. It is uncertain what the incentives are on PSPs with increasing levels of fraud to implement CoP.

13 While views were not unanimous on whether regulatory action was required, there was considerable support for the view that a ubiquitous service would not be delivered without regulatory action. See 3.60 of: <https://www.psr.org.uk/media/ktonkca3/psr-rp21-1-confirmation-of-payee-response-paper-oct-2021.pdf>

Who we are considering directing

2.17 We are proposing to split the requirements on PSPs into two groups:

- **Group 1:** Those that meet at least one of the criteria discussed at 3.22, designed to distinguish more complex and/or PSPs where the adoption of CoP is likely to have the biggest impact with preventing APP scams. **Our direction will require Group 1 PSPs to implement send and respond capability by 30 June 2023.**
- **Group 2:** All other PSPs either using unique sort codes, or that are building societies using SRD reference type. **Our direction will require group 2 PSPs to implement send and respond capability by 30 June 2024.**

3 Specific direction proposals

We propose to split the requirements on PSPs to implement CoP into two groups:

- **Group 1:** Those that meet at least one of a number of criteria, designed to distinguish more complex and/or PSPs where the adoption of CoP is likely to have the biggest impact with preventing APP scams. **Our direction will require Group 1 PSPs to implement send and respond capability by 30 June 2023.**
 - **Group 2:** All other payment PSPs either using unique sort codes, or that are building societies using a different SRD reference type. **Our direction will require Group 2 PSPs to implement send and respond capability by 30 June 2024.**
-

What are we proposing?

- 3.1** As we outlined in our Response to our Call for Views, RP21/1, we want to see broader participation by more PSPs and extend the benefits of CoP to more consumers; thus, achieving near ubiquity of the CoP service. This stage of our work will focus on PSPs and their relevant accounts which do not currently offer the service.¹⁴
- 3.2** We are proposing to split the requirements on PSPs into two groups: those that meet at least one of a number of criteria we discuss at paragraph 3.22 for Group 1; and a second group for all other payment PSPs using either unique sort codes, or that are building societies using SRD.
- 3.3** Group 1 distinguishes PSPs that are larger, more complex and/or are PSPs where the adoption of CoP is likely to have the biggest impact with preventing APP scams and misdirected payments; Group 2 are the remaining PSPs. This will deliver our ambition to see the vast majority of consumers and businesses protected against certain types of APP scams and misdirected payments when making Faster Payments and CHAPS payments.
- 3.4** We are proposing to direct PSPs to implement both sending and responding capability for CoP requests in respect of setting up payees that can make Faster Payments or CHAPS payments. We are also proposing to require each directed PSP to report to us data on losses suffered by its customers as a result of APP scams or misdirected payments, in the 12-month period preceding the implementation of CoP, and for each 12-month period subsequent to its implementation.

¹⁴ This consultation is not considering the extension to direct corporate access to CoP.

- 3.5** At present, there are around 380 different firms that are listed with unique sort codes on the Extended Industry Sort Code Database (EISCD). The EISCD is a database of payments-related information for financial institutions.
- 3.6** Of the 380 firms, 33 have delivered CoP as part of Phase 1. This leaves approximately 350 institutions with unique sort codes. There are also around 50 building societies in the UK, so as part of this specific direction we could be directing up to 400 PSPs to deliver CoP through Group 1 and Group 2.
- 3.7** We do not have a direct relationship with all 400 institutions that could be directed. We are aware that some may not meet the criteria of a PSP in relation to Faster Payments or CHAPS. In addition, some may also not hold consumer and business accounts that would be in scope.
- 3.8** We are also considering whether additional transparency measures may be required so that consumers are aware of which PSPs provide CoP. These could include a requirement on a directed PSP to publicly report on when they have implemented a CoP system or are experiencing any issues or delays with their implementation. We welcome views on how to best to achieve this transparency, including whether such measures should be included in the final direction.
- 3.9** We will allow institutions to make representations in writing to the PSR to be exempt if they do not operate within Faster Payments or CHAPS and/or they do not hold the types of accounts (personal or business accounts) with their end customers.

Industry capacity

- 3.10** To join the CoP service, a PSP will need to make the technical changes and/or procure a third-party supplier, and Pay.UK and existing CoP participants must ensure they have the resource capability to establish connections with new participants so that they can send and respond to CoP messages to each other.
- 3.11** Based on industry engagement¹⁵, the time it has taken for Phase 1 PSPs to onboard into Phase 2, lessons learned and enhancements that have been made to the system, we estimate that it currently takes between nine to twelve months for a group of around 40 to 50 PSPs to deliver CoP. We have learned from the exercise of all 33 Phase 1 PSPs onboarding and connecting to each other in Phase 2 that current processes are not as fast and effortless to onboard as originally envisaged. We expect the industry and Pay.UK to work together and understand how processes can be streamlined to ensure PSPs can implement CoP at a more rapid pace. This will ensure that more consumers can be protected from certain types of APP scams and misdirected payments much sooner than existing industry capacity allows.

¹⁵ With Pay.UK, third-party suppliers and PSPs already offering CoP.

- 3.12** We understand the time required to implement CoP can also be significantly reduced if a PSP uses a vendor with an existing live product instead of building a bespoke connection and service. Several vendors have given us estimates of their capacity to onboard hundreds of new CoP participants within a similar time frame. These capacities are however untested and would require the CoP rules and standards to permit vendor certification, which is currently unavailable but being considered. Given the potential benefits that vendor certification offers with speeding up the process for widespread adoption of CoP, the PSR welcomes this change in the rules and standards.
- 3.13** We have also seen indirect access providers (IAPs) providing CoP products directly to their indirect PSP customers. This provides an alternative offering for PSPs to implement CoP where current arrangements do not suit their business models. We expect that more IAPs will consider providing CoP product to indirect PSPs in the future.
- 3.14** We recognise the need to be commensurate between our objective of widespread adoption of CoP, industry capacity and the time it may take for alternative solutions to become available.
- 3.15** We will expect all directed PSPs to establish and prioritise plans to deliver and use CoP by the respective deadlines set in the direction. If any directed party fails to meet the requirements by the relevant deadline, we will consider appropriate enforcement action, in accordance with our administrative priority framework. In deciding what, if any, enforcement action to take, we may take account of what evidence PSPs can provide on the steps they have taken to plan for and prioritise the implementation of CoP from the date on which the requirement is imposed.
- 3.16** Given the number of PSPs involved, this will require coordination and management of the onboarding process to prevent any sequencing issues or bottlenecks that may arise. We will work with Pay.UK to ensure that PSPs are prioritised appropriately to implement a CoP system.

