Pay.UK

Faster Payments Rule Change Request

1. BASIC INFORMATION ON THE CHANGE REQUESTED			
Project name/ requirement	**Project**: Authorised Push Payments Contingent Reimbursement Model (**APP CRM**). **Activity**: Introduction of a mandatory volume-based fee (the **CRM Fee**) to deliver a sustainable funding mechanism supporting a fund that guarantees reimbursement for no-blame victims of Authorised Push Payment (**APP**) fraud. **Requirement:** Agreement to an additional Volume Fee on specific Faster Payment types to be paid by FPS Direct participants, Directly Connected Non-Settling participants (DCNSP) and Direct Agency (DA) and the adoption of this new fee into the Faster Payments Scheme (FPS) Rules.		
Functional Requirement	We are requesting a rule change to enable a volume-based fee per FPS transaction, subject to certain exemptions, on defined FPS payment types. The CRM Fee will fund, on a sustainable basis, the reimbursement of all customers who fall within the category of 'no blame' as per the assessments outlined within the Contingent Reimbursement Model Code (the **Code**). All the processes and refund models that underpin the Code are based on the CRM Fee becoming a mandatory and certain source of funding. We are requesting that the change to FPS Rulebook is implemented to by 1 January 2020.		
Request placed by	UK Finance on behalf of various Direct FPS Participants	**Contact details**	UK Finance

Description of requested change	Extensive discussions have been undertaken with payment service providers (**PSPs**) and their representatives about the Code and funding, by way of a mandatory FPS volume fee, of a 'no blame' fund. PSPs who have signed up to the Code can claim reimbursement from the 'no blame' fund of payments made by customers who have been the victim of an APP fraud in circumstances where both the victim and the sending and receiving PSPs have met the minimum standards of care defined under the Code.
	
	The requested change is by way of the introduction of a new section to the FPS Rulebook governing payment by Direct FPS Participants of the volume-based fee, subject to the exceptions discussed below. Until the operational mechanics of the fee, and the fund which will administer payments, are finalised it is not possible to be definitive as to the detail of the rule change requested. It is anticipated that the new section of the FPS Rulebook will include the following clauses:
	
	• Introduction:
	    ▪ Purpose of fee
	    ▪ Role of FPS
	• Application		

- Participants obliged to pay fee
  - Exemptions
- Basis of fee: transactions within scope of fee
  - Exclusions
- Obligation to pay fee
  - Establishment of quantum of fee
  - Timing of payment
  - Changes to payment amounts
- Default
  - Consequences of payment default
- Powers and responsibilities of FPS
  - Acknowledgement of the limited role and responsibilities of FPS as collector of the fee
  - Exclusion of liability on the part of FPS

Limited consequential changes will also be needed to the FPS Rulebook as a result of the introduction of the new section (new defined terms; changes to cross-references; changes to clause 15.2 of the FPS Rulebook to permit disclosure of information to the operator of the fund and the Lending Standards Board (the **LSB**)).

In order to address specific issues raised where a mandatory fee might be considered unfair, an impediment to competition or otherwise compromise the attractiveness of FPS as a payment channel, we propose the following list of cumulative exemptions (see also under Other Impacts). The following payment types fall outside of the scope of the CRM Fee:

	Proposed exceptions	Rationale
	Exemption #1 – Payments Originating Overseas and Returns (**POO transactions**)	This is the simplest and lowest cost way to operate the charge. POO transactions are exempt as the Code only covers transactions between GBP-denominated UK domiciled accounts. So PSPs whose customers are victims of fraud over POO transactions will not be able to claim from the 'no blame' fund. Therefore, these transactions are exempt from the CRM Fee. Returns are exempt from CRM Fee as they carry no risk of APP fraud.
	Exemption #2 - De minimis threshold All Direct Participants, DCNSP and DA will receive their first 100,000 Faster Payments per annum free of funding the No Blame Pot. Each payment over this threshold will be charged the full flat rate levy unless they are subject to	This exemption is to ensure that the CRM Fee does not act as a barrier to entry for smaller PSPs as an unexpected incremental cost. There is a large jump in numbers from the smallest Direct FPS participants who process fewer than 100,000 FPS

	another exemption.	transactions per annum and the mid or large participants who process significantly more than 100,000 transactions per annum. This removes a barrier to entry for the smaller PSPs.
	Exemption #3 – No current accounts Exclusion of Direct Participants, DCNSP and DA with no current or payment account offerings. The Direct Participant, DCNSP or DA does not allow customers to make Faster Payments from a payment account.	Certain Direct FPS Participants make payments to known persons or businesses as part of their commercial proposition, rather than a payment service. Examples of this model are Direct FPS Participants who use FPS to pay known merchant acquirers only and/or PSPs that do not offer current accounts. These transactions are far less likely to be victims of APP fraud and therefore are exempt from the CRM Fee.
	Exemption #4 – Pre-set accounts Direct Participants, DCNSP and DA whose customers can only pay to pre-set up accounts and this is the only product offering.	These are primarily used for saving accounts and these transactions carry low risk of APP fraud, therefore they are exempt from the fee.
	Exemption #5 - Low level value of transactions All transactions below £30 are exempt.	£30 is also in line with industry standard limits for contactless payments. To align with exemptions under the Regulatory Technical Standards on PSD2 for rules on low value remote electronic payment transactions. Payments of this size are rarely exploited by fraudsters. This is based on the following data, compiled by UK Finance and published on our website in 'Fraud The Facts 2019': 1) The average amount APP fraud in 2018 was £4,186. 2) The average purchase scam (which is the smallest value APP scams by a considerable margin) was £881. 3) Discussions with several industry operational working groups have confirmed that frauds of less than £30 are rarely seen.

<table>
<tr><td>Date of raising the request</td><td colspan="2">07/06/2019</td><td>Requested deadline for dealing with the change request</td><td>12/6/2019</td></tr>
<tr><td>Priority</td><td>Low</td><td>Medium</td><td>High</td><td>Essential</td></tr>
<tr><td>Justification for change</td><td colspan="4">The CRM Fee is of critical importance to the setting up of the new No Blame Fund which will promote good and consistent customer outcomes for ‘no blame’ victims of APP fraud, support the functioning of the Code and thereby benefit the payments industry whose customers may become victims of APP fraud.

If the CRM fee was put in place, all customers would be able to access the no blame fund via their PSP – regardless of whether or not their PSP was a signatory to the voluntary APP CRM Code.

A long-term goal is to involve the wider fraud ecosystem in the funding of APP fraud reimbursements. This may include data breach fines, proceeds of crime, and contributions by industries whose networks are exploited by fraudsters resulting in scams. A No Blame Fund provides a clear place for these funds to be directed.</td></tr>
<tr><td></td><td colspan="4">A commitment to interim ‘seed’ funding from the first 7 PSPs enabled the Code to launch on 28 May 2019 and is subject to the seed funders determining that they have sufficient confidence that the requested FPS rule change and attendant collection / disbursement mechanisms will be in place by 1 January 2020. The interim funding arrangements will terminate by 31 December 2019. All processes and refunding models are based on the CRM Fee being a mandatory requirement of Direct FPS Participants. This rule change will enable funding and continued existence of the ‘no blame’ fund.

By extension, we are requesting that this request is implemented and made mandatory by 1 January 2020 and that all and any obstacles that might prevent this change from being actioned be identified and communicated by Pay.UK.</td></tr>
<tr><td rowspan="2">Annexes or references</td><td>Yes</td><td></td><td colspan="2">Name of the annexe or reference</td></tr>
<tr><td colspan="4">Annex 1 APP Scam Steering Group terms of reference
Annex 2 Decision Process and Evidence
Annex 3 Roles and Responsibilities
Annex 4 Stakeholder Engagement
Annex 5 Exemptions and their Justification
Annex 6 Governance of CRM Fee
Annex 7 Customer Journey</td></tr>
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<tr><td colspan="2">2. ANALYSIS OF THE CHANGE REQUEST</td></tr>
<tr><td>Change to Procedures</td><td>The FPS will be required to mandate the payment of a fee to support the Code.</td></tr>
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It is anticipated that the new section of the FPS Rulebook will be required. However, as noted above, we are not able to provide a draft of the rule change given that certain operational aspects of the CRM Fee are still to be finalised. Instead we have provided an overview of the key elements of the proposal below.

