PSR CP22/2 – Confirmation of Payee: Requirements for further participation

Date: 08/07/2022

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UK Finance is the collective voice for the banking and finance industry.

Representing more than 300 firms across the industry, we act to enhance competitiveness, support customers and facilitate innovation.

UK Finance's members welcome the continued interest of the PSR in the uptake of Confirmation of Payee (CoP). CoP is seen across the industry as a valuable service for customers that provides additional security and confidence in the ability of customers to make payments. Our members support the implementation of CoP as a more ubiquitous service to help prevent misdirected payments and provide a tool to help firms reduce their customers risk to fraud. We agree with the PSR that more needs to be done to ensure that consumers and businesses are protected when they make payments.

In light of the continued growth of Authorised Push Payment (APP) scams, with the UK Finance Annual Fraud Report identifying a growth of over 39% in value for APP fraud loss,[1] it is clear that CoP is not a silver bullet for scams. We believe that the industry must take actions beyond wider implementation of CoP to protect customers from the impacts of fraud and scams. An approach by the PSR that supports an outcome based approach to fraud control, rather than focusing on specific technical solutions, will help industry to innovate and as it aims to reduce this risk to consumers and businesses.

UK Finance and its members continue to investigate the development of facilities that provide financial institutions with greater opportunity to intervene in the decisions by consumers to proceed with payments. We believe that market led approaches to combat APP fraud are most effective and that the PSR should continue to provide right conditions to promote market innovation. This current direction may draw resources away from investment in more effective fraud control mechanisms. In particular, smaller firms may struggle with the relatively high fixed costs of CoP and we recommend the consideration of de minimis thresholds by the PSR to reduce ineffective investment by firms and for channels and products that may benefit less from the implementation of CoP.

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[1] https://www.ukfinance.org.uk/policy-and-guidance/reports-and-publications/annual-fraud-report-2022?elqTrackId=dd10d097bdd640bcab34ace67411ee10&elqaid=6688&elqat=2

For the present, UK Finance members agree that a specific direction is the right instrument to ensure Payment Service Providers (PSPs) that have not yet implemented CoP have the right incentives to implement and ensure an appropriate level of ubiquity for this service.

The scale necessary for the PSR to accomplish this is unprecedented and the timelines ambitious. In this response, we highlight a number of risks that we believe the PSR, Pay.UK, OBIE and the directed firms will have to collectively control. We believe that the best way to achieve this will be through the creation of a co-ordinated implementation programme, such as was used to ensure the smooth roll-out of CoP by firms under Specific Direction 10. The institution of such a programme, while introducing cost and apparent complexity, will help the industry collectively manage the risks associated with the PSR's proposed direction and ensure the timely implementation of this valuable service to customers.

As such an industry co-ordination function is established, we recommend that the PSR provide more detailed guidance to firms on the precise scope of the direction to ensure consistency of application across firms and reduce the resource requirements for the PSR as they oversee the compliance of firms to the final direction. This guidance should provide detail to firms on the channels for which CoP should be implemented, consider materiality thresholds, specific application of CoP send capacity from business users, implementation for products to be discontinued and the use of other mechanisms to confirm the ownership of accounts.

Our members have repeatedly expressed their support for the wider roll-out of CoP and the delivery of the benefits that it can bring to their customers. UK Finance will continue to work with its members, Pay.UK, the OBIE and the PSR to ensure that the objectives of wider CoP implementation can be met by the industry.

Data submission

We note that the PSR has referenced an intention to collect APP scam losses from those firms that implement CoP. UK Finance members are supportive of enhancing the industry's understanding of the scope and scale of APP fraud and the effectiveness of anti-fraud measures in providing demonstrable benefit to the industry.

In our view, the PSR's ambition to collect this data is a non-trivial undertaking both for the industry and the PSR. The data collected would be a valuable tool in the fight against fraud and essential for the industry to collectively calibrate anti-fraud measures.

Our members would appreciate the full scope of data to be collected by the PSR to be communicated to those firms who may be caught under these obligations. We believe that the PSR should consider consulting separately on this measure and note the lack of detail on this material issue within the consultation document.

Our members have concerns that, given the significant effort that it will take the collective industry, the PSR should make all efforts to collect this data in an open and collaborative way, providing analysis and transparency of the implications of the data to industry.

UK Finance would like to work with the PSR, Pay.UK and any other suitable industry entities in considering the best way to collect this data and provide appropriate analysis and transparency to industry.

