Europe-Wide Confirmation of Payee

June 2023

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INTRODUCTION

Background

I was recently in Dublin for an event hosted by CubeMatch Ireland to discuss matters Confirmation of Payee (CoP). I thought it would be useful to summarise the key themes and issues that were discussed for Banks across the EEA as they work towards the mandatory implementation of SEPAInst real-time payments.

I will draw on my experience within the UK of how CoP has evolved over the past few years.

Real-time/Instant Payments & CoP

The two issues go hand-in-hand, you can't have one without the other unless the regulators are willing to allow Authorised Push Payment (APP) Fraud volumes and values to go through the roof, which will be surely followed by consumer discontent on a major scale. The UK is an evolving example of the need for CoP. SurePay have worked with Banks in the Netherlands to provide a successful protective scenario that has reduced APP fraud to minimal proportions.

Inclusion

As has been seen in the UK, the Payment Systems Regulator (PSR) initially mandated that the main clearing banks collaborate to bring Confirmation of Payee to market (a number of FinTechs decided, of their own volition, to also implement CoP). Whilst this covered some 95%+ of the payment accounts in the UK, there was the remaining 5% of accounts which were hosted by Banks that did not implement CoP as they had not been regulated/mandated so to do. We all know the pressures that come from Senior Management with regard to projects of this nature – it isn't budgeted for unless there is a need to comply.

This 5% of accounts were hosted at Banks such as Metro Bank. Very quickly the criminal fraternity clocked onto this fact and therefore started to use Metro Bank for hosting mule accounts as well as scam perpetration on Metro Bank accounts as they were not doing CoP checks.

Thankfully the PSR has now mandated that all Banks in the UK which host payment accounts (as defined by PSD2) must implement CoP.

It is therefore vital that as the EU pushes for the inclusion of CoP across banks in Europe, there is the clear mandate that in the same way that all Banks in the EEA must provide SEPAInst, so too all Banks must implement CoP.

Reimbursement Model

The Customers impacted by APP fraud in the UK now have a defined Reimbursement Model (updated last week by the PSR for implementation next year). Basically, both sending and receiving banks in an APP fraud scenario will be equally liable. I have some sympathy for the sending banks as they are taking the hit for the scammers. I fail to have any sympathy for the receiving banks that are hosting a mule account. My thoughts on Mule Accounts and the handling of these is something for another day.

My main issue is the limitations of the regulation 'estate' that the PSR managed (i.e.: only the Financial sector). Other regulators manage the likes of Telecoms and I confess to being uncertain as to who, if any, regulate Social Media companies.

A recent survey found that some 40% of adverts on Facebook were scams yet the PSR is not legally allowed to bring these types of companies into the Reimbursement debate.

I see Europe and the EU as a totally different matter. We have already observed the pressure that the EU leveraged against Apple and the expectation is that the European version of the iPhone due to be launched in September will have a USB C charging capability.

The EU therefore is very capable of drawing the likes of FaceBook, AirBnB and associated Social Media companies into the Reimbursement mix to push these sites to up their KYC processes so they undertake due diligence to stop the fraudsters. In my mind, only when these companies become liable will they get their house in order.

The Financial community across the EEA needs to lobby the EU in very strong terms for them to include the Social Media companies in the Reimbursement model.

Connectivity

As a consequence of PSD2, there are now multiple connectivity options to allow Open Banking API's to access accounts across multiple connection channels and geographies.

In the UK, we leveraged the Open Banking infrastructure to provide the connectivity framework for account location (i.e. account holding bank) within CoP. There is no reason why the similar Open Banking framework in Europe cannot be equally leveraged to support CoP.

FinCrime and KYC

CoP checking is not, in my opinion, something that can take place in a vacuum. Once CoP is implemented and functioning, Customer profiles need to be considered as to their expected use of CoP. Therefore, for most retail customers (that are salaried etc), there would be an expectation of, say, maximum 5 CoP checks incoming per annum. Differing types of retail customers may have differing expectations. The volume across Small and Medium Enterprises (SME's) and Multi-National Corporations (MNC's) will vary depending on business but should be appraised as part of the ongoing KYC processes that all Banks should be undertaking. Again, setting parameters around the inbound and outbound expectations provides some capability to trigger alarms where incoming volumes exceed thresholds which should enable investigation and potential identification of undue activity. For outbound issuances, is the Bank hosting a Mule account? Will the Bank become liable in the event of fraud under the compensation model?

Obviously, as the CoP solution is embedded, more accurate analytics can be undertaken to allow the specific expectations and tolerances to be refined for all customers.

The knock-on effect of this is that KYC can be enhanced as there will be a better understanding of client business practices and potential upturn or downturn in corporate business.

The Future Developments

As the saying goes, “Rome wasn’t built in a day”, in the same way, CoP in a basic form will take time to implement across the wide number of instructions across the EEA.

Once the framework of CoP is in place, then the enhancements to the functionality can be developed.

Corporate Integration

Whilst the Bank-to-Bank elements of the CoP send/receive API calls are well defined, documented and (in the UK and the Netherlands) implemented, the missing link that is currently creating complexity, when it shouldn’t, is the Corporate linkage API between the Corporate (and their payment systems) and their Bank.

Any such API needs to be ubiquitous purely to allow a corporate user to change bank without having to replace a host of functionality.
There are a number of use cases around integrating CoP into corporate systems such as Direct Debit account validation, invoice settlement bank details confirmation (i.e. accounts payable).

