

Confirmation of Payee Implementation and initial learnings



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Launching in early 2020, the first phase of Confirmation of Payee (CoP) was introduced as a vital tool to give people and businesses confidence that they are paying who they intended to pay and that their payments are not being accidentally or deliberately misdirected.

Lloyds Banking Group became the first bank to go live in March 2020 with five other mandated payment services providers (PSPs) launching CoP services by the revised June 2020 deadline set by the Payment Systems Regulator (PSR). Collectively, as noted by the PSR, these six PSPs process around 90% of the UK's domestic payments. Since implementation, Lloyds Banking Group sends and receives around 30 million CoP checks per quarter, providing additional reassurance to a great many consumers in the UK.

The first phase of CoP delivered the core requirements to ensure most payments would be covered by the service. By this, we mean payments sent to accounts where just the sort code and account number was needed to make the payment.

Implementation of CoP in the UK required unprecedented levels of collaboration between banking groups to ensure the correct data could be transmitted between accounts to provide accurate confirmation to customers. With all PSPs implementing their own CoP solutions individually, applying the guidelines and

blueprints, the industry has developed a deeper understanding of the execution of such a large industry initiative. In this paper we look back to the implementation of phase one and how the industry coped with significant mandated change. Importantly, we ask what the industry learned from the execution of phase one, and how can it apply these learnings to future payments change initiatives.

The regulatory position

CoP as a concept had been discussed within the UK payments industry, and supported by consumer groups, for some time. The industry retail payment scheme body Pay.UK was working on a design for such a service when the PSR first consulted in late 2018 on making the service mandatory for the six largest UK banking groups by payments volumes. The PSR's decision in 2019 to mandate the implementation of Confirmation of Payee for Lloyds Banking Group and five others can be seen to have accelerated the industry plan for implementing CoP.



Confirmation of Payee

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1st to go live

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The PSR issued a direction requiring the following.

- From 31st Dec 2019, the six largest banks must have the capability to respond to Confirmation of Payee requests.
- From 30th June 2020 (initially 30th Mar 2020), the six largest banks must have the capability to send Confirmation of Payee requests.

The PSR's main rationale for mandating CoP was that it would be a key tool to protect customers from authorised push payment fraud – where someone is tricked into sending money to an account controlled by a fraudster. It was also noted that CoP would reduce instances of customer keying errors, where customers accidentally send payments to the wrong accounts. These are known as misdirected payments or payments in error.

The industry largely agreed that providing customers with a CoP service was the right thing to do, with Lloyds Banking Group being a strong supporter. It was recognised that CoP should reduce misdirected payments plus some types of APP fraud, such as invoice and other impersonation scams where a fraudster is pretending to be somebody they are not.

However, it was clear that CoP was not going to be the “silver bullet” in stopping APP fraud in its tracks. Reasons for this included that CoP would not help reduce purchase scams (where a customer is tricked into sending money for goods or services that are not provided) nor romance scams (where a customer is tricked into thinking they are in a relationship with somebody they have met online). Additionally, the industry was concerned that fraudsters would adapt their methods to get around the CoP check by way of social engineering techniques or would simply move on to carrying out other types of fraud.

The Customer perspective

The way UK consumers make payments to new recipients has undergone a fundamental change since CoP was implemented. Previously, customers setting up a new payee online could use almost any name they liked to describe the account they intended to send a payment to; “mum”, “plumber”, “next door neighbour”, as there was no checking function. Now, customers are steered towards using the full name of their payee so that the CoP check can be carried out.

Before the CoP service was launched, some customers had thought that banks already checked that the account details matched the name of the account holder. In some cases, customers would send small test payments to check that the money arrived in the correct account, before sending a larger payment. In this case, the lack of confirmation that the recipient's name matched their sort code and account number was in effect leading to additional payments being made, not only leading to unnecessary traffic through payments rails, but also causing friction in customer journeys. More generally, not being able to verify the account details between entering the digits and pressing send is likely to have caused a degree of concern for many customers looking to make a payment to a recipient for the first time.

CoP was subsequently designed as an API-based solution, alerting customers who are either amending or setting up a new payee if the recipient's name doesn't match their bank details.

Phase 1 Implementation

To facilitate delivery of the CoP service, Pay.UK formulated the CoP service rules, standards and operational guidance for new participants and chaired the industry work group meetings. Implementation of such a broad service across all the different



Reduction in errors

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banks required central co-ordination, with a framework and directives provided to all participants to alleviate the risk of a difference in standards and implementation across PSPs.

Lloyds Banking Group was the first PSP to implement CoP, delivering a phased rollout across Lloyds Banking Group channels and brands. The iterative approach was to mitigate any negative customer impact, allow for tweaks and modifications and provide confidence that the service was running as expected. Bank of Scotland was the first in Lloyds Banking Group to go live, sending its first CoP request on 18th February 2020, with Halifax and Lloyds live in line with the 31st March PSR deadline.