Where not stated, definitions used below are the same as the definitions used in the FPS rules.

A) General approach

In line with Direct FPS Participant monthly out going payment volumes, these participants will be required to pay the CRM Fee to fund the Code 'no blame' fund on all SIPs, SOPs and FDPs (sending only). Customers will be covered by the Code for APP fraud conducted over FPS, CHAPS and BACS. However, the occurrence of APP fraud on the latter two payment types is significantly lower.

B) Exemptions from the CRM Fee

The exemptions apply cumulatively. The following transactions and payment types will not be subject to the CRM Fee:

Exemption #1 – POOs and Returns

The following payment types fall out of scope for the calculation of the funding for the No Blame Pot: Payments Originating Overseas (POO) and Returns.

Exemption #2 - De minimis threshold - All Direct FPS Participants will receive their first 100,000 FPS transactions per annum free of the CRM Fee. Each transaction over this threshold will be charged the full CRM Fee unless the Direct FPS Participant is subject to another CRM Fee exemption.

Exemption #3 - No current accounts - Exclusion of Direct Participants with no current or payment account offerings. The Direct Participant does not allow customers to make Faster Payments from a payment account.

Exemption #4 - Pre-set accounts - Direct Participants whose customers can only pay to pre-set up accounts

Exemption #5 - Low level value of transactions - all transactions below £30 are exempt.

C) Impact on indirect participants

Direct Participants will be expected to pass on the exemptions if they decide to apply the CRM fee to their indirect participants as a best practice.

D) Level of the CRM Fee and governance arrangements

Initially, the CRM Fee will be set at £0.029044 per FPS transaction. This figure has been calculated after modelling undertaken by UK Finance and dialogue with industry participants.

	E) Role of Pay.UK Pay.UK's role will be limited to consulting on, and making a determination as to, the mandatory fee. We would also need your assistance in explaining the terms of the CRM Fee to Direct FPS Participants (and any indirect participants) as well as in the initial stages of any action for enforcement after non-payment of the CRM Fee. Such enforcement action would take place outside of the current enforcement processes within the FPS Rulebook. For the avoidance of doubt, Pay.UK will not be involved in the invoicing or collection of the fee. This will be undertaken by a fund administrator appointed by Direct FPS Participants. **F) Enforcement**
Impact on Budget	The operation of the proposed rule changes has minimal impact on FPS business-as usual processes. Collection / distribution of the CRM Fee will be undertaken by a fund administrator (see separate paper for full details of the overall operation of the requested fee). The fund administrator will require FPS volumes for fee calculation purposes annually. Ahead of the rule change, we would appreciate Pay.UK's support in respect of: (i) pre-consultation preparation; (ii) legal support for rule change; (iii) publication of the relevant consultation; (iv) post-consultation assessment of responses; (v) preparation for decision of the Pay.UK board of directors; and (vi) conclusion of change request approval process.

F) Enforcement table:

All PSPs	Code Signatory PSPs only
Escalation within the relevant PSP to CEO level by Pay.UK	Action by the LSB to expel the PSP from the Code. (if the PSP is a Code signatory)
Discussion at the at a forum of participants hosted by Pay.UK	External audit at the request of the LSB
Disclosure by Pay.UK that the relevant PSP has not participated in the mandatory fee	

Desired Timeline	Long term funding must be in place by 1 January 2020. The CRM Fee must be implemented and made mandatory by 1 January 2020.
Other impacts	**Pricing** The CRM Fee will be calculated based on the total no-blame claims in the preceding year minus preceding year surplus (or plus shortfall) divided by the number of eligible FPS transactions, apportioned pro rata amongst Direct FPS Participants, by volume usage across eligible Direct FPS Participants.
	Competition issues have been discussed and assessed with both the industry working groups. Certain legal and regulatory considerations have been identified: i. anticompetitive effect and abusive practices – whether a smaller number of Direct FPS Participants could be said to be acting to the detriment of the wider FPS community; ii. barriers to entry – whether the cost of the CRM Fee presents a barrier to usage of FPS or to new entrants seeking to participate directly in FPS; and iii. whether the Change Request will have an appreciable effect on competition in the UK. The Payment Systems Regulator (PSR) is fully aware of the proposals for the CRM Fee to be implemented through the FPS rules through its participation at the APP CRM Steering Group meetings, where the option of a mandatory fee was selected as the most appropriate funding option. UK Finance has also held a meeting with the PSR on 17 June 2019, specifically to discuss the Change Request and the proposals for the CRM Fee and during this meeting the PSR confirmed that it was comfortable for the consultation on the Change Request to proceed. UK Finance intends to keep the PSR fully updated on competition issues related to the CRM Fee to the extent they arise as part of the consultation process. Internal review by UK Finance has concluded that: i. a voluntary Code that is backed by a separate 'no blame' fund which is funded through an appropriate funding mechanism, is arguably in the 'greater good/ public interest' than theoretical competition risks arising; ii. the wide consultation process across its membership who have been fully briefed in the development of the Voluntary Code and the parallel funding requirement, mitigates the risk of any allegations of collusion; and

	iii. the application of a series of exemptions (see above) - specifically (2), (3) and (4) which are designed to allow for new entrants and exclude FPS participants with business models that are not impacted by APP fraud.		
Additional Comments	To reflect developments taking place in the industry, including impact of confirmation of payee and changes in fraud dynamics, we appreciate that this approach will require a review. The review will inform the appropriateness of the No Blame Fund within the future industry landscape.		
	The date of this review will be informed by the availability of data and management information into the functioning of the Code and the APP fraud environment.		
	We are also committed to doing more to source funds form the wider ecosystem including data breach fines and proceeds of crime monies.		
Recommendations Y/N; procedure	Yes. Incorporated into the FPS Rulebook.		
Analysis carried out by	The Steering Group and associated working groups	**Date**	*07/06/2019*

Annex 1 Terms of Reference: APP scams steering group

This steering group has been established in response to the PSR's outcome of consultation on the development of a contingent reimbursement model.[1] The steering group needs to achieve those objectives set out in Chapter 4 of the PSR's outcome of consultation. Authorised push payment (APP) scams - where people are tricked into sending money to a fraudster - are a crime which can have a devastating effect on the victims which are users of payment system services. Statistics published by UK Finance show that in 2018 there were 84,624 victims of APP scams involving a total amount of over £354 million. (figures updated to reflect latest statistics)

More needs to be done to reduce the impact of APP scams on consumers. In particular, by increasing the incentives for payment service providers (PSPs) to invest in and maintain practices that help prevent and respond to APP scams, and to reimburse victims where those victims could not have reasonably prevented the scam but the PSPs could have. Developing a contingent reimbursement model (CRM) is the most effective way to achieve this and would promote the interests of users of payment system services.

The PSR, working with industry and consumer representatives, has established the APP scams steering group (the steering group) which will lead the design of a CRM through a collaborative process.This will include both reaching consensus between steering group members on the key issues for the CRM, and formalising the CRM into a set of rules that will form an industry Code (the Code) for reimbursement of APP scam victims.

OBJECTIVES

The overall objectives of the steering group will be to:

i. Reach a consensus on the key issues of the CRM. A wide range of positions were presented on certain specific issues in our recent consultation.
ii. Formalise the agreed position on these issues into a set of rules, which will form an interim industry Code (the Code) for the reimbursement of APP scam victims.
iii. The steering group will issue the interim Code for public consultation by the end of September 2018.
iv. After consulting publicly on the interim Code, the steering group will make any necessary amendments and issue the final Code in early 2019.

