

Supplement to written evidence for the Treasury Select Committee Inquiry into the Payment Systems Regulator regarding the proposed “Confirmation of Payee” service and Authorised Push Payments Fraud

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Introduction

Supplement

This is a supplement to the written evidence we submitted with date 17th September 2018.

What is Lyddon Consulting?

A specialist consultancy in payments and electronic banking. We have recently acted as advisor regarding the UK payments landscape to a trade body representing UK Payment Institutions and to a major payments communications cooperative reviewing their UK market positioning.

Why this evidence is being submitted:

Since we made our submission on 17th September, there have been three developments.

This supplement addresses them and concludes:

- If the Payment Systems Regulator takes any action at all before the end of 2018, it will be to consult about taking real action in 2019;
- The timescale for implementation of that action is so short that the solution will be superficial;
- The implementation will fall on the same applications that are being adapted to comply with 2017 Payment Services Regulations by September 2019.

We believe that the TSC should be aware of what is now being proposed before the PSR presents it as a solution to APP Fraud.

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What has happened since 17th September

Firstly, on 25th September, the PSR reacted to the adverse data issued by UK Finance and covering the first half of 2018 by once again highlighting how much “work” it was undertaking in this area: <https://www.psr.org.uk/psr-publications/news-announcements/PSR-responds-to-UK-Finance-fraud-data-H1-2018>

Secondly, on 28th September, the PSR issued a statement welcoming the publication by the Authorised Push Payment (APP) Scams Steering Group - established by the PSR earlier in 2018 – of its consultation on its industry code for the reimbursement of victims of authorised push payment scams. The PSR also announced its own next steps:

<https://www.psr.org.uk/psr-publications/news-announcements/PSR-welcomes-industry-code-to-protect-against-app-scams>

Thirdly, also on 28th September, New Payment System Operator issued a statement echoing what the PSR had said and signposting Confirmation of Payee and the consultation on the industry code: <https://www.newpso.uk/npsso-responds-to-authorised-push-payment-fraud-announcement-by-psr/>

Two areas of interest arise from these statements:

1. Timing of the industry code for the reimbursement of victims of authorised push payment scams;
2. The PSR’s own next steps regarding Confirmation of Payee.

Timing of the industry code for the reimbursement of victims of authorised push payment scams

The APP Scams Steering Group has published its consultation, not its results. Normally the verb used at this stage is to “issue” a consultation, whereas the verb “publish” is normally reserved for the end of the consultation. The PSR selects its words to infer that the process is further forward than it is, as in its statement at the end of the second paragraph: “Since 2016, the PSR has been driving forward its plans to make sure consumers are better protected against this type of fraud.”

The Steering Group is “seeking feedback on the industry code by 15 November 2018”, and then it will “consider the consultation responses when making any final adjustments to the code”. The PSR “expects the steering group to continue to work hard to resolve these issues to deliver a final code in early 2019”, which is meant then to be “ready for implementation”. The actual timeline for implementation is not disclosed.

The PSR’s own next steps regarding Confirmation of Payee

“In a further move announced today, the PSR has confirmed it plans to consult by December 2018 on using its regulatory powers to give a General Direction to banks and payment service providers to implement confirmation of payee - an important tool for preventing APP scams.

The proposed direction would require banks and payment service providers that are participants in the Faster Payments System to:

- Be capable of receiving and responding to confirmation of payee requests from other PSPs by 1 April 2019
- Send confirmation of payee requests and present responses to their customers by 1 July 2019”

The statement confirms that CoP is not live now, and will not be before the end of 2018.

In line with the undertaking made by the PSR to the TSC in January 2018, the PSR will now take action.

That action is to “consult by December 2018” on issuing a General Direction to implement CoP by 1st July 2019: the date of 1st April 2019 is meaningless, as it requires the “send CoP requests and present responses” functions for there to be a service for users to use.

As stated in our main submission, CoP is valueless unless all of the UK’s +/-1,600 Payment Service Providers are live on CoP and for both receive/respond and request/present, and for all accounts that can be debited with a Faster Payment (which will not just be “payment accounts” as defined in the 2017 Payment Services Regulations).

The scope of CoP to be implemented by then is very limited: it will offer the function to the payer only at the time they set up a template in an eBanking channel for a payment to that payee.

It will not necessarily do this automatically but only if the payer requests it.

There will be no further automatic check when the first payment is made, and there will be no possibility of making a check at all when subsequent payments are made.

This limitation allows the CoP functions to be carried out separately from the processing of the first and subsequent payments:

- Without the CoP messages having to pass through the Faster Payments scheme infrastructure at Vocalink;
- Without necessitating changes to the Faster Payments scheme infrastructure itself;
- Without necessitating changes to the infrastructure at each PSP for processing Faster Payments.

It will be a shortcut, and can only be a quick-and-dirty one if the timing of 1st July 2019 is to be achieved. Such shortcuts have a habit of being ineffective in solving the problem they are aimed at.

We retain our scepticism as to whether it is even practical to specify, develop, implement, test and convert any such scheme involving 1,600+ PSPs and numerous eBanking channels by 1st July 2019 from where CoP stands now, for the reasons laid out in our main submission.

We would add an issue of competing priorities within PSPs. Even within the limited scope proposed for CoP and even if the PSPs’ infrastructure for processing Faster Payments does not need adaptation, PSPs’ eBanking channels will do, in order to bring the CoP service to users. These are the same applications which PSPs are having to adapt to comply with the European Banking Authority Regulatory Technical Guidelines for Strong Customer Authentication and common and secure communication, by September 2019 and in order to comply with 2017 Payment Services Regulations. This is a major piece of work and being conducted in haste. Adding more work on top, and in haste, is a recipe for service outages.

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