Staggered implementation

- 3.17** Because of the large number of PSPs involved, as well as industry and vendor capacity, we are proposing that our direction requires PSPs to adopt CoP in different groups.
- **Group 1:** Prioritising PSPs based on their participation with Faster Payments and CHAPS, the volume of transactions they undertake, if they are large in Northern Ireland, or where our analysis indicates that they are vulnerable to receipts of fraud.
 - **Group 2:** All other PSPs listed on the EISCD, which do not offer CoP already and are not directed under Group 1, or if they are a building society.

Group 1

- 3.18** Our rationale for not going further when we directed the six largest banking groups under SD10 was to get CoP up and running and protect consumers. Because of the scale of these institutions as compared with other direct participants in Faster Payments and CHAPS, we considered that we could achieve our objective by directing the six largest banking groups.
- 3.19** When we consulted at the time of SD10 some PSPs views were that they did not think CoP would prevent all fraud, and that fraud could migrate to PSPs that weren't required to implement CoP.
- 3.20** Our analysis of CoP and anecdotal evidence from CoP participants has shown:
- some evidence that it has helped to curtail the increase in some types of APP fraud
 - some evidence of reduced levels of fraudulent funds received into accounts by PSPs that have implemented CoP
 - there has been a reduction in accidentally misdirected payments being made to the wrong person/account as CoP has been rolled out.
- 3.21** Critically, our analysis has also shown during this time, in terms of volumes, PSPs that have not adopted CoP have seen a rise in fraud being sent to them.
- 3.22** We previously set out our expectation to see PSPs deliver CoP and achieve our objective of widespread adoption. Our proposed direction seeks to go further with achieving this objective. With Group 1, we are proposing to take a targeted approach and prioritise implementation of CoP for PSPs based on the complexity of their operations, the size of the institution and PSPs where the adoption of CoP is likely to have the biggest impact with preventing certain types of APP scams.
- 3.23** On this basis the proposed categories of PSPs that fall under Group 1 constitute PSPs where the volume of transactions, and where implementation of CoP will protect a greater number of users who may fall victim to fraud and misdirected payments. The groups of PSPs included will fall into at least one of the categories below:
- **Direct participants of the Faster Payments system¹⁶:** Faster Payment transactions are carried out either by or through direct Faster Payments participants. As such, we think all Faster Payments direct participants implementing CoP is an important step to reach near ubiquity. Currently there are 40 direct participants of Faster Payments, of which approximately half have not yet implemented CoP.

¹⁶ We have also included PSPs who expect to onboard as a direct participant of the Faster Payment System in 2022.

- **Indirect and direct PSPs in Faster Payments or CHAPS with a high proportion of fraud:** Where our analysis indicates that PSPs receive a disproportionately high level of fraudulent payments compared with the share of FPS transactions they make, this would indicate that these PSPs have been targeted by fraudsters.
- **‘Large’ indirect Faster Payment participants¹⁷:** as we want to capture larger complex indirect PSPs, we have taken the average of the five smallest PSPs¹⁸ that offer CoP in Phase 1 as a benchmark. Any indirect participant that has a higher volume of payments than that threshold has been included.
- **CHAPS Direct ‘retail’ participants:** When we consulted on SD10, we included participants undertaking retail CHAPS payments because CHAPS is used for high-value payments. In this proposal, we have selected based on the value and volume of CHAPS MT103¹⁹ customer payments to indicate that a participant undertakes retail transactions – for example, on behalf of customers and not solely wholesale transactions based on financial institutions.
- **The Northern Ireland banks** – have been selected as they service a high percentage of the Northern Ireland community.

3.24 Under Group 1, we are proposing to direct the PSPs listed in Annex 1. This will increase CoP coverage from 33 PSPs to 79 PSPs, covering approximately 99% of Faster Payments transactions, by volume. We expect to see a reduction in APP fraud and misdirected payments as we have seen with CoP enabled PSPs in Phase 1.

3.25 Our direction will require Group 1 PSPs to implement send and respond capability by 30 June 2023. We consider that this number of PSPs working to implement CoP by this date is achievable as it is estimated that under current processes it will take around 40-50 PSPs between nine to twelve months to deliver CoP.

Group 2

3.26 As outlined above, as fraud has migrated to PSPs that have not delivered CoP, we need to ensure that further PSPs and their customers are protected. For this reason, we are proposing a second group for all other PSPs that have a unique sort code or are building societies. This means that under Group 2, we are proposing to direct all PSPs listed on the EISCD which have not adopted CoP and have not been directed under Group 1, or are authorised building societies. These PSPs will be required to implement send and respond capability by 30 June 2024. This will achieve our ambition to see near ubiquity of the CoP service and protect consumers sooner.

17 We have excluded PSPs who provide only acquiring services, payment processing services and are specialist lenders.

18 We have taken the Faster Payment transactions of the five lowest PSPs as our baseline because of the high degree of variation in volumes of Faster Payment transactions between PSPs.

19 MT103 is a SWIFT message type used for customer payments. In 2023, it will be succeeded by an ISO 20022 pacs.008 message for CHAPS.

3.27 We have considered overall capacity within the industry alongside the large number of PSPs in Group 2. It is our view that ahead of Group 2 implementation, alternative solutions, such as the vendor model and more IAPs offering CoP solutions to indirect customers, will result in a significant uplift in the industry's capacity to implement CoP. Given these anticipated enhancements, we consider one additional year from the Group 1 delivery date will give the remainder of industry the time to implement CoP.

PSPs we are not directing

3.28 We are proposing a specific direction on named individual PSPs meeting the conditions for either Group 1 or Group 2. There are other Head Office Collection Accounts (HOCA)²⁰ PSPs that we will not direct at this stage. As we understand, in total there could be more than 1,000 institutions that have indirect access using a HOCA arrangement. The majority of these are small and/or overseas institutions. Some of these will not be using their HOCA arrangement for customer or business payments. Many use these arrangements for payments on their own behalf, such as making salary payments to UK staff and paying suppliers.