SCOPE OF THE INDUSTRY CODE

In terms of the scope of the industry Code:

- Eligibility for reimbursement under the Code will be limited to consumers, small charities and micro-enterprises.[2]
- The Code will only cover push payments between GBP-denominated UK-domiciled payment accounts. However, the Code should not prevent payments with an international dimension potentially being included in the future.
- The Code will cover APP scams relating to:
    - push payments executed across CHAPS and Faster Payments; and
    - 'on-us' book transfers where both the sending and receiving accounts are held with the same PSP, and the payment would otherwise have been executed across CHAPS or Faster Payments
- The Code will only cover PSPs involved in the initial payment related to an APP scam, meaning the transaction from the victim to the scammer's first account (i.e. PSPs whose accounts are utilised in the onward transmission of scammed funds are out of scope of the Code).
- The Code will only apply to APP scams occurring after its implementation.

[1] https://www.psr.org.uk/psr-publications/policy-statements/Outcome-of-CRM-consultation
[2] Where consumers, charities and micro-enterprises are as defined under the Payment Services Regulations 2017.

CONSTITUTION OF THE STEERING GROUP

The Steering Group Chair

The steering group will have a Chair who is independent of payments industry interests. The Chair has been appointed by and is directly accountable to the PSR.
The Chair is responsible for leadership of the steering group and ensuring its effectiveness in all aspects of its role.
The Chair is responsible for providing updates to the PSR as required from time to time.

The Steering Group

The steering group, a focused group of senior members, will facilitate collaborative discussions, reach consensus on the key issues of the CRM, and formalise these into a set of rules that will form an industry Code for the reimbursement of APP scam victims. It will have a small number of members in senior positions, with the ability to shape and make decisions on policy areas within their organisations and/ or their sector more broadly.
The steering group will contain an equal number of representatives of PSPs and consumers - those key stakeholder groups that will be impacted by the introduction of the Code.

Membership and appointments

The PSR has appointed the Chair for an initial term of ten months.
The Chair, in consultation with the PSR, will appoint the steering group members.
Members will be appointed for an initial term of nine months. The Chair, in consultation with the PSR, may review the steering group's membership from time to time.
Members who are no longer able to participate in the steering group's discussions may be replaced for the remainder of their term at the discretion of the Chair, with the agreement of the PSR.
The Chair, in consultation with the PSR, may also consider and decide on applications for membership received on an ad hoc basis and may admit an additional member(s) where the views of a relevant category of participant or stakeholder are not properly reflected in discussions of the existing membership.
The PSR may terminate the steering group if it considers the group is not working effectively or is not expected to meet its objectives.

Steering group activities and deliverables

Key issues for the steering group to resolve and timeframe

To achieve its objectives, the steering group members must endeavour to achieve consensus on the following key issues and develop proposals to the following timeline:

Date	Milestone
End April	Steering group agrees on appropriate outcomes for the circumstances where: The victim and relevant PSPs have all met the standards of care expected of them under the Code (the 'no-blame' situation) The victim and one or more of the relevant PSPs have failed to meet the standards of care expected of them under the Code (the 'shared-blame' situation) The victim has met the requisite level of care and one or more of the relevant PSPs have failed to meet the standards of care expected of them (the 'inter-PSP' blame situation) In circumstances where the victim took the level of care and one or more PSPs are at fault, the PSP(s) at fault must reimburse the victim, as noted in the PSR's Outcome of consultation.[3]
End June	Steering group agrees on: i. The definition of the requisite level of care a victim of an APP scam must have met to be eligible for reimbursement, including how such conduct can be verified in practice. ii. An appropriate set of standards of care that PSPs would need to meet under the Code, including leveraging those measures identified by the PSR.[4]
End August	Steering group agrees on an appropriate governance arrangement for monitoring implementation, maintaining and refining the Code post finalisation. This will include arrangements for all PSPs to adopt the Code and arrangements for how to leverage future measures for preventing and responding to APP scams.
End August	Steering group agrees on draft of the interim Code
End September	Steering group issues interim Code for public consultation
Early 2019	Post-consultation amendments made and final Code issued

- [3] PSR *Outcome of consultation* (Feb 2018) paragraph 4.19(1)
- [4] Ibid paragraph 3.61.

Core principles for the Code

To achieve its objectives, the steering group must agree proposals on the key issues above that ensure that the Code optimises the following core principles.

The core principles are:

- **Incentives for those with the ability to effectively prevent APP scams and reduce their impact:** The Code must be designed so that those parties with the ability to effectively influence APP scam prevention and response at different stages of the payment journey are incentivised to do so. Ultimately, the incentives generated by the Code should reduce the number of APP scams that would otherwise occur.

- **Consistency of outcomes:** The Code should deliver consistent outcomes for parties with the same circumstances. For example, an inconsistent outcome would be where there were two victims of separate scams that shared the same characteristics, one was reimbursed and one was not. Consistency of outcomes does not mean that reimbursement for each of the victims should necessarily come from the same source of funds.
- **Leverage existing and future initiatives that are likely to be effective at preventing and helping respond to APP scams:** There are a range of measures highlighted by the PSR that are aimed at assisting APP scam prevention and response, which have been recently deployed or are currently under development. This includes the Best Practice Standards, Confirmation of Payee, and transaction data analytics. The ode must leverage these and future measures, and incentivise their use and development by including them in the standards of care that PSPs should meet.
- **Adoption by all PSPs that have an element of control over preventing and responding to APP scams:** PSPs that have an element of control over payments within scope of the Code, must adhere to it.
- **No contingency on the recovery of funds:** The implementation of the Code must not be contingent on the recovery of funds in specific cases.
- **No adverse impact on PSP ability to make goodwill payments:** The Code must not displace or constrain the ability of PSPs to make goodwill payments to victims of APP scams in situations they deem it appropriate to do so.
- **No adverse impact on commercial development of further protections:** The Code must set out the minimum level of care that PSPs must take to protect consumers from harm caused by APP scams. It must not restrict the ability of individual PSPs, or other parties, to develop and offer products to consumers that provide additional protection.
- **Capability for becoming part of the relevant considerations that the FOS takes into account:** The Code must be developed in such a way that it is capable of becoming part of the relevant considerations that FOS can take into account when determining outcomes of a consumer complaint about APP scams.

The steering group must justify any proposed trade-offs between these core principles to the PSR.
In developing the Code, the steering group must also have regard to:

- **Simplicity:** The rules adopted should be as simple as possible to be effective, for both PSPs and potential Code beneficiaries. The experience for victims seeking reimbursement should be simple and easy to understand.
- **Transparency:** The Code should be developed, implemented and operated in an open and transparent manner (to the extent that privacy and security considerations permit).
- **Costs, benefits and impact:** The rules and standards in the Code should be justifiable – both individually and as a whole – on the basis of their costs and benefits, in particular their impact on the harm caused by APP scams.

FUNCTIONING OF THE STEERING GROUP

It is expected that appointed members will be present at all meetings of the steering group. Alternates may be permitted if agreed in advance with the Chair.

The Chair will endeavour to achieve consensus between steering group members on key issues and proposals under discussion. Dissenting opinions will be reflected in the minutes of the meeting.

Progress towards reaching consensus will be supported by evaluating options using robust evidence and consistency with the core principles. The Steering Group has no powers to direct its members, or the wider sector to undertake any action.

The role of the PSR and other authorities

The PSR will attend all Steering Group meetings and will oversee and support the Steering Group, in particular the Chair where guidance is required in relation to its objectives. The PSR will not be a member of the Steering Group.

The Financial Conduct Authority (FCA) and, as appropriate, other government and regulatory bodies (such as the Treasury, Home Office and law enforcement) will be observers of the Steering Group and may provide relevant input into discussions.

The Chair may invite other Authorities to attend Steering Group meetings where appropriate to provide relevant input into discussions.

Meetings

It is expected that the Steering Group will have around one meeting a month. Additional Steering Group meetings may take place if members believe these are required in order to achieve their objectives. The secretariat will prepare a summary of the discussions held at the meeting that are suitable for publication to be approved by the Steering Group within two weeks after each meeting. These summaries will be published on UK Finance's website.