CRM Dependencies

The APP Contingent Reimbursement Model (CRM) Code published by the Lending Standards Board contains a reference to signatories being required to implement CoP in a way that customers can understand and respond to[2]. In addition, a CoP negative response is referenced as a potential factor to be assessed as to whether a firm should choose to reimburse a customer.[3]

UK Finance consider that the implementation of Phase 2 CoP specifications by Pay.UK and industry will remove any barriers for additional firms who had previously been unable to become signatories of the APP CRM due to their inability to provide CoP to their customers. Some of our members have highlighted the importance for industry to strengthen the receiving firm liability under CRM and there is a clear need for all firms to be able to implement both send and respond CoP services to ensure a level playing field. We comment further on the availability of Secondary Reference Data (SRD) in our response to the second 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:**

UK Finance are supportive of the PSR's intention to direct wider adoption of CoP by the industry.

As we articulate in our response to the questions below, our members have noted some concerns with the magnitude of the PSR's proposed direction. We believe that the most effective way for industry to control these risks will be through the implementation of an industry co-ordinated roll-out programme.

To assist the function of this programme, we believe that the PSR should:

- Provide specific clarity on the scope of CoP implementation:
    - Clarify that obligations to send CoP requests need not be applied when a firm has already confirmed the name of the payee for the customer by a mechanism other than CoP. This should include applicable Open Banking payment initiation journeys.
    - Materiality thresholds should be created to exclude firms from sending/responding to CoP requests, payment initiation channels from requirements to implement CoP send and guidance on handling discontinued products. These should consider volume, value and reported APP fraud rate of these firms and payment initiation channels.
    - We recommend that the PSR clarify that no obligations to provide CoP for the accounts mentioned in 4.3 should stand.
    - We believe the PSR should consider explicit use of the definition of Payment Accounts as provided by the PSRs 2017, or another suitable industry definition.
    - Some of our members believe that the ability to send CoP requests should not be mandated for corporate payment accounts, although these accounts should still respond to CoP requests.
- Consider a more granular and sequenced roll-out of CoP by firms under the proposed direction with a view to reducing the concentration risks of the current direction
- Consider within the context of a managed implementation programme whether the timelines outlined in the draft direction are manageable for the number of firms that are directed.

Our members support the wider roll-out of CoP to give confidence to payers to utilise digital payments and help prevent accidentally misdirected payments. The direction and co-ordinating

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[2] Please see clauses SF1(3) and SF2(2).

[3] Please see clause R2(1)(b)

activities should ensure that the risks highlighted within our response below are appropriately controlled in order to minimise the potential impact on industry and the PSR. Further details on the above points are made throughout this consultation response.

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.**

UK Finance is supportive of the use of a specific direction from the PSR to ensure wider adoption of CoP by the industry.

We have no comments on the PSPs directed under Group 1. In our response to question 1(b) we outline some of the industry capacity considerations that are applicable to Group 1 participants as well. In our response to question 1(g) we consider some of the capacity concerns for both Group 1 and Group 2 firms.

b. **Whether Group 2 remains appropriate considering the size of the group to be directed.**

The current definition of Group 2 is an ambitious collection of PSPs to direct for the PSR. We note concerns with the capacity of the industry to implement CoP in our response to question 1(e) and are also concerned that the level of co-ordination required by the PSR in managing any exceptions to implement CoP will generate significant overhead for the PSR in managing the correct implementation of the direction by mandated firms. It is unclear to the industry at this stage what granularity of supervision (regarding the implementation of the specific direction by firms) will be decided by the PSR as necessary to ensure the direction is carried out by the industry. We presume that any additional supervisory resourcing costs would have to be covered through the PSR's existing industry levy. The PSR should consider an approach that minimises any resource intensive supervisory activity while maintaining internal and external assurance that the direction will be met effectively.[4]

Also of concern is the resource that industry will require to manage the practical roll-out of CoP. Many of our members have highlighted to us their views that the best way to control some of the risks articulated in this response would be through an industry programme co-ordinating roll-out. Some of our members believe that Pay.UK would be in the best position to provide this industry resource. It is not clear whether this will require additional resource and cost for Pay.UK's customers and how this could be charged to their customers. Although of different scope; for context, UK Finance's co-ordination of the implementation of Strong Customer Authentication for online retail environments exceeded £2.5m. We expect that a lighter weight and lower cost programme should be achievable to support wider CoP implementation.