3.29 We are not proposing to direct HOCA PSPs beyond building societies at this stage, because the volume of their transactions is small in comparison with those we are proposing to direct. We do not think the industry and vendors would have capacity to onboard that level of PSPs over the period we are seeking. We could consider further directions after 2024, should evidence indicate that fraud has migrated to specific HOCA institutions, or if these institutions have become larger and more complex. This does not prevent any of these institutions volunteering to deliver CoP on a competitive basis.

3.30 We are also not intending to direct PISPs as part of this proposed direction, as there is not currently a direct CoP model for PISPs. We understand that the Open Banking Implementation Entity (OBIE) has analysed the business case for PISPs developing CoP and that many PISP models would not be consistent with CoP implementation. We understand there are some PISP hybrid models which fit more neatly into third-party aggregator 'vendor' models which either already exist or are in development.

3.31 Phase 1 PSPs already have delivered CoP and undertake a number of CoP checks on a daily basis (more than 1 million per day) on behalf of their customers. As such, we are not proposing to put any new regulatory requirements on either the SD10 banking groups or other voluntary Phase 1 PSPs to continue to undertake CoP checks. We are, however, anticipating that the operator of Faster Payments, and potentially CHAPS, may look to include a requirement to undertake CoP checks as part of their participation in those systems (see paragraphs 4.4 to 4.6).

²⁰ An account used by businesses to collect funds from clients that may be routed by a further secondary reference code, such as a building society roll number.

Third-party vendors and indirect access providers for CoP

- 3.32** In response to our 2021 Call for Views, some respondents noted a reliance on third-party vendors for smaller PSPs. They were concerned that there was not enough supply, or that vendors would prioritise larger customers over smaller ones, or that by giving a direction it would force up prices that PSPs would have to pay. When we undertook previous consultations, such as on SD10, these were valid considerations. Since then, however, we have been monitoring the market and have engaged with relevant parties. Now we are comfortable there is enough vendor supply.
- 3.33** In setting the dates between the groups, we have avoided any issues between the bigger and smaller PSPs in terms of gaining supply. This was a concern for one respondent. The 2024 date for Group 2 also sets our expectation that alternative solutions to implement CoP via a third-party provider will be available and gives time to tender for suppliers, and should help to limit the impact of short-term demand pushing up prices. PSPs will need to avoid a 'bunched up' late implementation to fully avoid the potential pressures on the cost of supply.
- 3.34** We have also seen the emergence of IAPs providing CoP products directly to their indirect customers, either by partnering with a third-party supplier or building the functionality themselves. We anticipate that more IAPs will consider implementing a CoP product to indirect PSPs as a commercial offering in the future.

Duration of our proposed direction

- 3.35** Our direction will cease to be in force on 1 July 2026. This is two years after the deadline for Group 2 PSPs to implement a system to use CoP for sending and responding capability.
- 3.36** Once the directed PSPs have implemented the CoP system and are using it to make checks on behalf of their customers, CoP will become an established feature of the payments journey, as it has done so for the SD10 banks. As such, the objective of our proposed direction will have been achieved. We expect that once CoP has been established, these PSPs will continue to provide it, without requiring an ongoing regulatory requirement. We would expect over time that the requirement to do a CoP check becomes part of participation in the relevant systems.

Question 1: Do you have any comments on our proposed approach outlined above? We also outline the draft direction in Annex 2. Please include any comments on:

- a. Whether a specific direction is the most appropriate way to ensure we achieve our objective of the widespread use of CoP. The categories of PSPs we are proposing to direct in Group 1. Include any comments on whether Group 1 is focused on the most appropriate PSPs to direct.
- b. Whether Group 2 remains appropriate considering the size of the group to be directed.
- c. If you are a PSP that we are proposing to direct, we welcome your views on our proposal to direct you considering the policy intention outlined in our consultation.
- d. Given the significant differences in types of institution covered by our proposed direction, is it clear in the policy and the direction, who is covered by it, and what is in scope, and what/who would be out of scope?
- e. Our approach to stagger the implementation of CoP. Where there might be capacity issues, could there be a way to refine this process?
- f. Whether the direction should direct for both 'send' and 'respond' capabilities for both Group 1 and Group 2?
- g. Whether the dates set out in the proposed direction are realistic and achievable?
- h. Our proposed approach to be exempted from implementing a CoP system. Are there other approaches that we could consider?
- i. Our rationale for not directing every indirect HoCA PSP?
- j. Any other representations about the proposed direction.

4 The future of CoP

In the future we may consult on a requirement for existing Phase 1 PSPs to deliver SRD on a timely basis.

As CoP adoption becomes more ubiquitous with payment systems such as Faster Payments and CHAPS it will be for the operators of both payment systems to decide whether to introduce a rule change that requires direct Faster Payments participants and retail members of the CHAPS system to make CoP checks.

We would support such rule changes.

Other CoP matters we will consider consulting on in the future

- 4.1** Pay.UK have worked with current participants of CoP to produce a timeline for the implementation of SRD capability by the end of H1 2022. As we understand, some Phase 1 PSPs are progressing their plans to deliver SRD. However, earlier CoP enhancements, such as the migration to Phase 2 and the closure of the Phase 1 environment, are likely to have had a knock-on impact on Phase 1 participants' timely delivery of SRD.
- 4.2** We will continue to monitor progress and plan to consult on whether there is a requirement for existing Phase 1 PSPs to deliver SRD on a timely basis. Given some of the earlier delays with CoP implementation, we will take the decision to consult on the need for regulatory action if the evidence indicates that Phase 1 PSPs do not have realistic plans to implement the capturing and sending of SRD before end summer 2022.
- 4.3** The ability to send SRD will be required for building societies within Group 2 to deliver CoP by June 2024. We understand that we may need to direct for SRD, unless this is already being delivered by the Phase 1 PSPs to an end summer 2022 deadline.

Faster Payments and CHAPS

- 4.4** While this is not something on which we are currently consulting, we expect that as CoP adoption becomes more widespread with both Faster Payments and CHAPS, the operator of Faster Payments, Pay.UK, may wish to consider introducing a rule that requires direct participants in Faster Payments to undertake a CoP check in respect to any new recipients of a Faster Payment. The Bank of England, as the operator of CHAPS, may also want to consider a rule for retail members of CHAPS.