Secretariat

The Chair will be supported by a secretariat provided by UK Finance. The secretariat will be responsible for supporting the Steering Group, its meetings and relevant papers for the meetings. All Steering Group-related communications between Members outside of meetings will be exchanged through the secretariat. Staff providing secretariat support will report to the Chair in the performance of their duties.

Agenda

The agenda and meeting papers will be circulated in advance of Steering Group meetings.

Working Groups

The Steering Group will establish a specialist satellite group to clarify whether there are any legal barriers to the prevention and response to APP scams, including the recovery of funds, the implications of any barriers, and how any barriers can be addressed. The Steering Group Chair will appoint the satellite group chair. The satellite Group chair will appoint, in consultation with the Steering Group chair, the members of the satellite Group. The group will consist of relevant industry participants, and regulatory and government bodies such as the PSR, the FCA, the Treasury, the Home Office and law enforcement. The satellite group chair will set the terms of reference and will report any relevant information back to the Steering Group.

The Steering Group may establish other Working Groups for a limited period of time to engage in more detail or undertake more analysis on one or more of the key issues that the Steering Group needs to resolve.

Information sharing

The Steering Group may need to share sensitive information from time to time, sometimes between competitors in various parts of the payments industry. The responsibility for ensuring the lawfulness of any exchange of sensitive information between competitors rests solely with the undertakings concerned and their representatives. The secretariat may issue guidance to the Steering Group on such exchanges for competition law purposes.

Annex 2. Decision process and evidence

In the context of increasing levels of Authorised Push Payment (APP) scams, the Payment Systems Regulator (PSR) established the APP Scams Steering Group in February 2018 to lead the development of the Contingent Reimbursement Model (CRM) voluntary industry Code for the reimbursement of victims of APP scams.

The Code identifies that where customers and PSPs have met their Requisite Level of Care (RLC) and where each party considers that they should not bear the full liability for a scam in such circumstances, a principle of No Blame applies. In these instances, and in order to minimise customer detriments, customers should receive a reimbursement and the PSPs, having met their RLC, should not be directly liable for the cost of the reimbursement to the customer. There is therefore a requirement to fund a 'No Blame' reimbursement pot.

The considerations for the source of long-term funding of the reimbursement pot, was assigned to an No Blame Working Group (NBWG) established by the APP Scams Steering Committee. The NBWG was tasked with identify a sustainable and viable source to fund for the no blame pot with effect from the effective date of the Code 28th May 2019. Given the complexities and challenges involved, it was recognised that a more immediate source of funding would be required whilst the NBWG found a solution that could work. The seven 'seeding banks' agreed to fund the interim funding requirement, from May 28th 2019 to the end of the year. The no blame funding solution therefore is required to be in place by the end of the interim funding solution and be available from 1st January 2020.

This document summaries the process and outcomes of the assessment conducted by the NBWG in recommending to the Steering Group, the use Faster Payment Scheme (FPS) transaction volumes as a mechanism to define contributions by direct FPS participants to funding the APP scam no blame reimbursements.

1. **Executive Summary**

Working under the mandate of the APP Scams Steering Group, the NBWG was tasked with identifying a viable, sustainable source of reimbursement funds. The overarching aim for the NBWG was to ensure that all in-scope customers of PSPs would be reimbursed by the No Blame fund regardless of whether their sending PSP had signed the voluntary Code.

The work of the NBWG involved a structured, detailed and an iterative evaluation process where options were identified and assessed over a three-month period to assess their viability against NBWG principles. The risk of bias was limited with consumer group representatives evaluating PSP focused options, and PSP representatives evaluating consumer funding options. In reaching a short list of options, the NBWG were able to determine that only the FPS scheme funded option met the Steering Group criteria and those set by the NBWG.

At the 17th January 2019 Steering Group meeting a co-chair of the NBWG advised that the NBWG had identified a scheme-wide transaction charge on payments made using the Faster Payments system as a potential source of funds. This source of funding had been presented to PSPs at the UK Finance Personal Finance board earlier that day as the preferred, and only realistic option. The funding option was also presented the Payments PSB. In recommending the funding mechanism to the Steering Group, the NBWG ensured appropriate and wide stakeholder engagement. In attendance at the NBWG meetings, in observer status, were the PSR, the Home Office and HM Treasury.

In this meeting the following was minuted, confirming the Steering Groups selection of the FPS CRM Fee:

“The No Blame working group (NBWG) co-chair gave an update on the source of funds that the No Blame working group has decided to continue to explore [FPS CRM fee], dismissing others which they assessed as not being achievable. Both consumer representatives and PSPs agreed in principle to the proposal.”

2. **Mandate for the NBWG**

The APP Steering Group decided to establish a number of working groups, including the NBWG, in September 2018 with the first meeting of the NBWG convened in October 2018.

The NBWG reported directly to the Steering group. The work of the NBWG, in considering options and recommending the funding mechanism for the ‘no-blame reimbursement fund, was escalated to the APP Steering Group final decision-making body.

The membership of the NBWG provided balanced representation from consumer groups, PSP representatives and independent consumer experts; as well representation from large, mid-tier building society PSPs. This approach ensured a balance of subject matter experts tasked jointly with identifying and recommending a sustainable solution for the funding of No blame reimbursements for customers in scope of the Code: consumers, charities and micro-enterprises of 10 employees or less.

Guiding Principles and evaluation criteria

The NBWG's discussions have been guided by a set of general principles and terms of reference that which were ratified by the Steering Group in December 2018. The APP Steering Group's core principles for the voluntary CRM Code and supporting operating principles for its implementation, provided the NBWG with context against which to identify and set assessment criteria for the funding options under consideration.

The principal consideration was to ensure that *all customers*, in scope, regardless of their sending PSP received the benefit of the no blame reimbursement, and that the funding option selected would provide a sustainable funding mechanism.

Steering Group - core principles for the approach to the Code include:

- Incentives for those with the ability effectively to prevent APP frauds and reduce their impact
- Consistency of outcomes
- Leverage existing and future initiatives that are likely to be effective at preventing and helping respond to APP frauds, including those outlined in the PSR's February paper
- Adoption by all firms that have an element of control over preventing and responding to APP frauds
- No contingency on the recovery of funds
- No adverse impact on firm ability to make goodwill payments
- No adverse impact on commercial development of further protections
- Capability for becoming part of the relevant considerations that the FOS takes into account

Steering Group – Operating principles for the Code include:

- Simplicity - rules to be as simple as possible; experience for victims seeking reimbursement to be simple and easy to understand.
- Transparency - Code developed in an open manner
- Timeliness - supporting timely reimbursement and expedited communication between firms and consumers
- Fairness - Code to be developed, implemented and operated in a fair and publicly defensible manner)
- Costs, benefits and impact - measures to be justifiable on costs/ benefits, and in particular impact on harm caused by APP frauds

During the early stages of the identification and assessment process for the funding options the NBWG constructed additional detailed criteria against which all options could be systematically evaluated providing a consistent, impartial and robust approach to the assessment. These were:

The NBWG analysed the alternatives objectively using a set of fixed criteria including:

- the source of the funding - such as current availability of fund, ownership and control of the funds;
- the level of ownership and/or control over the funds;
- major obstacles and barriers to establishing the arrangements;
- creation of disincentives for PSPs and
- the level of coverage that the fund would provide to in-scope customers of all PSPs to be reimbursed by the No Blame fund regardless of whether their sending PSP has signed the voluntary Code

In defining their evaluation approach, the NBWG identified the key principles which provided a further framing for their work:

- each funding source under review should not be considered as a solution in itself, but rather as part of a wider solution.
- any solution or approach agreed should be reviewed and subject to enhancement following an impact assessment after a full, first year of operation.

3. **Evaluation timeline**

For the evaluation of the no blame funding options, the NBWG identified three main workstreams and deliverables to include:

- Identifying all potential sources of funding;
- Evaluating sources of funding against agreed qualitative and quantitative criteria;
- Eliminating unsuitable options; and
- Modelling the amount of funds required for the solution, based on agreed assumptions and data provided by PSPs

This paper summaries the workstreams and deliverables for the first two of these deliverables – identifying all viable source of funding and evaluation of these options.

