

## Response for PSR – Consultation on general directions on Confirmation of Payee

### The Emerging Payment Association's response

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

We are, broadly, supportive of the CoP initiative, which we consider will be an important contribution to minimising payments misdirected in error as well as certain types of push payment fraud. The EPA is supportive of efforts to reduce maliciously directed scams and wider financial crime.

We do not disagree with the PSR's approach to ensuring that CoP will be fully implemented in the UK in a timely manner by giving directions under section 54 of FSBRA. For the CoP to be successful there has to be universal adoption. If uptake is partial, the effectiveness of and confidence in CoP will be undermined.

However, we are disappointed with the PSR's choice of timing in two respects. Firstly, this consultation has been issued with a very short response period over the Christmas holidays. Secondly, the implementation period is incredibly short given the significant regulatory obligations imposed by the RTS on open access and strong customer authentication due next year and the uncertainty of Brexit.

From our discussion with payment service providers, we believe there is limited awareness of the details of the voluntary code and the technical specification of the CoP scheme. A more realistic lead-in time is necessary to allow payment service providers to meet the envisaged obligations.

We also believe that there is insufficient time allowed for all relevant parties to undertake sufficient testing across all PSPs using the service. There is a risk that, without sufficient time to test, the infrastructure built may be ineffective and expose weaknesses – thereby creating a financial and criminal risk.

We would encourage the adoption of an industry standard for 'Close Match' situations. Whilst high level minimum guidelines have been provided for these participants, the capability is relative to the data sources available to the Payee (or recipient of the CoP request) PSP.

Further to this, UX and liability needs to be defined and agreed for situations in which when the Payee PSP's matching service is down due to technical or operational failure.

We would recommend that the PSR review its proposed timescales in light of the aforementioned reasons, and to identify a roadmap that is mindful of existing requirements (such as the implementation of Open Banking) and once the above elements have been clarified and/or confirmed. We strongly encourage the PSR to work collaboratively with all PSPs within the scope of confirmation and Pay.UK to maximise awareness of CoP and its ensuing activity, and to undertake sufficient testing within a workable timeframe. We would also encourage the PSR to work with industry and relevant associations to drive consumer education and awareness of CoP, and on how to use CoP most effectively as a Payer.

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

PSPs that receive and send FPS and CHAPS payments, on behalf of their customers, could be given directions by the PSR and thereby ensure that both direct and indirect participants are covered.

The PSR may seek to give direction to PSPs relative to the volume of transactions enabled by a PSP or relative to the average transaction value

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

Full coverage on the recipient side is important to maintain confidence in and the effectiveness of the system. We agree that coverage on the receive side should include all payment accounts (consumer, business and corporate) as well as all types and sizes of payment service provider to ensure effectiveness and prevent migration of fraud.

We believe that payment service providers should be allowed to choose whether there should be coverage on the send side. Payment service providers can make their own decision on whether to implement based on the risk of fraud in the particular circumstances. The pressure from the contingent reimbursement model to implement CoP will lead to correct outcomes without artificially imposing this on payment channels with low or no risk.

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

We believe directions should be payment system-neutral so that payment service providers that enable authorised push payments in Sterling and within the UK must take responsibility to assess the risk of fraud and misdirected payments and take appropriate and proportionate action. As noted above, the contingent reimbursement model incentivises appropriate behaviour.

**Question 5: Should the directions apply to all payment channels that an FPS or CHAPS payment can be initiated from? Should a CoP request only apply when a new payment mandate is being set up or changed?**

We recommend that the PSR does not provide directions on this but allows payment service providers to take appropriate action according to their own assessment of the risk.

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

We do not believe this should be a matter for the PSR's directions but, instead, for the individual payment service providers.

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

As above, we believe the directions should only be in relation to the recipient side. However, we recommend that the CoP on the recipient side is extended to confirming or otherwise whether the account type is as the payer expected (i.e. if it is a business or personal account) as this additional information will help payers identify any irregularity with the payee account.

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

As above, we believe the directions should only be in relation to the recipient side.

**Question 9: Do you agree with the deadlines for the introduction of CoP? If you do not agree, please set out why you consider different dates would be more appropriate and your view of the impact that would have on the costs and benefits of CoP. If the dates are not considered achievable, please give reasons and alternative dates that you consider achievable and the reasons why.**

As noted above, we are concerned that there is a real risk to the payment systems if CoP were to be implemented too quickly without proper consideration. Noting there are no central infrastructure reference test systems available, the experience of the complexity of rolling out Open Banking, and that the premature integration of CoP on the sending side without adequate testing could adversely impact the core payment systems if match/error rates were unacceptable.

A similar scheme implemented in the Netherlands took at least a year to bring match/error rates into acceptable order and to be fully integrated in the payments system. On this basis we recommend that the receive side date should be no earlier than six months after the publication of the completed technical specification – which we understand has not been finalised.

It should be up to the discretion of the payment service providers to implement the send side but, to ensure momentum and incentivisation of implementation, we recommend that the contingent reimbursement scheme should come into effect a year after the deadline for the receive side.

### **About the Emerging Payments Association**

The Emerging Payments Association (EPA) is a thriving community of payments professionals to strengthen and expand the payments industry to the benefit of all stakeholders.

Since 2004 the EPA has been instrumental in helping to connect the ecosystem, encourage innovation and promote competition in this market.

We achieve this by delivering a comprehensive programme of activities for over 130-member companies, with the help of our independent Advisory Board, which address issues affecting the payments industry and its users.

This include events, conferences, award ceremonies, research, projects and lobbying activities