Based on this, we believe that the PSR should consider how the timelines associated with their consultation will drive additional resource impact on the industry and, in relation to its own supervisory activities. Based on lessons learned from the implementation of CoP Phase 1, co-ordinating the implementation of a service by multiple participants should not be underestimated and the large number of firms that the PSR proposes to direct will only magnify these issues, the resource requirements and the costs of this implementation.

In order to fund the material industry cost that is likely to arise from this direction, we believe the industry needs to agree a funding approach that equitably sources funding from appropriate

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[4] One member has suggested that supervision of the implementation of CoP by the industry may more naturally sit with the FCA rather than the PSR on an ongoing basis. It is not clear at the moment how that migration would happen, nor the appropriate due-diligence that the industry would need to take forward this discussion.

parties, bearing in mind that firms that have already implemented CoP would likely not consider themselves appropriate parties. These firms will already be incurring their own internal costs in order to support the onboarding of additional CoP participants (cf. our response to question 1(e)). Given there are significant commercial implications for Pay.UK, the OBIE and any vendors that offer CoP services, we believe that this should receive suitable transparency for both directed and non-directed firms

Further, we believe that an additional materiality threshold should be considered by the PSR in relation to the applicability of the direction, particularly due to the high fixed costs of CoP implementation and the potential disproportionality to some firms. The PSR should consider whether and how it provides this materiality threshold and should consider the value of payment transactions, the volume of transactions and the relative fraud risk for both outgoing and incoming payments within this materiality threshold. As an initial stance, we suggest that the PSR could consider collective thresholds based on the volume, value and reported APP fraud rate of these firms. It will be important for industry to apply CoP for high risk or high value transactions.

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.**

UK Finance does not have any comments on this question.

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?**

UK Finance and its members believe that the primary benefit of implementing CoP for the industry will come through the types of accounts that consumers and businesses use on a daily basis. In this light, the PSR's direction should target the implementation of CoP for accounts which serve as current accounts, or similar products, that a customer uses to manage their day to day finances. Application of CoP to other accounts would also be beneficial

With reference to a later discussion, our members consider that the ability to respond to CoP requests should cover accounts in regular use by customers, particularly savings accounts, is important. Many providers of savings accounts have controls in place to verify the identity of an account holder. Some of these provide functions very similar to CoP and many firms have processes in place that limit the ability of consumers to send payments to accounts that have not been verified through these processes. Principally, these exist for savings products and members have highlighted that the introduction of additional steps in the authentication of these accounts could disrupt existing and effective customer journeys unnecessarily. In order for firms to continue using these mechanisms to confirm the users of accounts, we recommend that the PSR clarify that CoP need not be applied when a firm has already confirmed the name of the payee for the customer.

We remain in support for savings accounts (including those referenced using SRD) to respond to CoP requests. Should firms provide accounts which only receive payments from a limited, controlled number of participants, we believe that, per the previous paragraph, similar derogations could be applied. We recommend that the PSR consider this when drafting further specificity on which accounts are within scope of the proposed direction.

Based on the PSR's drafting of their proposed direction, it is not clear whether the derogations of 4.3 apply only to firms that meet the specified criteria or to all accounts that meet the specified terms. We believe that it would be unusual for firms that provide merchant acquiring services, accounts for payment processing services and lending products (including credit cards and mortgages) alongside conventional current account (and similar) products to be required to provide CoP checks for these accounts while other specialised firms would not be required to provide CoP services for these accounts. Indeed, the application of CoP for some of these services (particularly merchant acquiring and payment processing services) could introduce unforeseen complexities to existing users of these services. We recommend that the PSR clarify that no obligations to provide CoP for the accounts mentioned in 4.3 should stand.

The PSR could provide greater clarity on the accounts expected to be in scope. We believe the PSR should consider explicit use of the definition of Payment Accounts as provided by the PSRs 2017, or another suitable industry definition. Existing clarifications for lending accounts should still apply.[5] We consider that the legacy requirement from SD10 for the applicability of CoP requirements to rest upon accounts identified by a sort code and account number[6] previously provided specificity on the accounts that should be caught in scope (rather than those accounts that are exempted from requirements) that is lacking in this current draft. Stating specifically and positively the accounts that the PSR believe should be caught under the direction will assist industry in correctly interpreting the PSR's intentions and enable firms to judge the applicability of the direction more accurately to particular products or accounts.