The work of the NBWG commenced in October 2018 with monthly meetings increasing in frequency at the later stages of the evaluation process. The detailed assessment for the review of the long list of options was undertake over a period of months, involving considerable time and commitment from each member of the NBWG. This culminated in a five-hour working session on 20th November where each of the shortlisted options were presented by the appointed evaluators and open to debate and challenge by the full NBWG membership.

The iterative review and assessment process continued until 5th December when the six options were amalgamated into three shortlisted options and summarised on 12th December for discussion at the Steering Group meeting. This process was structured and documented, with details available to the Steering Group.

NBWG meetings and main agenda items:

- 04/10/18 - 1st meeting, sizing requirement of the size fund require
- 18/10/18 - Identified sources of funds, continued discussion on size of fund
- 26/10/18 - Identifying and evaluating sources of funds
- 05/11/18 - Identifying and evaluating sources of funds
- 20/11/18 - Detailed assessments and iteration of funding options, 5-hour meeting
- 05/12/18 - Members to discuss next steps for remaining options (these next steps were to be limited to 3 – 5 focused activities)
- 12/12/18 - Output for funding assessments summarised into 3 shortlisted options
- 15/01/19 - (moved from scheduled 9/1/19)
- 06/02/19 - Last meeting prior to publication of the Code

Steering Group meetings:

- 11/12/18 - NBWG co-chair updated Steering Group on evaluation criteria
- 17/01/19 - NBWG recommendation to Steering Group for use of scheme wide transaction charge
- 08/02/19 - Steering Group discussion on FPS as funding mechanism
- 15/03/19 - Evidence of on-going discussions with Pay.UK

4. **Identifying all viable funding options**

With the overarching objective to address customer detriment where all customers are covered and to deliver a mechanism that provides societal benefit, the NBWG worked with the premise that *'nothing is off the table'* and all viable sources of funds were to be identified and explored.

A long list of sixteen possible funding options were identified, categorised in broad thematic approaches:

- Government initiated/funded options
- Customer-funded options
    - (i) a customer-funded insurance policy or
    - (ii) a levy or charge on certain transactions and/or accounts:
- PSP funded
    - (i) voluntary scheme
    - (ii) mandatory scheme based on transaction charges levied on transactions of direct and indirect FPS participants
- Wider ecosystem

Each funding category was assigned to evaluators representing PSPs and consumer groups. To minimise the risk of bias, those option where PSPs would contribute to the fund were analysed by consumer groups; and those where consumers would be expected to indirectly contribute were assessed by PSPs. The long list is shown in the table below.

The NBWG also recognised the need to preclude options that could lead to unintended consequences and detriment either to customers, PSPs or the industry in general. At its 11 December the Steering Group ratified that that any option violating these additional principles would not be pursued in any scenario:

- Only provided coverage for customers who could afford to pay the proposed 'charge';
- Had the appearance that by paying a charge the customer would be covered, when there were circumstances where they may not;
- Resulted in incentives that conflicted with the objectives of the Code;
- Required agreement from those outside the Steering group's control, where it was judged that such consent was highly unlikely to be given;
- Would result in a disincentive for PSPs to sign up to the Code

Based on the criteria for exclusion, nine options from the long list of sixteen were withdrawn from further consideration. These options for funding source and the discounting rationale are summarised below.

Table 2: options eliminated Funding Source	Discounting Rational

Long list of options

Option	**Nature of fund source**
PSP-funded options	
a) Industry 'pot' *[combinations of sending/ receiving PSP contributions]*	PSPs – seed or full funding
b) Shared blame 'pot'	PSPs who have breached SF
c) Scheme funded indemnities	PSPs
Customer-funded options	
d) Customer insurance	Customer pays
e) Commission for unknown Payee	Customer pays when transacting with unmatched payee: Flat fee % of value
f) Transaction Fee	Customer pays according to type of payment: • Size of payment? • Mode of payment – FPS only etc? • Flat fee per payment • % of value
g) Account charge	Customer pays on account opening/ annually
Government-initiated/ funded options	
h) Victim Compensation Scheme	Tax payer
i) National Lottery funds	Lottery players
j) Dormant accounts	Customers who haven't accessed accounts in 15yrs
k) Frozen accounts Unexplained Wealth Orders?	Customers suspected of criminal activity; Funds suspended as result of sanctions
l) Forfeited assets; *Disgorgement;*	Convicted criminals
m) Redirection of other fines/ penalties e.g. for data breaches	PSPs Other FS market players Other firms in ecosystem
n) Untraceable proceeds	Suspected criminals
o) FSCS – financial services compensation scheme	Eligible regulated entities
Options for funding from wider fraud 'ecosystem'	
p) Wider Ecosystem	Companies involved

Customer-funded insurance policies	Only provided coverage for customers who could afford to pay for it; Had the appearance that by paying a charge the customer would be covered, when there were circumstances where they may not.
A commission/ charge on payments where a negative CoP result is returned	Resulted in incentives that conflicted with the objectives of the Code i.e. gave the impression that paying the charge "insured" the customer against fraud when the Code seeks to encourage them to make additional checks.
Any transaction charge where only those paying the charge could be covered	Only provided coverage for customers who could afford to pay for it; Had the appearance that by paying a charge the customer would be covered, when there were circumstances where they may not.
Transaction charges linked in any way to eligibility for reimbursement, where there would be situations when those paying the charge would not receive reimbursement	Had the appearance that by paying a charge the customer would be covered, when there were circumstances where they may not.
Account charges where only those with better ability to pay can obtain coverage	Only provided coverage for customers who could afford to pay for it.
A government-initiated Victim Compensation Scheme	Resulted in incentives that conflicted with the objectives of the Code – less incentive for PSPs to implement fraud-reducing systems, for customers to be vigilant to avoid becoming victims.
FSCS	Required agreement (and primary legislation) from those outside the Steering group's control, where it was judged that such consent was highly unlikely to be given.
Dormant accounts	Required agreement from those outside the Steering group's control, where it was judged that such consent was highly unlikely to be given.
Funds seized/ forfeited by law enforcement/ courts as a result of existing financial crime legislation	Required agreement from those outside the Steering group's control, where it was judged that such consent was highly unlikely to be given.

5. **Detailed assessment of nine options**

Having progressed with the review of the long list of sixteen funding options and discounting those on the basis of the evaluation criteria described above, the NBWG conducted detailed assessment of nine shortlisted options:

- **Account charge** – Customer pays on account opening/annually

- **Commission for unknown payee** – Customer pays when transacting with unmatched payee: flat fee or % of value

- **Customer insurance** – Customer pays

- **Transaction fee** – Customer pays according to type of payment;

- **Wider fraud 'ecosystem'** - Contributory funds are drawn from parties with a responsibility for controls that protect against APP Scams

- **PSP funding options** – to include**:**
    - **Dual blame pot;**
    - **Scheme funded indemnities**
    - **Industry pot**
    - **Recipient bank pays**

A detailed review, conducted during a 5 hour working session on 20th November, assessed and challenged each of the short listed options taking into account practical considerations; implications for incentivising fraud reduction by PSPs and consumers; stakeholder 'buy-in'; ability to provide appropriate coverage of all victims of APP scams and the impact of potential barriers to pursuing the funding options. The accessibility of the fund for all in-scope customers remained the guiding principle, providing an equitable approach to address customer detriment caused in the no-blame APP scam situations.

6. **Shortlisting viable, sustainable funding options**

Following the detailed evaluation of the nine options, the NBWG amalgamated these into three shortlisted option, considered the use of several sources of funding, combining approaches to achieve a solution that was considered viable, creating three funding options to be pursued further:

- **Shared-blame penalties** – Readily available, controllable, maintains incentives, compatible with SG principles, capable of achieving buy-in, universal coverage, no linkage to actual or perceived coverage.
- **'Industry Pot'** – Voluntarily contributed to by some PSPs proportionally – Readily available, controllable, subject to industry agreement once full long-term funding solution is agreed, maintains incentives, compatible with SG principles, capable of achieving buy-in, universal coverage, no linkage to actual or perceived coverage.
- **Scheme-funded indemnities** – Readily available, and controllable subject to Pay.UK buying in and changing rules; maintains incentives, compatible with SG principles, capable of achieving buy-in; universal coverage, no linkage to actual or perceived coverage.