- 4.5** Under current proposals, we would have required all direct participants to implement CoP and, as such, it will already be part of the payments journey for those systems. A rule change will therefore not require any additional activities and would not, in our view, be contentious with their participants. It will, however, capture any new PSPs that become direct participants in their system that may not have had to implement CoP, such as start-ups, or international PSPs that have launched a UK product. We also expect it to be an ongoing requirement for CoP checks to happen once the PSR's direction ceases to be in force.
- 4.6** Should Pay.UK and the Bank of England decide to introduce a rule change that requires direct Faster Payments participants and retail members of CHAPs to make CoP checks, alongside the direction we are proposing, we would support this action. We would also support the introduction of a rule change to be consistent with the proposed Group 1 'go live' date of 30 June 2023.

Question 2: Do you have any views on whether we need to consult on a requirement to implement SRD because of the proposed Direction?

Question 3: Do you have any views on the PSR's expectation that Pay.UK and/or the Bank of England as the operator of CHAPS (in respect of retail payments) consider a rule change to require CoP for payments in those systems to be consistent with the Group 1 timeline?

5 Cost-benefit analysis

We have analysed the impacts of the proposal against a baseline scenario. Our baseline is that the introduction of CoP checks by these PSPs would take place more slowly or not at all (in the case of some PSPs), in the absence of the proposed direction. We consider that extending the requirement to deliver CoP to the wider group of PSPs has benefits through making APP fraud less likely overall in the wider system, which will have very significant benefits for customers saved from the effects of fraud. Significant elements of these benefits are hard to quantify but we judge that they outweigh the costs incurred.

How will the proposal improve outcomes?

- 5.1** Extending the coverage of CoP checks to additional PSPs should benefit consumers and businesses, as well as PSPs, most directly in two ways:
- a. There are some types of APP scams where consumers or businesses make a payment to an account which is not who they thought the payment was intended for. Ensuring that both sending and receiving PSPs provide the payer with a CoP check should help to reduce the number of ‘malicious redirection’ scams – where a scammer tricks the victim into sending money for a genuine payment to the wrong account. Reducing the number of these types of APP scams will bring financial benefits to consumers and businesses in terms of reduced losses. Even where such losses are later reimbursed, preventing them in the first place will benefit customers and save PSPs the expense of investigating and (partially or fully) reimbursing losses.
 - b. Extending CoP to additional PSPs will also help reduce the number of misdirected payments where the wrong account identifier numbers are entered by accident, which will bring benefits to payers and payees, both in terms of preventing losses, but also in terms of removing the costs associated with correcting the error, where the customer would have recovered the misdirected funds in any case.
- 5.2** As set out below, there is already some evidence that the provision of CoP checks (now provided by over 30 PSPs, accounting currently for 92% of FPS transactions) has been associated with reduced incidence of the relevant types of APP scams, as well as the incidence of accidentally misdirected payments. While it is difficult to identify the effects of CoP precisely, even conservative estimates of its impact so far indicate that further expansion of CoP provision is likely to have benefits for consumers, businesses and for PSPs.

- 5.3** In addition to money lost to the fraud itself, customers may face psychological and other costs associated with these crimes. Even if they are fully reimbursed (weeks or months later), they will still suffer a cost for losing the money in the first place and will face the stress and anxiety of not knowing if and when they will be reimbursed. Making scams less likely to happen in the first place will mitigate these issues.
- 5.4** As set out in this consultation, our aim is to extend CoP provision to as many PSPs as possible, achieving near ubiquity of coverage within Faster Payments and CHAPS. However, given industry capacity, we are proposing to require a smaller group of PSPs to provide CoP earlier (Group 1). Given that this group of c.50 PSPs account for the vast majority of FPS transactions that are currently not covered by CoP checks, this approach should mean that most of the benefits of extending CoP provision will materialise sooner than if all c.400 PSPs were left to work towards the same later implementation date.

What is our assessment of the impacts?

- 5.5** We have analysed the impacts of the proposal against a baseline scenario. Our baseline is that the introduction of CoP checks by these PSPs would take place more slowly or not at all, in the case of some PSPs, in the absence of the proposed direction.
- 5.6** The following sections set out our assessment of the likely costs and benefits of the proposal relative to the baseline. Our assessment is based on a combination of qualitative, as well as quantitative, evidence. It has not been possible to estimate the likely impacts of all the relevant benefits and costs with precision, but we have given some indicative numbers where feasible.

Benefits

- 5.7** **Reduction in the level of APP Scam frauds:** Expedited wider adoption of CoP is likely to result in fewer APP scams, as some types of scams are likely to be prevented by CoP checks. These CoP-impacted APP scams include scams involving impersonation, where payers are able to check whether the payees' details match the name of the account holder they had intended to transfer funds to. This should lead to a reduction in these types of frauds.
- 5.8** Even where the customers are eventually reimbursed (partially or fully) by their PSP, they may have to incur costs in terms of time and expense needed to pursue a claim, and potentially also costs arising from not having access to their money while doing so – for example, borrowing costs, loss of interest or investment income, or other opportunity costs from losing access to their funds, even if this is only temporarily. In terms of impact on PSPs, APP scams prevented also represent a saving in terms of time and expense needed to investigate and pursue claims.