Finally, we note that there is limited discussion of exemptions from the implementation of CoP for different customer payment initiation channels. Certain firms will have low-use channels, for very particular customer cohorts, where the effort of implementing CoP would be disproportionate to any potential benefit. Due to their specialised nature, these channels often remain on legacy infrastructure with years of incremental changes increasing the complexity of delivering CoP. Other members have noted that certain back-book products or products in the process of becoming discontinued may materially impact the cost of implementation for their firms.

Principally, we believe that materiality thresholds should be considered by the PSR in relation to the implementation of CoP checks for non-standard payment initiation channels. As an initial point for discussion, we suggest that the PSR should consider thresholds based on the volume, value and reported APP fraud rate of these firms. We also recommend that the PSR consider guidance to assist firms to understand when these sorts of products may not justify implementation of CoP features.

We do not believe that this derogation should in any way impact the ability for firms to provide a CoP response to requests on accounts that are accessed by consumers through these payment initiation channels.

The current drafting of the direction could also create a lack of clarity for the obligation to provide CoP to their business customers. Some of our members believe that the ability to send CoP requests should not be mandated for corporate payment accounts, although these accounts should still respond to CoP requests. Our members have highlighted that they consider this to be a key competitive differentiator between services. While the derogations in 4.2 remove obligations for bulk payment services, an obligation could remain on providers of business account services to ensure that CoP is provided for singly initiated payments, potentially creating a disruption in these customers' use of their services. We consider that and additional clarification could remove the requirement to apply CoP to all direct corporate access channels to resolve this. Under this, SME accounts would remain within scope of requirements.

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[5] We note that the current draft specific direction contains reference to the Payment Services Regulations 2017 in its definition of a unique identifier. While an interpretation of this reference could bring to bear the definition of payment accounts on the PSR's draft direction, it is unlikely that all firms will take such a stance and so greater specificity of this requirement should be brought to bear by the PSR.

[6] See 4.7(b) https://www.psr.org.uk/publications/policy-statements/ps19-4-specific-direction-10-confirmation-of-payee/

Finally, we note the intention of the PSR to not mandate CoP for Open Banking Payment Initiation Service (PIS) payments. We believe PSR should ensure that all types of payment whose initiation is covered by a scheme, sent to a validated beneficiary or for which, through the application of some other mechanism, the identity of the payee has already been confirmed should be excluded from a requirement to send a CoP check. We previously discuss the existence of controls for savings account and it doesn't seem clear whether services such as Paym, which already confirm the payee's name to the payment initiator, would be exempt. It is unclear under what derogation within the draft direction the PSR expect that the obligation to provide CoP services will be removed for PIS initiated payments. We believe that this could be resolved by the PSR clarifying that CoP need not be applied when a firm has already confirmed the name of the payee for the customer.

Based on the above discussion, we believe that the PSR should provide clarity on the scope of accounts to be covered by its direction and ensure the type of accounts caught focuses on payment accounts and related products that feature in the daily financial lives of UK consumers and businesses.

e. Our approach to stagger the implementation of CoP. Where there might be capacity issues, could there be a way to refine this process?

UK Finance members are very concerned with the timelines associated with the proposed implementation of CoP by both Group 1 and Group 2 firms. We consider this in more detail in our response to question 1(g). Nonetheless, these deadlines present material risks for the industry in relation to the industry's abilities to implement CoP functionality. Principally, we believe that the way that the industry should manage the collective risks articulated within our response to this section would be best achieved through the creation of a co-ordinating industry change programme.

The PSR's draft direction requires 49 firms to implement CoP in 13 months and 350+ firms to implement CoP in 25 months. The current plan will require firms to onboard at a rate of approximately 17 a month over the next two years to meet the PSR's deadline. Given that the sum total of firms that have, to date, implemented CoP sits at 33;[7] Pay.UK would have to support onboarding activities totalling fifty per cent of its total current customers per month, each month, for the next two years.

For context, the initial roll-out of Confirmation of Payee, starting at the May 2019 PSR consultation to the implementation of CoP respond on the 31 December 2019, the initial deadline for 31 March 2020 and the completion of industry roll-out at the close of June 2020 was a 13 month process for six firms to implement. While a significant contribution to this timeline was individual firm readiness (and the PSR's draft deadline is strikingly similar to the actual timelines for the original SD10 firms); nonetheless, there were significant co-ordination issues which impacted these timelines, even with additional project support provided by Pay.UK that was charged to the six firms caught under SD10.