Post-implementation

With Lloyds Banking Group now delivering circa 500 thousand CoP responses to customers per day, Lloyds Banking Group is a major user of the industry's CoP infrastructure. Lloyds Banking Group monitors responses from checking new payees and we are learning from the data generated to refine our matching approach and the messages we show to our customers.

Our data shows that there has been a reduction in outbound payments in error rates by as much as 90% in the types of instances where CoP can prevent the mistake. This reduction is greatly welcomed and, whilst banks have long had a duty to help customers recover accidentally misdirected funds, it is much better for customers if these errors are prevented from happening in the first place.

The impact of CoP on reducing APP fraud is more complex. Overall, since CoP was implemented, Lloyds Banking Group has seen an increase in APP fraud. We know that fraudsters adapt their methods in the face of new obstacles, which now includes talking customers around a CoP check.

Additionally, we believe the coronavirus pandemic from March 2020 is likely to have given rise to conditions that made some customers more susceptible to fraud. For example, being at home more to answer phone calls and having less interaction with family, friends and colleagues to discuss any concerns or suspicions.

However, encouragingly we have seen some reductions in APP fraud in instances where the receiving PSP is also participating in the CoP service, which suggests CoP might be having a positive impact in these situations. We are keen that as many other UK PSPs join CoP as possible, which should help plug some of the current gaps that fraudsters are able to exploit.

Additionally, CoP may be adding benefit in terms of “near misses”; where a customer doesn't proceed with a scam payment because the CoP result makes them suspicious. It is not straightforward to identify and quantify such instances as customers don't routinely report these to their PSP, but we believe this to be a plausible theory.

Considering customer satisfaction, we are pleased to report that Lloyds Banking Group complaint volumes in relation the CoP service are very low – under 30 complaints were received by us in 2020, and under 10 in the first half of 2021. Whilst there has not been a significant uplift in our customer Net Promoter Scores because of CoP, we believe that it is having the right impact – it is reducing the uncertainty around whether a payment has gone to the right recipient, and in the process is making our customers' lives that bit easier on a day-to-day basis.

Phase 2

To increase the reach of CoP, there are two factors that are being addressed in Phase 2: making it simpler for additional PSPs to

1 <https://www.psr.org.uk/publications/consultations/cp21-6-confirmation-of-payee-phase-2-call-for-views/>



Further innovation

Making participation in CoP more straightforward has the potential to generate further innovation in the FinTech market, as PSPs may look to purchase off-the-shelf CoP solutions from other providers.

join the service and looking to extend CoP to customer account types that require secondary reference data to be checked. The Payment Systems Regulator has consulted on aspects relating to the costs, benefits and implementation of Phase 2¹.

Wider industry uptake

Within the CoP Phase 1 environment, participants must appear on the full Open Banking register to utilise the APIs required for CoP, regardless of whether their banking licence is provided through another bank, or even if their CoP service is provided by a Software-as-a-Service (SaaS) provider. The industry has identified that this process needs to be improved to make it easier and quicker for new PSPs to join, and this is being taken forward in the second phase of CoP. Lloyds Banking Group and the other five PSPs mandated to deliver CoP Phase 1 in 2020 have committed to implementing a new solution by end-2021, whereby new participants can join a CoP-only version of the Open Banking register. Pay.UK has developed an automated dynamic registration service for onboarding and self-attestation, decreasing the reliance on PSPs that already appear on the register. Providing a simplified onboarding service will reduce barriers to accessing CoP APIs, ensuring a wider array of PSPs are able to deliver CoP benefits to their customers.

Making participation in CoP more straightforward has the potential to generate further innovation in the FinTech market, as PSPs may look to purchase off-the-shelf CoP solutions from other providers. Bottomline, for example, has produced a cloud-based Confirmation of Payee service for use in the UK market.²

As it becomes easier for additional PSPs to join CoP, Lloyds Banking Group is keen that as many do so as possible to further increase customer peace of mind, close some of the gaps in relation to APP fraud and enhance the positive network effect.

Secondary reference data

The industry is also considering how to incorporate accounts within CoP that require the checking of secondary reference data in addition to an account number and sort code. Account types include building society roll number accounts, credit cards and mortgage accounts. The industry has identified that the fraud risk in relation to many such accounts is very low, as most don't offer the functionality of onward transmission of funds. In the light of these factors, the industry is looking to take a targeted approach with the goal of achieving the right balance of customer protection and peace of mind against the significant implementation costs involved.

Learnings from Phase 1

The mandating of an industry-wide initiative with relatively low involvement in the specifics from industry bodies and regulators was a relatively new approach in the financial services landscape. In the past, banks have either had to collaborate to design and implement services with very prescriptive outputs and targets for participants, or services have been delivered by individual banks as standalone propositions.