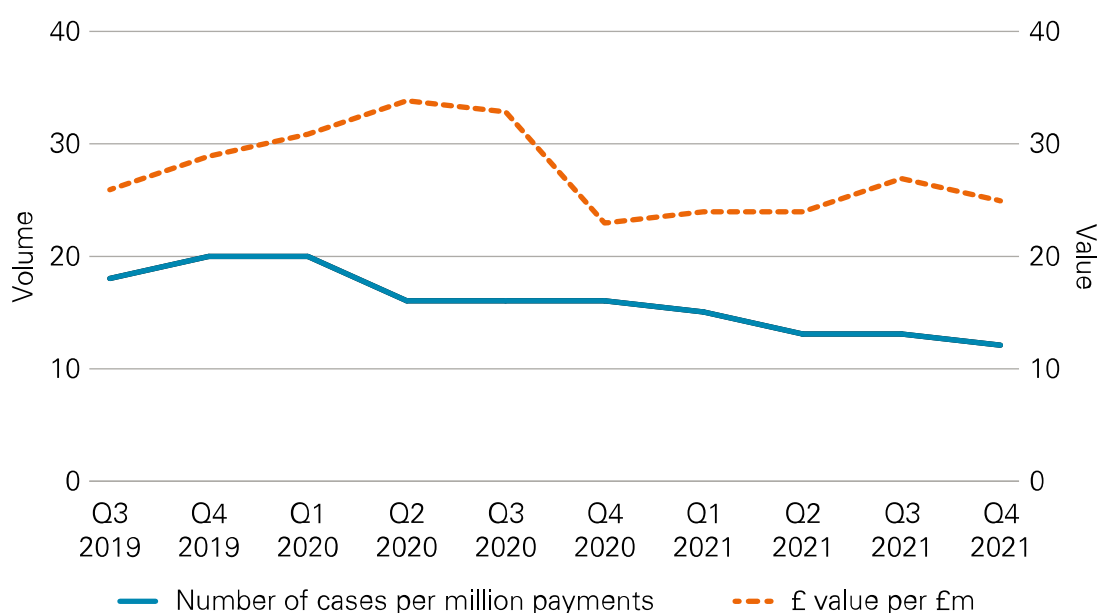
- 5.9** Given that a proportion of APP scam losses are reimbursed by PSPs, then the benefits to the customer from preventing these losses may have been lower (notwithstanding the costs of pursuing a claim, waiting for reimbursement and so on, as above). However, for those reimbursed payments where customer losses are reduced, there is still an important benefit to prevention, as the PSP in question benefits by avoiding the need to reimburse the customer for the lost funds.
- 5.10** Following the introduction of CoP checks by the six largest banking groups under SD10, we have seen a fall in these APP scam types by about 10% (in value terms) relative to those PSPs that have not introduced CoP checks.²¹ Based on the value of CoP-impacted APP Scams received by non-CoP providers, this experience leads us to estimate that the effect of the extension of CoP checks to these additional PSPs is likely to reduce this type of fraud by c.£4 million per year.
- 5.11** This is likely to be an underestimate of the benefit of ensuring that Faster Payments participants provide CoP checks.
- a. First, this estimate is based on payments sent by the six banking groups that were directed to provide CoP checks under SD10. These banking groups account for c.80% of FPS transactions. As such, the overall number of these types of APP scam payments sent to non-CoP-providing PSPs at present is likely to be higher, with a correspondingly higher benefit from reducing the level of those scam payments, too.
 - b. Second, at present, PSPs that do not provide CoP checks account for less than 10% of FPS transactions, but account for 20-30% of relevant APP Scams, based on value.²² Given that these PSPs account for a disproportionate share of this type of fraud, we would expect the extension of CoP checks to these PSPs to be particularly beneficial, as it also greatly reduces the scope for fraudsters to 'migrate' from PSPs that provide CoP checks towards those that do not. As such, the reduction in these types of APP scams may well be higher than that associated with CoP implementation in the past.
- 5.12** **Reduction in the level of accidentally misdirected payments:** Expedited wider adoption of CoP will result in fewer accidentally misdirected payments. Even where the customer manages to recover some or all of their payment, there may be costs in terms of cashflow/financing costs, as well as the time and expense required to pursue a claim. In terms of impact on PSPs, preventing accidentally misdirected payments also represents a saving in terms of time and expense needed to investigate and pursue claims.

21 We compared the change in CoP-impacted scams per million Faster Payment and on-us payments for Directed CoP providers versus non-CoP providers, which indicated that CoP may have reduced scams by about 10% (in terms of value) between Q3 2020 and Q3 2021. In volume terms, the reduction was 35%.

22 Based on data for 2021.

5.13 The first full year of CoP checks being provided by the six largest banking groups was associated with a 35% fall in the value of misdirected payments,²³ as presented in Figure 1. Assuming that the level of misdirected payments sent by the additional PSPs is roughly proportionate to their share of FPS transactions, we would expect the extension of CoP checks to these PSPs to reduce accidentally misdirected payments by c.£2 million per year. As above, some of these misdirected payments may be recovered and the funds returned to the payer. However, even where this is the case there are likely to be costs to the payer and to the PSPs involved (and indeed to the accidental payee). As such, even a modest reduction in the number of accidentally misdirected payments is likely to bring material benefits to consumers, businesses and PSPs.

Figure 1: Evolution of the relevant types of misdirected payments by SD10 banks



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

²³ Misdirected payments by the SD10 banks fell by over 35% between Q2 2020 and Q2 2021, as measured by value per £m of FPS payments. In volume terms, the reduction was 28%.

5.15 Competition between PSPs: In principle, we might expect competition between PSPs to lead to the speedy introduction of CoP checks, if customers expected this to be provided as a standard feature of their current account service. However, many consumers are unlikely to make the decision of which PSP to open an account with based on CoP provision. As such, competition is unlikely to drive PSPs to provide CoP to near ubiquitous levels. Given the desirability of having as close to universal service as possible, requiring PSPs to provide CoP checks is necessary in order to provide a level playing field between PSPs, rather than having a situation where some PSPs are required to incur the costs of introducing CoP checks and some of their competitors are not.

Costs

5.16 Cost of introducing CoP: The costs to PSPs of introducing CoP checks is the most direct effect of our proposed direction. While we have not collected detailed cost data from PSPs, we understand that costs are likely to include one-off costs of setting up a system that facilitates CoP checks and ongoing costs of providing the service.

5.17 Costs are likely to depend on the size of the PSP, the volume of payments that it sends and receives, and the functionality of the PSP's existing systems. PSPs may decide to develop their own solution 'in-house' or, more likely given the size of these PSPs, they may use a third-party provider. In the latter case, the costs of connecting a new PSP can depend on whether the third-party vendor has an existing live product or is required to build a bespoke connection and service for the PSP.

5.18 While we have not collected detailed cost data from PSPs or third-party vendors, the estimates that we have seen provide a broad range, with the cost of onboarding 400 PSPs with existing third-party vendors possibly being between the low and mid tens of millions.