Given that the shared-blame penalties and 'industry pot' failed to meet the overarching criteria for providing coverage – that all customers in scope should be able to claim in a no blame scenario – only the scheme funded options remained viable.

The NBWG continued with an iterative process to evaluate each of the options under review and, as previously stated, assigned 3 to 5 next steps to each of them. One of these next steps prompted discussions with scheme operators – the Bank of England for CHAPS and Pay.UK for FPS – to identify operational and rule- based challenges as well as to identify the next steps that would be required if these options were further pursued.

A discussion was held with the COO of Pay.UK in December 2018 to explore what next steps would be required and the potential challenges that may be encountered if the FPS option was pursued. At that time, the NBWG did not have a clear indication that the FPS (or CHAPS) scheme-based option would be recommended and it was understood that Pay.UK were providing information on a non-committal, non-obligatory basis. The discussion with Pay.UK suggested operational considerations need to be addressed and these discussions have continued to determine details around:

- **Transaction charges** – PSPs would be free to levy additional charges if they wanted to but Pay.UK would like to be involved in any of these discussions as such charges may make faster payments less attractive. This would fundamentally challenge open/free banking and may restrict competition in the market.
- **Scheme transaction charges** – if Pay.UK were to manage the funds collected, then it would be a fundamental change to how their balance sheet is used and would not be easy to get the board of Pay.UK to agree. Conflicts could also arise if it were considered as potential Administrator of the Code. If it was were simply collecting the money, with agreement of participants, to pass to a third-party administrator, this would be easier
- **Scheme Indemnities** – if Pay.UK were to manage the fund, then it would be a fundamental change to how their balance sheet is used and would not be easy to get the board of Pay.UK. Conflicts could also arise if it were considered as potential Administrator of the Code. If it was simply collecting the money, with agreement of participants, to pass to a third-party administrator, it would be easier.

7. **Steering Group Considerations**

During the systematic process to identify and evaluate various funding options the NBWG updated the Steering Group on their approach and work towards recommendation to the Steering Group.

At the 17 January 2019 Steering Group meeting a co-chair of the NBWG was able to advise that the NBWG had identified that the mechanism of a scheme-wide Faster Payments transaction charge as a viable source of funds.

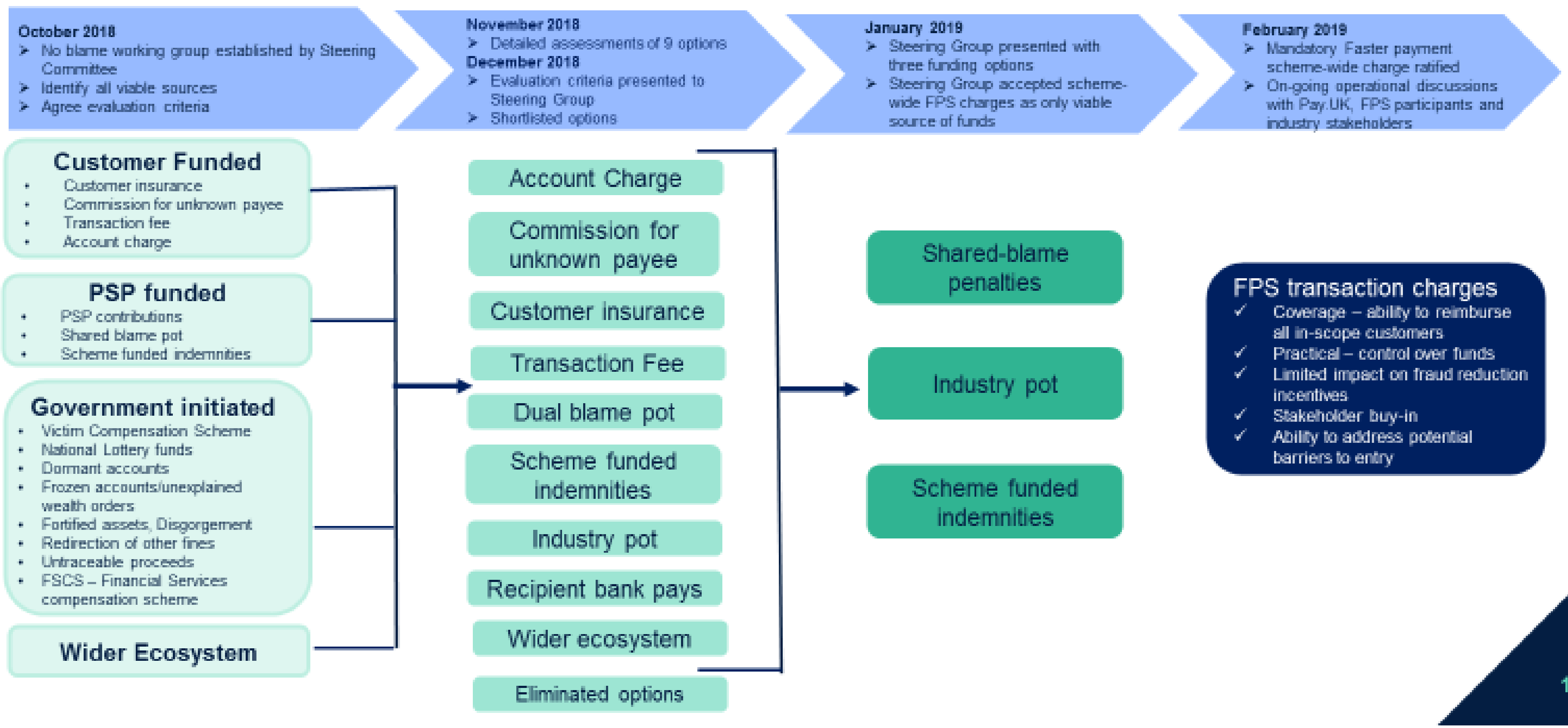
In further evaluating the three shortlisted funding options, the NBWG considered that it would be equitable for any pot created to fund circumstances where all parties had met their RLC to be funded jointly by consumers and PSPs (in the absence of funding from other sources or the wider eco-system). On this basis, the NBWG's recommendation was accepted and endorsed by the Steering Group.

The FPS charge as the source of funding had been presented to PSPs at the UK Finance Personal Finance board earlier that day as the preferred and only realistic funding source for no blame reimbursement. This option was also presented the UK Finance Payments Product and Service Board.

The NBWG's engagement with the Steering Group is listed below.

Steering Group	
1 November 2018	A co-chair of the NBWG presented the possible sources of funds which the working group was evaluating.
11 December 2018	An update on the sources previously identified as possible sources of funds was provided by a co-chair of the NBWG, as well as evaluation criteria used to determine whether a source of funds should be considered further.
17 January 2019	The Steering Group was provided with an update on the source of funds for further exploration by the NBWG and those that had been eliminated from consideration. The NBWG made their recommendation for a scheme-wide transaction charge on Faster Payments transactions.
8 February 2019	The Steering Group discussed how the agreement for the mandatory levy was ratified at a roundtable with the PSR and the seven CEOs of the seed funding PSPs.
26 February 2019	The Steering Group discussed the mechanism for funding the 'no blame pot'. It was noted that there was still work needed to determine the detail of the mechanism.
15 March 2019	The Steering Group was advised was that discussions were taking place between Pay.UK., Faster Payments direct participants and the Electronic Money Association (EMA) for the Long-Term Funding Mechanism proposal. The Steering Group highlighted the commitment by the PSPs to this approach at the CEO's Roundtable.

Alternative sources of reimbursement funds



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Annex 3

Roles and Responsibilities (long term 'no-blame' fund)

The following page provides a diagram of a potential proposal of how the arrangements for the long term No Blame Fund will be established, administered and funded.