In the initial stages of the Confirmation of Payee journey, collaboration and communication between participants was limited, leading to differences in approach against the guidelines provided by Pay.UK. Collaboration between participants by the end of the journey to implementation, however, has demonstrated a significant shift in approach to deliver a customer-focused industry-wide solution. This collaboration between banks will allow for a more streamlined implementation of Phase 2, with closer aligned customer protection measures across a wider range of PSPs. We also expect further industry consideration of whether there is a need to align CoP check outcomes more closely across PSPs for the benefit of customers,

² <https://www.finextra.com/pressarticle/83918/bottomline-launches-saas-based-confirmation-of-payee-service>

whilst still retaining each provider's own risk appetite, brand and tone of voice.

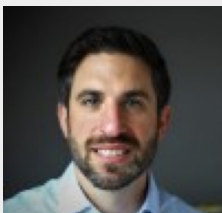
Another factor in the streamlined implementation of Phase 2 of Confirmation of Payee is ensuring that the most impactful systems and products are targeted for updating, which ensures the most efficient use of Lloyds Banking Group's resources in improving services for our customers. Incumbent banks tend to have more complex architecture due to decades of mergers and acquisitions. Because of this, Lloyds Banking Group adapted more than twenty systems to handle the requirements of Phase 1 of CoP, which was a major undertaking, with limited customer benefits in some cases.

Future possibilities

With PSPs collaborating to deliver the shared CoP service to UK customers, participants stand to benefit from learnings and discoveries in relation to customer usage over time, which can be used to iterate and improve the service as well as support the development of new services.

The data and insights derived from customer usage of CoP, including response rates, match rates and first-time success rates from customers, will enable PSPs to refine the CoP service to further improve its effectiveness. At industry level, we anticipate the data being used appropriately to develop fraud prevention tools. We could additionally see usage of CoP to support payments reconciliation activities for corporate customers that receive significant volumes of payments from their own customer bases.

Looking further, the possibilities of a CoP tool become more speculative. Alternative peer-to-peer payment platforms such as PayPal are becoming widely accepted, utilising proxies over the traditional sort codes and account numbers for routing payments. With further developments in the UK's payments rails still in the design stages, we may start to see aliases becoming more common, meaning customers have the chance to send payments to accounts linked to email addresses, usernames or even social media handles. Any such approach must provide the appropriate degree of security for customers.



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The implementation of Confirmation of Payee represented a big leap forward in the transparency of customer payments. Helping keep our customers' money safe is our priority as falling victim of fraud can have devastating effects, not just on people's finances but also their lives. This extra layer of protection gives customers added peace of mind when making payments.

I am extremely proud that during a pandemic when our customers have enough to worry about, we still managed to successfully and safely implement CoP across 18 channels, to more than 10 million Lloyds Banking Group customers, all within the regulatory timelines and with minimal customer friction.

I believe we owe the implementation success to our extensive customer testing and journey refinement, phased implementation approach and proactive industry wide collaboration in terms of design, output and data sharing to ensure a seamless customer journey with added security.





Improved transparency

With definitive confirmation that the name on the payee's account matches the sort code and account number, there is new transparency and clarity in the payments customer journey.

Beyond CoP, the learnings from developing and implementing the CoP service can be deployed in the development of the New Payments Architecture (NPA). Led by Pay.UK, the NPA is the industry's major programme to renew the UK's domestic payments rails. We expect the industry to come together to design and implement enhanced account to account customer protections within the NPA, which is a key priority for the industry, government and regulators. We expect the learnings from CoP to be particularly helpful here, given that CoP functions as a type of customer protection.

Conclusion

Confirmation of Payee has undoubtedly provided customers with much needed peace of mind when they are sending funds to a new payee. With definitive confirmation that the name on the payee's account matches the sort code and account number, there is new transparency and clarity in the payments customer journey.

We are seeing some welcome reductions in some types of payments made in error. Whilst CoP has not proved to be a definitive answer to APP fraud, the data and learnings generated by the service

over time will be combined with other data points to help improve how PSPs identify and respond to fraud. Additionally, some of the gaps we see today can be plugged by more PSPs joining CoP, which Lloyds Banking Group strongly supports.

To increase CoP participation, additional capabilities are being added in Phase 2. Easier access to the Open Banking register for specific CoP purposes will enable more PSPs to join, and the addition of secondary reference data where there is a compelling case for doing so will increase coverage across relevant account types.

More broadly, the nature of the CoP service as an industry initiative facilitated by APIs has set a precedent for how payments tools are developed and implemented. We can expect a wider range of off the shelf services to come to market that utilise APIs, which helps increase competition and innovation for the benefit of customers.

As we look to the future, we expect the industry learnings from CoP to inform other key initiatives that deliver improved services and outcomes for customers. We hope that in ten years from now, CoP will be regarded as having set a precedent for developing range of payments tools that have enhanced UK payment systems for the benefit of end-users.



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