Although Pay.UK's operational support for CoP has expanded significantly, UK Finance and its members remain concerned that the onboarding support able to be provided by Pay.UK will be unable to handle the number of firms requiring to onboard to CoP. In addition, the same ability for the OBIE to onboard so many firms to the Open Banking Directory on the CoP only role profile is, as yet, untested. Further, knowing the propensity of firms to implement closer to the regulatory deadline, it is entirely plausible that Pay.UK and the OBIE will have to onboard upwards of twenty firms a month in the early parts of 2023 and up to thirty or more a month in early 2024. Given that

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[7] PSR CP 22/2 p. 4

previous implementation co-ordination had to be arranged at cost to support six firms, it is unclear at this stage how Pay.UK and the OBIE will be able to scale up capacity without significant cost impact to the industry and how this cost will be equitably apportioned between participants.

UK Finance members that fund the OBIE have also flagged their concern that costs should not be borne by this body as it will not have the correct mechanisms to attribute costs appropriately in the market. There are also timing considerations as the formation of the Joint Regulatory Oversight Committee (JROC) has highlighted the need for appropriate due-diligence over activities that sit outside of the scope of the CMA Retail Banking Market Investigation order. This group is already considering how the OBIE can migrate into a new entity structure and, as the number of organisations using the Open Banking Directory – as a core piece of UK payments infrastructure – grows, it is important that the JROC there is a need to consider the transition of funding and liability model from its current form to a wider equitable one. It is important that the benefits of Open Banking developments are able to be utilised effectively by the industry.

Our members have also highlighted to us the operational impact that onboarding new participants to the CoP service will have for those firms that have already implemented CoP. Our members have articulated that they are already standing up personnel internally to handle the increased demands on their businesses to co-ordinate onboarding (due to the distributed nature of CoP) of new participants and undertake any necessary testing of systems. In the early stages of CoP implementation, ‘buddy’ testing was used to good effect and a number of members are concerned that they will be required to continue this practice for new firms.

Given that the current timelines represent significant resource demand on Pay.UK, the OBIE and industry firms, and that these resource requirements will likely require subsequent funding which, in the case of the OBIE and Pay.UK, will be re-charged to industry participants; UK Finance believes that Pay.UK and the OBIE should take the following steps to reassure industry of their capacity to support the proposed timeline:

- A clear business plan delivered by Pay.UK to its customers articulating its expected projections for onboarding, its resourcing plan to support that, the funding requirements to support its plan, its proposals to source this funding from appropriate CoP participants and alternative scenarios to cover contingencies if implementation timelines extend past expected thresholds.
- A clear business plan delivered by the OBIE to its funding bodies, with options for distributing to a wider audience, articulating its capacity to meet the PSR’s requirements and a proposal to source any funding necessary to cover any capital or operational expenditure from Pay.UK or other CoP participants to ensure these costs are equitably apportioned between participants.

Per our answer to question 1(b) where we invited the PSR to consider its own internal supervisory costs, we invite the PSR to consider whether it should undertake a similar activity.

We believe that the PSR should work with Pay.UK and the OBIE as they consider these assessments and, as it becomes necessary, reconsider any timing requirements of its specific direction.

At this point in time, it is difficult to conceive of implementation approaches that could refine the PSR’s objectives. The PSR may consider mandating specific tranches to go live at different dates in order to avoid any last-minute rush at the deadline. However, it may be difficult to arrange this across c. 400 firms in a fair and proportional manner. Voluntary approaches are not always effective and many firms will often not have the budget and internal business case justification requirements to smooth out a voluntary curve.

Notwithstanding the concerns on industry capacity outlined above, our members have highlighted a number of negative outcomes that would result from an uncontrolled implementation programme. The availability of vendors to support implementation, contractor and SME bandwidth, the possibility for price gouging due to an impending regulatory deadline and the necessary back-office support (and vendor support) to integrate CoP functionality into core banking platforms have all been highlighted to us by members as potentially restricting the ability for firms to meet the directions. These difficulties will be exacerbated without the ability for industry to manage the roll-out of CoP effectively.

We believe that it is necessary for a controlled approach to implementation to be adopted to reduce the concentration risk and its negative impacts. For the PSR to set a clear regulatory deadline without considering these implementation difficulties in detail could expose the PSR and industry to significant reputational risk. Some members have suggested that a focus on providers of consumer and SME current accounts could be an effective prioritisation strategy, others have suggested that (similar to Phase 1 implementation discussions) a volume-based prioritisation schedule could be created. It is not clear whether it is possible for firms to be incentivised to implement CoP ahead of any regulatory deadline. Our current recommendation to the PSR would be to consider how it, the OBIE (or future entity) and Pay.UK would approach a worst-case implementation scenario and create a clear plan to manage such a situation.