5.19 Even if we had a more robust estimate of the costs to PSPs of introducing CoP, this would still be an overestimate of the costs incurred as a result of the proposed direction. This is because many of these PSPs would have introduced CoP checks at some point, so some of these costs are brought forward from the future rather than being incremental costs incurred solely as a result of the proposed direction. What proportion of these PSPs would have introduced CoP, absent the proposed direction, and when they would have done so, are both difficult to estimate. As such, quantifying a robust estimate of the relevant costs is inherently uncertain, but any estimate based on the full costs to all 400 PSPs would be an overestimate of the relevant costs incurred as a result of the proposed direction.

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

- 5.21** As above, while we have not collected detailed cost data, the availability of CoP solution from third-party vendors and the switch to the Phase 2 CoP environment should mean that costs are not prohibitive for smaller PSPs.
- 5.22** In addition, as above, there are advantages in terms of a level playing field to mandating that all PSPs provide CoP checks, as this may not be an element of current account services that consumers are sufficiently aware of in order to incentivise PSPs to provide CoP voluntarily.

Question 4: Do you have any comments on our CBA? We welcome any further information about the costs and benefits relating to directing the implementation of CoP to the additional PSPs.

6 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 our proposed direction.

Consideration of our duties

- 6.1** In proposing the direction and its contents, we have considered section 149 of the Equality Act 2010 (the public sector equality duty), particularly the impact of our proposed direction on people with protected characteristics.
- 6.2** The proposed direction is designed to ensure that more PSPs implement CoP than is currently the case. This means more payers and payees will experience CoP as part of the payment process. We previously gave the six largest banking groups in the UK a specific direction to implement CoP. In deciding to give SD10, we did an equality impact assessment that examined the impact of CoP on payers and payees. Having re-evaluated the equality impact assessment for SD10, we think it remains relevant to our proposal to require more PSPs to implement CoP. We have reconsidered the relevant factors below.

Payers

- 6.3** In our initial assessment for giving SD10, 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. 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.
- 6.4** 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, and if there is no match or a close match the payer will need to decide whether to proceed with the transaction at their own risk.
- 6.5** This additional complexity is more likely to affect people with certain attributes linked to protected characteristics. This includes people with cognitive impairment, and those who do not speak English as a first language. As the provision of CoP broadens because of our proposed direction, these impacts are likely to arise in relation to more people who share these attributes.

- 6.6** The benefits of CoP will also apply more widely because of the proposed direction. As the responses to our 2021 Call for Views demonstrate, these benefits include reducing accidentally misdirected payments and preventing what would have been a larger increase in APP scams. Other benefits include a greater number of consumers relying on CoP warnings, abandoning potentially fraudulent transactions, and strengthening consumer confidence in digital payments. Given this, in our view the benefits of expanding CoP to a greater number of consumers outweigh any negative impacts. This includes any that could disproportionately affect people with certain protected characteristics.
- 6.7** Given the evidence on the benefits of CoP, and subject to consultation responses, we consider it appropriate to give the proposed direction. We continue to 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.

Payees

- 6.8** We have reconsidered the position of vulnerable payees. A payee may be vulnerable for several reasons – for example, because of an abusive relationship.
- 6.9** 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.
- 6.10** We have also reconsidered the potential difficulties that CoP may place on those with complex first and last names – for example, their name may have been rendered from a different alphabet into the Latin alphabet.
- 6.11** 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 for Phase 2 of CoP specify that, in the case of a close match, the actual name associated with the proposed payee’s account will be returned to the payer. We continue to consider this an appropriate way to deal with close matches. This may also mitigate the difficulty regarding complex first and last names. We encourage PSPs to ensure their approach to identifying close matches accounts for this issue.

Question 5: Do you have any comments on our equality impact assessment?

7 Next steps

How to respond

- 7.1** If you want to respond to this consultation paper, please send us your comments by 5pm on 8 July 2022. If there is confidential information in your submission, please send us two copies: the confidential version and a non-confidential version suitable for publication.
- 7.2** 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

- 7.3** We will consider all responses to this consultation in deciding next steps. If we decide to proceed with giving the proposed direction, we plan to do so around eight to ten weeks after the deadline.

Disclosure of information

- 7.4** We may 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; and exercising our functions as transparently as possible.
- 7.5** We do 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.
- 7.6** We may 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.
- 7.7** We take our data protection responsibilities seriously. We 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

Group 1 PSPs to be directed

No.	PSP
1	iFast Global Bank Limited
2	Citibank UK Limited
3	Clydesdale Bank plc ^[1]
4	Ardohr Limited ^[2]
5	Ebury Partners UK Limited
6	Elavon Financial Services DAC
7	Goldman Sachs International Bank
8	J.P. Morgan Europe Limited
9	LHV UK ^[3]
10	Metro Bank plc
11	Mettle Ventures Limited
12	PayrNet Limited
13	Prepaid Financial Services Limited
14	Revolut Limited
15	The Bank of London Group Limited
16	Squareup Europe Limited
17	Tesco Personal Finance plc
18	Turkish Bank UK Limited
19	Paypal (Europe) S.à r.l. et Cie, S.C.A
20	Tide Platform Limited
21	Think Money Limited
22	Bank of Ireland (UK) plc
23	Contis Financial Services Limited
24	CB Payments Limited
25	Yorkshire Building Society
26	Clear Junction Limited
27	Banking Circle S.A
28	Paymentsense Limited
29	Vanquis Bank Limited

No.	PSP
30	BCB Payments Limited
31	Skipton Building Society
32	Currency Cloud Limited
33	Hargreaves Lansdown Asset Management Limited
34	Vitesse PSP Limited
35	Al-Rayan Bank plc
36	Moorwand Limited
37	Investec Bank plc
38	Coventry Building Society
39	Sainsbury's Bank plc
40	CAF Bank Limited
41	Standard Chartered Bank
42	Handlesbanken plc
43	BNP Paribas
44	AIB Group (UK) plc
45	Deutsche Bank AG
46	Bank of America NA

[\[1\]](#) Clydesdale Bank plc, which trades as Clydesdale Bank, Yorkshire Bank, B and Virgin Money

[\[2\]](#) CreDec is the registered trading name of Ardohr Limited

[\[3\]](#) Part of AS LHV Group

Annex 2

DRAFT Specific Direction X
on certain payment service
providers to introduce and
use Confirmation of Payee

May 2022

Specific Direction X (Requirement on certain payment service providers to introduce and use Confirmation of Payee)

1 Recitals

Whereas:

