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Consultation Response

The Payment Systems Regulator's consultation on *CP21/6 - Confirmation of Payee - Phase 2 Call for Views*

Which? welcomes the progress made so far in the roll-out of Confirmation of Payee by the six banking groups mandated to introduce it by the PSR and some other firms - but most firms have still not introduced it

Which? welcomes the PSR's call for views on Phase 2 of Confirmation of Payee. Which? has long called for the widespread adoption of Confirmation of Payee by banks and other payment service providers to help detect and prevent authorised push payment (APP) scams. No firms introduced the service until the PSR mandated the introduction of Confirmation of Payee by the six largest banking groups. The subsequent roll-out by these banking groups is a major breakthrough in the fight against fraudsters. A small number of firms have also opted to voluntarily introduce Confirmation of Payee. Yet the vast majority of the 400-plus firms using Faster Payments have not yet introduced Confirmation of Payee, and Which? has received very few commitments from these remaining firms that they even intend to introduce it.

The PSR's findings clearly show that the partial adoption of Confirmation of Payee by the payments industry is undermining the potential benefits

It is clear from the PSR's findings that the potential benefits of Confirmation of Payee are being undermined by the lack of coverage by providers. Fraudsters are exploiting this lack of coverage by shifting to harnessing accounts with firms that do not offer Confirmation of Payee in order to facilitate fraud. The PSR had argued prior to its Specific Direction that any such movement would be limited and would not materially undermine the benefits of the Specific Direction. However, the data it has since presented show this has not proven to be the case. There has been a clear reduction in the relevant types of APP scams sent to firms using Confirmation of Payee, while APP scams sent to firms not participating in the service have increased. The PSR had also previously argued that if the movement of fraud had been material, it would have strengthened the incentive for smaller firms to introduce Confirmation of Payee as soon as they can. We do not believe there has been any evidence of this incentive driving take-up. It is now time for the PSR to respond to the actual evidence since Confirmation of Payee has been introduced by some firms and change its approach.

The PSR should now force all firms using Faster Payments and CHAPS to introduce Confirmation of Payee

The evidence is overwhelmingly clear, from both the Contingent Reimbursement Model Code and Confirmation of Payee, that neither voluntary initiatives nor competition can be relied upon to provide the minimum, industry-wide levels of protection that are required in payments. Mandatory standards of consumer protection are needed across the industry to provide fairer and more consistent outcomes. This needs to be underpinned by robust regulation supervision and enforcement to hold firms to these standards.

All firms that offer Faster Payments and CHAPs to their customers benefit from the credibility that these payment schemes offer their businesses. Given the significant benefits that implementing Confirmation of Payee can potentially bring if fully adopted across the industry and the slow take-up of the service by firms voluntarily, it should form part of the minimum standards for all firms offering these payment services. We believe that this is consistent with the PSR's aim in its proposed five-year strategy to adequately protect users' interests when using payment services so that they can use systems and services with confidence. Requiring all firms to introduce an anti-fraud measure as important as Confirmation of Payee is a reasonable and proportionate policy response given the scale of APP scams and the losses that continue to be borne by consumers.

The PSR should direct all payment service providers to introduce Confirmation of Payee as soon as is practically possible. Where firms provide strong evidence to demonstrate that they need more time than others, the PSR should set out a series of deadlines. Since this will require all payment service providers to conform to Phase 2 of Pay.UK's programme, it is important that the major six banking groups migrate to this new system as soon as possible. As the PSR has argued, mandating the six major banking groups to migrate to the new system by the end of 2021 will avoid delaying any other firms from introducing Confirmation of Payee.

The PSR should ensure firms test their customer warnings and take appropriate preventative measures themselves

Which? agrees with the PSR that fraudsters are using increasingly sophisticated techniques to manipulate victims into ignoring negative matches from Confirmation of Payee, and any associated warnings. We have always viewed Confirmation of Payee as an additional tool built into the payments journey for consumers which can help consumers and firms to identify potential fraud, but we have never seen it as a silver bullet in the fight against fraud. The PSR's findings highlight how important it is for firms to test and evolve their warnings, and to consider further ways to engage with customers who have received a negative match, such as a phone call to a customer and/or delays to payments.

The evidence of manipulation by fraudsters also underlines the limitations of relying solely on consumer warnings to prevent fraud. The presence of a negative match is not just a potential flag for fraud for customers, it is also a potential flag for the sending firm. Firms need to be acting on these, in both their engagement with their customer and in their detection of other signs of fraud.

This underlines the importance of the PSR's separate proposal to require payment service providers to adopt a standardised approach to risk-rating transactions and to share these risk scores with other payment service providers involved in the transaction. A negative Confirmation of Payee match should form a crucial part of any such risk-ratings. Since a standardised approach to risk-rating transactions has not developed on its own, the PSR should intervene to establish such standards, and to ensure that these are adopted across the industry.

About Which?

Which? is the UK's consumer champion. As an organisation we're not for profit - a powerful force for good, here to make life simpler, fairer and safer for everyone. We're the independent consumer voice that provides impartial advice, investigates, holds businesses to account and works with policymakers to make change happen. We fund our work mainly through member subscriptions, we're not influenced by third parties and we buy all the products that we test.

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