One of the clear lessons learned from Phase 1 implementation was the importance of transparency across all required firms. It would be important for the PSR to consider how Pay.UK and the PSR would be able to provide such transparency across all those who have yet to begin implementing CoP, and therefore might not be direct customers of Pay.UK, but for whom transparency of their respective programmes and implementation dates to the rest of the industry would be beneficial. This should be agreed between the PSR and Pay.UK and those firms that are caught under the direction; all implementing firms should be able to be known by name to all current and future implementers of CoP and their implementation timelines communicated across these firms.

We note that the PSR articulate within their consultation the opportunity for the rules and standards of CoP to be adjusted to facilitate more efficient and quicker onboarding of new participants to CoP through vendors being able to onboard ‘hundreds of new CoP participants within a similar time frame’ and indirect access providers (IAPs) providing CoP products directly to their customers. We understand that some IAPs may already provide solutions and quicker onboarding of participants through vendors is being actively considered by Pay.UK. While we are supportive of these changes to facilitate enhanced onboarding of firms, and some members have expressly identified that these changes will be a key mechanism to reduce the implementation cost to existing CoP participants when onboarding 400 firms to their systems. It appears slightly speculative at this time to rely on these potential changes to create the pathways for a large number of firms to implement CoP and meet their proposed regulatory obligations. It may be considered unwise at the current time to set a clear regulatory deadline without first establishing and testing these mechanisms. In order for industry to rely on these proposals, we believe that clear timelines should be established for any such changes so that the industry can be assured of its ability to meet the PSR’s demands.

f. Whether the direction should direct for both ‘send’ and ‘respond’ capabilities for both Group 1 and Group 2?

We believe that the priority for CoP is for the implementation of the ‘respond’ capabilities for CoP. We have already articulated clarifications of the scope of the direction for customer channels, products and firms where the removal of obligations to send CoP requests may be justifiable. On principle; our members remain in full support of the implementation of both send and respond for applicable accounts.

As industry proceeds in the development of an appropriate industry implementation, we consider that the different implementation requirements around respond and send may be helpful to re-visit in the management of wider industry implementation. Should deadlines have to be adjusted, some members have highlighted that some CoP features could likely be delivered at a faster rate than others and be a useful way to tranche CoP implementation by some firms.

g. Whether the dates set out in the proposed direction are realistic and achievable?

In our answer to question 1(e) we have already laid out some of the concerns that the industry has with the proposed deadlines for CoP implementation from an industry perspective.

For firms mandated to implement CoP under the proposed direction, our members have highlighted their concerns that:

- Not all directed firms in Group 1 will have the capacity to meet the requirements to implement CoP in the next 13 months, although we note that this is similar to the actual timelines achieved by the firms caught under SD10. Several of our members have noted their expected difficulties in meeting the proposed PSR's deadline and noted resourcing constraints due to existing regulatory commitments, the Bank of England's RTGS renewal and the lack of consideration of firm budgeting cycles as drivers of this difficulty.
- Not all directed firms in Group 2 will have the capacity to meet the requirements to implement CoP in the next 25 months.
- Whether Pay.UK will be able to support the onboarding of the large volume of new customers in the proposed timelines.
- Whether the OBIE will be able to support the onboarding of the large volume of new customers in the proposed timelines.
- There are implementation considerations that should be made regarding existing CoP firms being able to onboard new participants. Several members have noted their need to establish new BAU support roles to monitor these changes and it may become difficult for either the PSR or Pay.UK to manage any issues associated with resource capacity for the wider industry to onboard new participants.
- Considerations for firms that would be reliant upon the implementation of SRD in order to provide confidence that their investment will not be impacted or delayed by the delivery of SRD. We note our response to question 2 which provides our view and confidence that the implementation of sending SRD (as the key enabler of other firms' ability to respond to CoP requests) will not require a further direction by the PSR.
- Some members have highlighted their difficulty in achieving the deadlines in relation to their ability to send or respond to CoP requests.