An enhancement could allow Corporates to provide a validation capability using CoP to their payees to ensure correct referencing etc. (a very futuristic idea, but one to contemplate).

Enhancing the API's

The nature of the current API is very simplistic in the request and response. Again, once the banks are using CoP, there is the opportunity to increase the data exchange request and response to facilitate the following:

- *Age of account (useful for the payer to know when deciding to make a payment in uncertain circumstances);*
- *Number of CoP validations encountered over past week/month/year (is this typical for the type of payee being paid?).*

Then specific attributes could be included for varying scam areas:

- *Romance scams*
- *Investment scams*
- *Invoice scams*
- *Impersonation scams*

For each of these scam types, further analysis will be required to understand what attributes could be provided in the query and response to allow a more informed judgement by the payer. AI could also be used to analyse response factors as well as other forms of interfacing to the likes of Telecoms companies to understand current call times and suspicious activity.

Conclusion

The EEA under the auspices of the EU is at the beginning of a journey with CoP. There are lessons to be learned from existing implementations. This is a major capability to protect our customers therefore let's bring forth the best solutions as they will provide protection for our shareholders as well.

About the author

BOB FORD

Bob is a Payments Expert having worked with a number of banks, consultancy firms, software houses and National Payment Schemes during a distinguished career spanning almost 50 years.

Throughout his career, Bob has undertaken a number of payments related roles utilising his extensive knowledge of payments to design new applications to meet specific payments related needs. Bob regularly writes blog posts around payment issues, alongside moderating and speaking at various webinar events.

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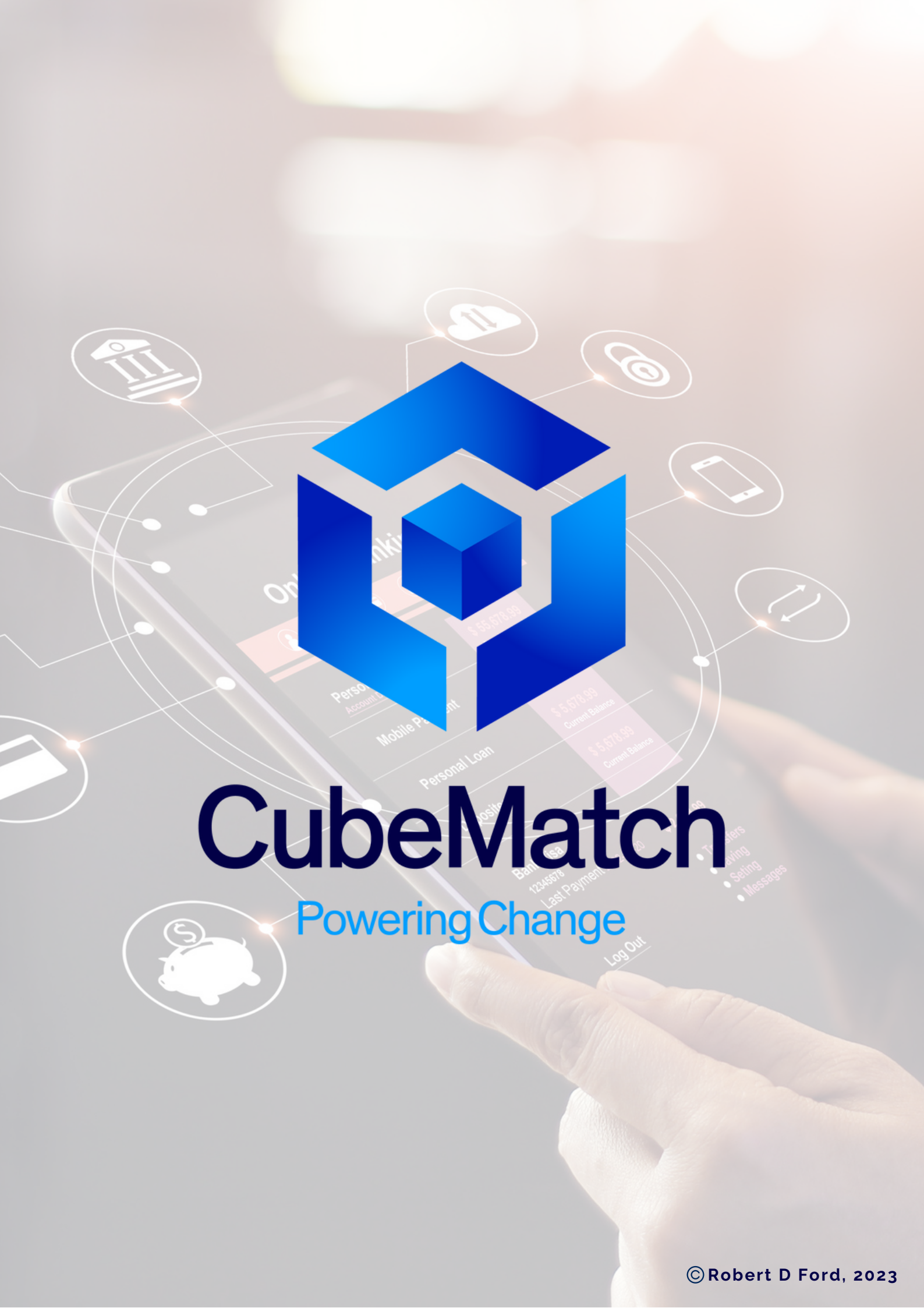

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