The basic journey from customer claim to PSP reimbursement is as follows:

1) Customer makes a claim.
2) If the PSP finds the claim to be eligible for No Blame Funding, they reimburse the customer.
3) PSP sends claim for reimbursement to the Fund Administrator which is administrating the fund.
4) Fund Administrator sends an execution only payment instruction to the No Blame Fund.
5) Payment is sent to the claiming PSP.

No-Blame Fund

Alongside the Code, a 'no-blame' fund (the **No-Blame Fund**) would be established, from which PSPs (who are Code Signatories) can be reimbursed in respect of payments made to customers who have been victims of APP scams, in scenarios where there is no blame attaching to the customer or the PSP. One of the underlying policy considerations in respect of the No-Blame Fund is that in circumstances where there is 'no-blame' and therefore no liability attaching to any party, there should be a fund available to the industry which was funded by the industry, in order to support and encourage the continuing preventative measures being taken against fraud and economic crime and to promote good customer outcomes.

Interim Fund

It was, however, recognised that until the long-term funding arrangements for the No-Blame Fund were established, it would be necessary to set up an interim fund (to coincide with, and support the launch of the Code) (the **Interim Fund**). By way of background and context, seven PSPs attended a roundtable chaired by the PSR together with the FCA and HMT on 7 February 2019. At that meeting, as an interim measure, to cover the period from 28 May 2019 (when the Code launched) to 31 December 2019, the seven PSPs agreed to provide 'seed' funding by way of an interest free loan, for the setting up of the interim no blame pot ahead of long-term funding for the No-Blame Fund being secured. This was in order to enable funds to be available to reimburse customers who were victims of APP fraud in no blame scenarios during this interim period. The intention was that the loans would be repaid from the No Blame Pot once the long-term funding arrangements were established (which would fund the No-Blame Fund, going forward and repay the seed funding loans). The expectation of the seven PSPs is that the long term No-Blame Fund would be in place by 1 January 2020. The 'seed funding' was therefore provided on the basis that the contributions of each of the seven PSPs were capped and time-bound and that the contributions would be repaid by way of the No-Blame Fund (once established).

It is important to note that the primary purpose for establishing the long-term funding arrangements is to ensure that the No Blame Fund would be available to take over from the Interim Fund and can continue to support the industry as a whole as a source of funds in 'no-blame' circumstances. A secondary consideration is the repayment of the 'seed funding'. The rationale behind this, was that the seven PSPs would, essentially, be 'loaning' the funds for the Interim Fund. Such funds would be accessible by those PSPs in the industry who were Code Signatories and who had made payments to their customers who had suffered APP scams in ‘no-blame’ circumstances. Accordingly, it was considered reasonable and proportionate for the seven PSPs to be repaid by the industry, via the No-Blame Fund, once such long-term funding arrangements were established.

The Interim Fund will be structured as a trust arrangement whereby the seven PSPs will contribute amounts which will be held on trust by a Corporate Trustee. Code Signatories PSPs will be able to make claims against the monies held on trust (i.e. the Interim Fund), from time to time in respect of ‘no-blame’ payments made to customers up to 31 December 2019.

The Long-Term Funding process:

1) CRM Fee Administrator uses Faster Payments data to work out the CRM Fee payable by each Direct Participant. This is a simple equation of taking the required funding amount (which will be based on APP fraud projections) and dividing it by the total number of eligible faster payments transactions. This will then be allocated accordingly

   Funding Requirement ÷ Total eligible FP Volume = Price per Transaction

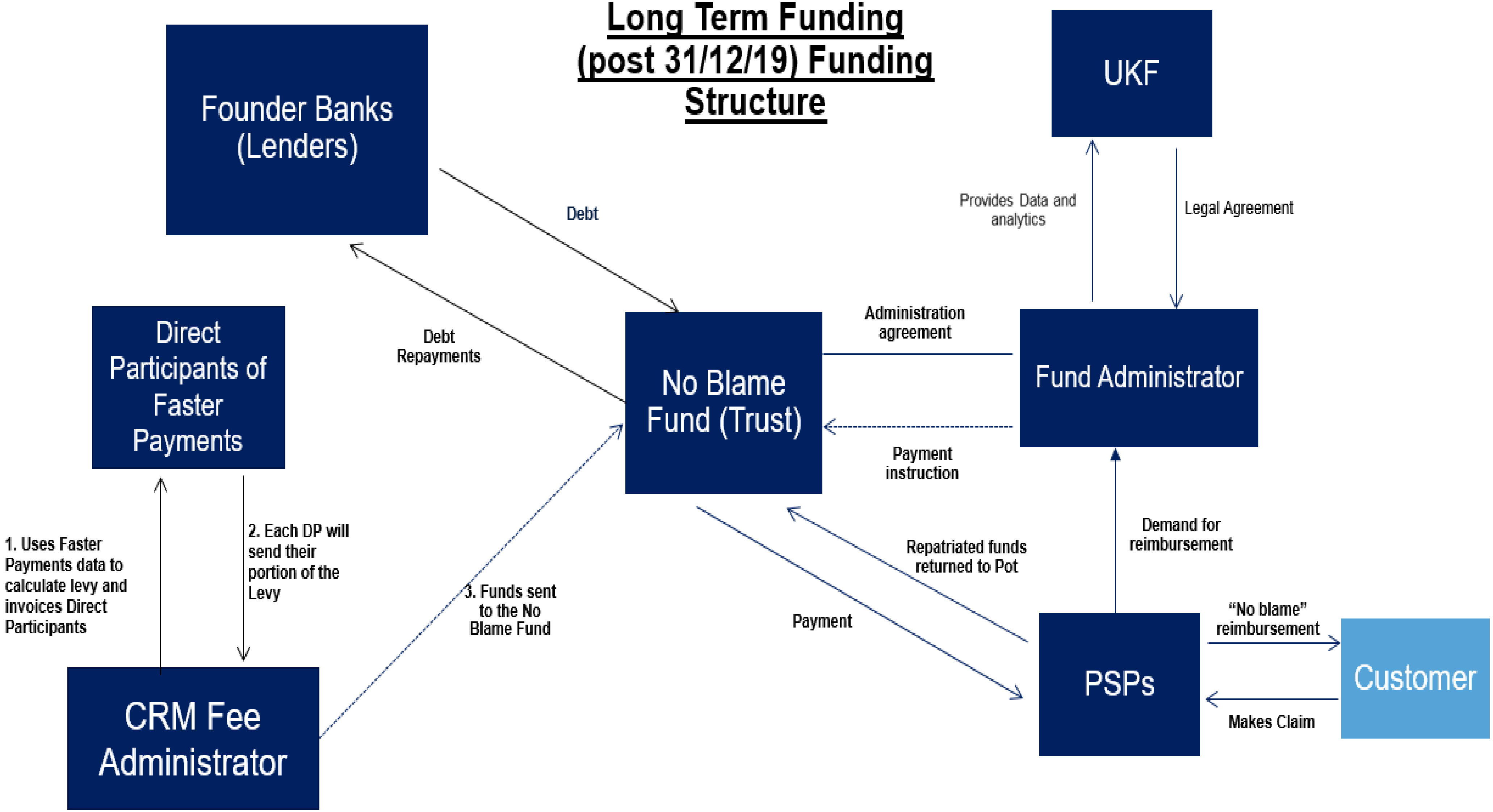
   Direct Participants eligible FP volumes x Price per Transaction = Direct Participant’s bill

2) The Direct Participants will send their portion of the CRM Fee back to the CRM Fee Administrator.

3) CRM Fee Administrator sends the CRM Fees to the No Blame Fund.

Pay.UK’s roles in the process is simply to instate the requested rules change and explain the scheme charge to any new Direct Participants.