In short, the timelines are ambitious. There is significant risk that not all parties will be able to make the required deadlines, particularly if decisions are required for some firms on the applicability of the deadline to certain accounts by the PSR, and that some post-event management of an evolving situation between the OBIE, Pay.UK and the PSR could be required in the event of directed firms missing the regulatory deadline. In Phase 1 development, a proactive approach was taken to manage the implementation of CoP by Pay.UK customers. It is unclear whether such an approach would be achievable given the number of firms requiring management from a project implementation perspective. Any project approach that attempts to actively manage implementation is likely to rapidly balloon in resource and financial cost. Without a clear understanding of the range of firms that will bear this cost, the substantial investment of implementing firms and firms that have already implemented CoP (cf. our response to question

1(e)); it is likely that centralised activities necessary to manage industry wide implementation will be difficult to arrange and fund.

From a reputational perspective, it may be more damaging for the PSR and the wider industry to establish timelines which are likely to shift; however, we recognise the role that the PSR has in catalysing industry action through such activities. We understand that the PSR are considering a rolling implementation approach to wider CoP implementation. We would like to engage with the PSR to understand how such an approach would be created for the industry and managed with the input and support of Pay.UK and the OBIE, understanding that a collaborative and discursive approach between the PSR, industry, Pay.UK and the OBIE will enable the identification of a proposed deadline that is reasonable and achievable for the whole industry, results in acceleration of implementation of CoP and reduces any risk of reputational damage for the PSR and industry.

In order to manage this from a more controlled perspective, we recommend that the PSR establish a way to prioritise the implementation of CoP by different firms. At a minimum, the PSR should consider the creation of non-regulatory enforced tranches for firms to opt in to; at the maximum, the PSR could establish a sequenced regulatory deadline for firms based on clear and objective criteria. It is not appropriate for UK Finance to opine on the details of an implementation approach in this consultation response. As noted previously, we recommend that the PSR should engage with Pay.UK, the OBIE, other industry bodies, existing and directed CoP participants and UK Finance formally in order to scope and articulate a controlled approach to CoP implementation.

h. Our proposed approach to be exempted from implementing a CoP system. Are there other approaches that we could consider?

We have already recommended that the PSR create a more specific scope for the implementation of CoP. Principally, this amounts to stating positively the accounts that the PSR considers should be within scope of the direction and consideration of an existing industry category, e.g. Payment Accounts (as covered in our response to question 1(d) above,), We also believe there needs to be greater clarity on the application of existing derogations to implementing CoP (specifically around lending products and accounts for acquiring and payment services) and providing materiality thresholds for CoP implementation. We believe that implementing these approaches will reduce the operational demand on the PSR during the process that firms take in establishing what accounts and products would be considered in scope of the PSR's requirements, reducing the overhead of the PSR in engaging with the market. Greater specificity in what CoP should cover, and focusing on the core benefit that CoP can provide to firms should, in the views of UK Finance members, reduce the amount of arbitration that the PSR has to engage in to exempt firms from implementing CoP functionality.

i. Our rationale for not directing every indirect HoCA PSP?

UK Finance members are supportive of the wider implementation of CoP and the use of a specific direction to accomplish this. We currently have no specific views regarding any required roll-out of CoP to every indirect HoCA PSP.

j. Any other representations about the proposed direction.

UK Finance has no further comments.

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

From engagement with our members, we understand that the implementation of SRD in CoP requests is essential to allow for some participants to respond to CoP requests for the set of products in scope. Based on this, our view is that firms implementing CoP should always be prepared to send the SRD along with the CoP request where this is identified in the CoP directory provided by the OBIE and Pay.UK.

As we understand this is covered by Pay.UK's CoP rules, we do not currently consider that the PSR needs to consult on a requirement to implement SRD.

Should Pay.UK, industry or the PSR identify any risk that SRD is not being sent with CoP requests to those firms that have identified this as a necessary feature, the majority of UK Finance members would be in support of a direction requiring SRD to be sent.

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?**

UK Finance recognises the potential role that scheme operators could play in ensuring even wider uptake of CoP by the industry. However, the potential implications of mandating CoP for customers of a payment scheme could have unintended consequences, particularly for business models that would not benefit from this service. These requirements could prove a barrier to entry to smaller, innovative, firms whose business may not be able to support the requirements of a CoP service. As the PSR identify, Open Banking Payments should remain outside of scope of CoP obligations, particularly for those use cases where a Payment Initiation Service Provider (PISP) provides payment services for a customer paying a business and is able to reliably provide the payment details of the business to the payer that make it impossible for the payer to pay anyone other than the merchant in question. Adding in a requirement from a centralised scheme for CoP to be applied to such a journey would disrupt the payment flow that is a feature of these payment products and could be construed as anti-competitive and an inhibitor of innovation.[8]

With the right consultation, governance, consideration of non-direct participation models and any other relevant issues, the right incentives could be built into Pay.UK or the Bank of England's participation rules and guidelines that encourage firms to implement CoP functionality when joining their managed schemes. Some of our members are in support of these proposals. It will be important for Pay.UK and the Bank of England to consider whether they could guarantee that any draft requirements would not result in unintended negative consequences of these requirements and how to appropriately create exemption processes so as for these requirements to not constitute a barrier to entry.