- 1.1** Confirmation of Payee (CoP) is a valuable tool in reducing certain types of authorised push payment (APP) scams and accidentally misdirected payments. It checks the name of the payee's account against the other details given by the payer.
- 1.2** Specific Direction 10 required certain payment service providers (PSPs) from the six largest banking groups to send and respond to CoP requests. Since then, a number of other PSPs have voluntarily introduced CoP.
- 1.3** Specific Direction 11 imposed requirements intended to extend the benefits of CoP to more accounts. It mandated the closure of the initial technical environment (Phase 1) used to process CoP requests and required CoP requests to be processed in the newer technical environment (Phase 2). Phase 2 facilitates wider availability of CoP requests. The direction also revoked Specific Direction 10.
- 1.4** The PSR's objective is to see more PSPs adopt CoP, so that a greater number of CHAPS and Faster Payments users benefit from it.
- 1.5** The PSR has therefore decided to require the directed PSPs to put in place and use a system to provide CoP.
- 1.6** This requirement applies to directed PSPs in the Schedule and to Group 2 PSPs. The PSPs listed in the Schedule must have the system in place from 30 June 2023 and the Group 2 PSPs from 30 June 2024.

- 1.7** The PSR may decide to exempt a directed PSP from an obligation under this direction, or change the date for compliance, to ensure all relevant circumstances can be taken into account.
- 1.8** The direction will cease to be in force on 1 July 2026 (subject to the potential for the PSR to vary, revoke or extend it). By that point, the PSR expects that CoP will be an everyday part of a directed PSP's processes and a service that their customers expect. However, the PSR will continue to monitor this.

2 Powers exercised and purpose

- 2.1** Faster Payments and CHAPS are designated by the Treasury under section 43 of the Financial Services (Banking Reform) Act 2013 for the purposes of Part 5 of the Act.
- 2.2** 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 in relation to specified persons (as regards PSPs listed in the Schedule) and persons of a specified description (as regards Group 2 PSPs).
- 2.3** The purpose of this direction is to achieve wider adoption of CoP service in the UK, and ensure more customers are better protected when making electronic payments.

Direction

NOW the PSR gives the following specific direction to those payment service providers listed in the Schedule and to Group 2 PSPs.

3 Requirement to implement Confirmation of Payee

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

- send CoP requests for its customers
- respond to CoP requests sent by other PSPs in respect of its customers

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

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

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

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

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

3.7 If a directed PSP considers that it is unlikely to be able to put the system in place in time to meet its obligations under this section, it must notify the PSR of that in writing, and explain the reason for its view and the steps it is taking to meet its obligations. It must provide this notification within 14 days of coming to that view.

3.8 The applicable date mentioned in paragraph 3.1 is:

- for PSPs listed in the Schedule, 30 June 2023
- for Group 2 PSPs, 30 June 2024

- 3.9** For the purpose of complying with this section, a directed PSP may enter into arrangements with another person for the system to be provided on its behalf.

4 Application of Section 3

- 4.1** The system required under Section 3 need only provide for CoP requests to be made, or responded to, if both the account from which the funds are to be sent ('the sending account') and the payee's account – as identified by the unique identifiers given by the customer – ('the receiving account') are UK accounts.

- 4.2** The system required under Section 3 need not provide for the sending of, or responding to, a CoP request where:

- the necessary information (or amended unique identifiers) is provided in anticipation of the customer making a transaction that is a bulk payment
- the sending or receiving account is a suspense account
- the necessary information (or amended unique identifiers) is supplied in anticipation of funds being sent by way of an unattended payment routing
- a PSP is proposing to send funds on its own behalf
- the necessary information (or amended unique identifiers) is provided in anticipation of a transaction being:
 - a CHAPS 'MT202 general financial institution transfer' (within the meaning of the CHAPS technical requirements published by the Bank of England¹), or
 - a transfer of funds from or to an account of a financial market infrastructure (within the meaning of the 'Principles for financial market infrastructures' published by the Bank for International Settlement and the International Organization of Securities Commissions²) (central counterparties, etc.)
- the necessary information (or amended unique identifiers) is received by the customer's PSP by post, email, or fax, or is contained in instructions that are hand delivered to a branch (or other office) of the PSP but which are not processed with the customer present

- 4.3** The requirements of Section 3 do not apply in respect of a directed PSP as long as it only provides:

- accounts in connection with merchant acquiring

1 See: bankofengland.co.uk/-/media/boe/files/payments/chaps/chaps-technical-requirements

2 See: bis.org/cpmi/publ/d101a.pdf

- accounts for payment processing services provided to other PSPs, or
- lending products, and associated accounts are for the repayment of those loans

4.4 A directed PSP must notify the PSR in writing if it relies on an exception set out in paragraph 4.3. It must comply with this paragraph within 14 days of the first day on which the exception is relied on.

4.5 Where a directed PSP has notified the PSR under paragraph 4.4, it must notify the PSR in writing if it ceases to rely on an exception. It must do this within 14 days of the exception ceasing to be relied on.

4.6 Where a receiving account held at a directed PSP listed in the Schedule is identified by Secondary Reference Data identifiers, Section 3 applies in respect of payments to be made to that account as if the relevant applicable date is 30 June 2024, rather than 30 June 2023.

5 Exemptions and changes to deadlines

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

- exempt a directed PSP from an obligation to comply with an obligation imposed by this direction
- provide for a different date to a relevant applicable date (see paragraph 3.8)

5.2 In doing so, the PSR may impose conditions that it considers appropriate in light of its decision. A condition may, for example, be that a different date to the date set out in paragraph 6.2 (date on which this specific direction is revoked) applies.

5.3 The PSR may publish any decision taken under paragraph 5.1, including, where the decision is taken following an application by a directed PSP, a decision to refuse the application in whole or in part. The PSR may also publish any application made to it.

5.4 The PSR will not publish confidential information.

5.5 The effect of the PSR deciding to exempt a directed PSP, or providing for a different date, under paragraph 5.1 is that this direction must be complied with by the directed PSP subject to the exemption or different date, and subject to any conditions imposed.

6 Commencement and revocation

6.1 This specific direction comes into force on [14 days after being made].

- 6.2** It ceases to be in force on 1 July 2026, unless prior to that date it is varied, revoked or extended by the PSR.