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.**

The PSR's estimate of a 10% difference between CoP and non-CoP firms in the value of fraud that their customers report is a helpful benchmark to judge the relative benefit of the implementation of CoP. We agree with the PSR that there are other, more intangible, benefits derived from the implementation of CoP that revolve around the greater confidence that the payer has in making a payment.

The growth of APP scams continues to be of significant concern to the industry. Between 2020 and 2021, the value of APP fraud increased by thirty-nine percent.[9]

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[8] One member has highlighted a potential risk if consumers are able to edit the payment details after the correct details have been provided by the PISP.

[9] https://www.ukfinance.org.uk/policy-and-guidance/reports-and-publications/annual-fraud-report-2022?elqTrackId=dd10d097bdd640bcab34ace67411ee10&elqaid=6688&elqat=2

Of concern to UK Finance is that, despite the clear business case that the PSR believes to exist for the implementation of CoP, the industry adoption of this feature has progressed at a slower rate than the PSR would wish it to. It is possible that the industry benefit, or the benefit to individual firms, does not accurately equate to the PSR's calculation of industry benefit; or that other mechanisms to counter fraud are available to industry which provide a better cost/benefit to their particular business. We agree with the PSR's assessment that different liability models may also go some way to explaining why the overall industry business case does not necessarily translate to a clear rationale for individual businesses to implement CoP.

One member estimated that the year one implementation cost of CoP for a small firm could total up to £100,000 covering internal and central costs of CoP implementation. Some of our larger members have suggested that this is a very low estimate. A medium sized firm estimated that their high level integration cost is estimated to be in excess of £1.5m. As we have noted elsewhere, there are wider industry costs for the implementation of CoP that must be borne to support industry testing that we cannot build into this estimate. Costs for implementing CoP across the c. 400 firms that the PSR has identified in its consultation could easily exceed £40m – and could well exceed this. It is worth noting that this minimum figure represents ten times the yearly anticipated benefit from CoP implementation. Many of our members have emphasised the high flat-costs associated with implementing CoP for their businesses.

This figure provides valuable context to the PSR's claim that the industry has implemented CoP at a slower than anticipated benefit. Using this metric as a ball-park figure, it may take the industry up to ten years to see the benefit of CoP implementation in a best case implementation scenario (notwithstanding the potential for this benefit to depreciate over time), making this a difficult business case to make for many firms. As firms are put under increased pressure to implement according to the rapid timelines suggested by the PSR, it is likely that these costs will balloon for the industry, reducing the overall business benefit of CoP. Further, based on the probable difficulty of providing a clear business case for their organisations, we question the PSR's assumption that CoP facilities would have been introduced within the timelines that the PSR have already articulated. We have made earlier recommendations to include proportionality thresholds to account for this.

Our members remain concerned that the implementation of CoP is being seen by the PSR as primarily a measure to reduce the impact of APP scams on consumers, rather than providing the other, intangible benefits of increased confidence and internal operational benefits. With only a demonstrable ten percent difference to applicable fraud rates between firms that have implemented CoP and those which have not yet implemented CoP, the current business case is difficult to articulate.

Our members have highlighted a number of ways in which criminals may be mitigating the effect of CoP on fraud rates, with accounts being fraudulently created in the names of victims, criminals socially engineering their victims to ignore a CoP response or being given the correct name on the account to make the payment to. These factors indicate that continued investment in fraud control initiatives will continue to be required in order to combat the currently increasing fraud levels in the industry. In light of this, CoP should continue to be seen as an important control in the ongoing fight against fraud. However, our members note that the opportunity cost involved in the scale of CoP implementation by the industry may prevent investment and development of more impactful fraud prevention initiatives.

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

We agree with the consideration of the impact of the proposed direction on protected groups and vulnerable customers. The wider implementation of CoP is an important way to ensure consumer led friction is provided during a payment journey and provide peace of mind when they make their payments. We have no further comments.

If you have any questions relating to this response, please contact Austin Elwood, Payments Policy Manager (austin.elwood@ukfinance.org.uk)

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