7 Citation

- 7.1** This specific direction may be cited as Specific Direction [xx] (Requirement on certain payment service providers to introduce and use Confirmation of Payee).

8 Definitions and interpretation

- 8.1** The headings and titles used in this specific direction are for convenience and have no legal effect.
- 8.2** The Interpretation Act 1978 applies to this specific direction as if it were an Act of Parliament, except where words and expressions are expressly defined.
- 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.
- 8.4** A reference to a customer providing information or an amendment to a directed PSP includes the provision of that information or amendment by someone on behalf of the customer (where permitted under the appropriate method).
- 8.5** A transaction consists of a bulk payment when the payer is proposing to use it to make payments to more than one account.
- 8.6** An 'unattended payment routing' is where a PSP provides technical access to the Faster Payments or CHAPS system for a customer to send payments through that system, and consequently the PSP does not carry out the actions ordinarily required of a PSP that provides the sending account when executing a Faster Payments or CHAPS payment.
- 8.7** A PSP has a CoP system in regular operation on the date this direction comes into force (see the definition of 'Group 2 PSP' in paragraph 8.8) if on that date:
- the PSP has a CoP system in place that would comply with paragraphs 3.1 to 3.5
 - that system has been in place, and used, in such a way as would comply with paragraphs 3.1 to 3.5 for at least the preceding eight weeks (ending with that date), and

- the circumstances are such that it is reasonable to conclude the PSP intends that system to be used on an ongoing basis

8.8 In this specific direction:

- **Act** means the Financial Services (Banking Reform) Act 2013.
- **Applicable date** has the meaning given in paragraph 3.7.
- **Appropriate method** means a method that is used by the directed PSP for a customer to provide instructions to it that may be used by the PSP for executing a payment from the customer's account to the payee (whether or not a payment is intended to immediately follow the instructions) where that payment may be made using Faster Payments or CHAPS.
- **CHAPS** means the regulated payment system known as CHAPS designated by order dated 19 March 2015.
- **CoP request** means a request sent by a PSP to check the name of the intended payee (that is, the person to whom or which the payer anticipates sending funds) against the name of the person who holds the account to which the unique identifiers given by the payer when providing the necessary information (or amending the unique identifiers in that information) refer.
- **CoP rules and standards** means the rules and standards for CoP provided for in the rule book developed by Pay.UK, as they stand at the time the request is received (in respect of responding) or at the time the PSP receives the necessary information (or amended unique identifiers) from the customer (in respect of sending).
- **Directed PSP** means each of the PSPs to which this direction is given.
- **Established payee** means a payee in respect of whom or which the customer had previously provided the necessary information and that information is held at the time of the amendment by the directed PSP.
- **Faster Payments** means the regulated payment system known as the Faster Payments Scheme designated by order dated 19 March 2015.
- **Group 2 PSP** means a PSP which:
 - is a participant³ in Faster Payments or CHAPS
 - is not listed in the Schedule
 - does not have a CoP system in regular operation on the date this direction comes into force, and

3 This covers PSPs which have indirect access, as well as those with direct access (see the Act, in particular the definitions of 'participant' and 'payment service provider' in section 42).

- is either a PSP that has associated with it a unique sort code listed on the Extended Industry Sort Code Database (EISCD), or is a building society
- **Necessary information** means the information required by the directed PSP in order to execute a payment from the customer's account to a payee and includes the name of the intended payee and the unique identifiers for the receiving account.
- **New payee** means a payee in respect of whom or which the directed PSP does not hold the necessary information.
- **Participant** has the meaning given by section 42 of the Act.
- **Payment system** has the meaning given by section 41 of the Act.
- **Payment Systems Regulator** or **PSR** means the body corporate established under Part 5 of the Act.
- **Pay.UK** means the company limited by guarantee incorporated in England under company number 10872449; and a reference to it includes a reference to any successor body.
- **PSP** means payment service provider and has the meaning given by section 42(5) of the Act.
- **Regulated payment system** means a payment system designated by the Treasury under section 43 of the Act.
- **Secondary Reference Data account** means an account that is not uniquely addressable by a sort code and account number, but instead relies on including a further unique identifier in the reference field in the payment order.
- **Suspense account** means an account used by a PSP to store funds temporarily for accounting purposes or where there is uncertainty as to where the funds should be sent.
- **UK account** means an account provided by a PSP in the course of that PSP's business in the United Kingdom.
- **Unique identifier** has the same meaning as in the Payment Services Regulations 2017 (see regulation 2).

Made on [DATE]

Chris Hemsley
Managing Director
Payment Systems Regulator

Schedule

No.	PSP
1	iFast Global Bank Limited
2	Citibank UK Limited
3	Clydesdale Bank plc ^[1]
4	Ardohr Limited ^[2]
5	Ebury Partners UK Limited
6	Elavon Financial Services DAC
7	Goldman Sachs International Bank
8	J.P. Morgan Europe Limited
9	LHV UK ^[3]
10	Metro Bank plc
11	Mettle Ventures Limited
12	PayrNet Limited
13	Prepaid Financial Services Limited
14	Revolut Limited
15	The Bank of London Group Limited
16	Squareup Europe Limited
17	Tesco Personal Finance plc
18	Turkish Bank UK Limited
19	Paypal (Europe) S.à r.l. et Cie, S.C.A
20	Tide Platform Limited
21	Think Money Limited
22	Bank of Ireland (UK) plc
23	Contis Financial Services Limited
24	CB Payments Limited
25	Yorkshire Building Society
26	Clear Junction Limited
27	Banking Circle S.A
28	Paymentsense Limited
29	Vanquis Bank Limited
30	BCB Payments Limited

No.	PSP
31	Skipton Building Society
32	Currency Cloud Limited
33	Hargreaves Lansdown Asset Management Limited
34	Vitesse PSP Limited
35	Al-Rayan Bank plc
36	Moorwand Limited
37	Investec Bank plc
38	Coventry Building Society
39	Sainsbury's Bank plc
40	CAF Bank Limited
41	Standard Chartered Bank
42	Handelsbanken plc
43	BNP Paribas
44	AIB Group (UK) plc
45	Deutsche Bank AG
46	Bank of America NA

[1] Clydesdale Bank plc, which trades as Clydesdale Bank, Yorkshire Bank, B and Virgin Money

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

[3] Part of AS LHV Group

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