Long Term Funding (post 31/12/19) Funding Structure



Stakeholder	Roles and Responsibilities
Code Signatory PSPs	Receive claim from customer. Investigate whether they have met their standards required for firms. Investigate whether the customer has met their requisite level of care. If both the sending and receiving PSPs and the customer have met the standards set out within the Code, or if the customer is vulnerable as defined in the CRM Code, then the customer will be refunded. Submits claim to the administrator of the fund. Receives payment from the No Blame Fund.
Customers	After being defrauded they will refer their case to their PSP. If both the sending and receiving PSPs and the customer have met the standards set out within the Code, or if the customer is vulnerable as defined in the CRM Code, then the customer will be refunded. Referring their case to the FOS in the event that their PSP rejects their claim.
Direct Participants	Receive the invoice from FPS Infrastructure provider. Send payment to the Trust which holds the funds. Direct Participants will be required to pass on the exemptions if they decide to apply the CRM fee to their Indirect Participants/PSPs.
Financial Ombudsman Service (FOS)	If the customer's PSP is a non-Code signatory, they first would to complain to their sending PSP and if this is rejected, they have the option to refer to the FOS. The FOS can then rule that the customer should receive compensation from the No Blame Fund. However, this is a much longer and more laborious customer journey than it would be if their PSP was a Code Signatory. It is important to note that this will only occur in the event of a mandatory CRM Fee.
CRM Fee Administrator	Use the Faster Payments data to work out what each of the in scope Direct Participants owe using the following equations:

	Funding Requirement ÷ Total eligible FP Volume = Price per Transaction **Direct Participants eligible FP volumes x Price per Transaction = Direct Participant's bill** Send the invoices to the Direct Participants.
Fund Administrator	Receive claims from PSP. Issue execution only payment instructions to the Trust. Operate a robust quality control processes. The Fund Administrator will make recommendations about changes in the CRM Fee to the FPS CRM fee Governance Group (see annex 6 for further details). Produce MI which will be sent to LSB, UKF, Funding PSPS, Signatory PSPs and Pay.UK.
Funding 7 PSPs	Provide the interim 'seed' funding to the Interim Fund, by way of an interest free loan.
Lending Standards Board (LSB)	Govern the APP CRM Code. Onboard new members to the Code. Sampling cases to ensure compliance with the Code.
No Blame Fund	Receive funds and release funds when instructed by Fund Administrator
Pay.UK	Make the initial rules changes. This involves the consultation and presenting the conclusions to the Pay.UK board. Provide collection of data to allow for the CRM Code fee to be collected, communicating non-payment through various channels. Explain the scheme charge to newly onboarded Direct Participants. Enforcing disciplinary measures for PSPs who do not pay.

Fraud Incentives

A PSP can only access the No Blame Fund in no blame or no blame vulnerability cases. This means that PSPs will only be allowed to access the No-Blame Fund if they have met all of the Standards for Firms as outlined within the Code, this includes dynamic and tailored messaging, real time transactional monitoring and effective education and awareness. Combined with a mandatory CRM Fee, this is a powerful driver to encourage better fraud behaviours from PSPs. If firms are paying a fee (i.e. the CRM Fee) to fund the No-Blame Fund, then they will want to be able to demonstrate that they are able to meet the enhanced standards within the Code allowing them to access these funds. Additionally, a mandatory CRM Fee means that PSPs which are the source of mule accounts will also be paying into the No Blame Fund.

Determining the size of the No Blame Fund

The No Blame Fund will need to be able to reimburse all no blame cases across the industry. To work this out the Fund Administrator, with the support of UK Finance, will use the previous year's actual fraud data to project the funds required for the next year.

When apportioning the scheme charge, the Fund Administrator will use the formula **Funding Requirement ÷ Total eligible FP Volume = Price per Transaction.**

Once they have the price per transaction, each Direct Participant's bill will be worked out using the following formulae: **Direct Participants eligible FP volumes x Price per Transaction = Direct Participant's bill.**

Retrospective actual data will define the funding calculations. The calculations for determining the contributions will be based on actual previous year's actual FPS transactions volumes, less the exemptions. Similarly, the previous year's actual fraud value data will determine requirement for the value of the total fund.

The Fund Administrator will provide ongoing oversight of the No Blame Fund and MI to ensure sufficient levels of funds are in place to meet the reimbursement needs for the No Blame Fund. If the level of the No Blame Fund appears inadequate to meet the reimbursement needs, further consultation will be undertaken in accordance with the proposed governance arrangements for the CRM Fee (please see annex 6). Similarly, in the event that the No Blame Fund is in surplus at the year-end, the proposal is that these surplus funds will potentially be repatriated to PSPs based on their percentage of contributions.

Collecting the CRM fee

The fees will be collected on a monthly basis. The CRM Fee will not form part of the "business as usual" costs that Participants face as part of the FPS. The CRM Fee would be considered as an ancillary cost. We note that the CRM Fee is intended to form the funding mechanism for the long term No Blame Fund and that the calculation of the CRM Fee is derived from the volume of FPS payments.

Running Costs of the No Blame Fund

The No Blame Fund will incur a running cost, this will be funded directly from the CRM Fee. In the first year these costs will be roughly 1% of the aggregate CRM Fees. This includes the fund administration and the production of MI data which will be circulated to all major stakeholders.

Selection of the Fund Administrator – In respect of the arrangements for the Interim Fund, UK Finance issued a Request For Proposal (RFP) in line with standard procurement processes. It was issued to several reputable third-party corporate service providers. One of the primary considerations was pricing. Currently the Fund Administrator is engaged to provide certain services in respect of the Interim Fund. UK Finance have hired a Fund Oversight Manager to measure the effectiveness and cost efficiency on the Fund Administrator for the Interim Fund.

To the extent the same Fund Administrator is engaged for the No Blame Fund, the contract will need to be renegotiated for 2020.

Enforcement and Escalation

If a Direct Participant refuses to pay the scheme charge, they will be subject to the following penalties:

- Pay.UK will escalate within the PSP up to CEO level.
- Discussion at the Pay.UK Participants Engagement Forum.
- Exposed on the Pay.UK website as failing to pay their contribution to the CRM Code fee.
- External audit at the request of the Lending Standards Board.
- Lending Standards Board to expel the PSP from the CRM Code (if the Direct Participant is a CRM Code signatory).

Governance arrangements for access to the No Blame Fund

Code signatories can apply to the No Blame Fund on a weekly basis using an agreed template. Cases which result in a claim to the no-blame fund by Code signatories will be subject to spot checks as part of the on-going assessment by the Lending Standards Board.

Access to the No Blame Fund by non-Code signatories is outlined within the process flow contained in annex 7. In the scenario where neither Firm are signed up to the Code, the sending firm will follow normal processes in trying to engage the receiving firm. Where the sending firm finds themselves not to be at fault, and where no funds remain, the firm will notify the customer that in this case they are unable to reimburse, or repatriate and will advise of their rights to complain. If the customer chooses to raise a complaint with the Firm, the DISP process will be followed. If the complaint investigation does not alter the firms initial decision, the customer will be sent a final response letter outlining their rights to complain to the FOS.

The customer may then raise a complaint with the FOS. The FOS we believe will assess all cases following their current process. If the FOS find that all parties could not have done more within this case, the sending firm may then choose to submit a claim to the no-blame fund on behalf of their customer.

Role of Indirects in paying the FPS CRM fee

Whether or not the additional fee will be passed on to indirect participants will be a commercial matter for the relevant sponsor bank. The passing on of the additional fee and/or applying an exemption to an indirect participant. This is in the commercial space and passing on this exemption would need to be negotiated and/or discussed between with the sponsor bank and the indirect participant, taking into account the as this will be part of the overall commercial relationship contract.

Annex 4
Stakeholder Engagement

Stakeholder engagement started at the UK Finance Personal Finance Board on the 17th January where it was agreed that mandatory funding for the CRM fee was the preferred and only realistic option. The Payment Product Service Board (PSB) on the 26th February 2019 has a Managing Director at UK Finance provide the Board with an update on the Contingent Reimbursement Model (CRM) for APP Scams including the work of the No-blame Working Group. There was a subsequent update at the Payments PSB on the 16th April 2019.

The discussions at the Payments PSB are part of a structured approach to engage with PSPs, including the approach to define the criteria for the 'exceptions' category – the PSPs which would be exempt from participating in the funding mechanism (see Annex 5) and in defining PSPs into four categories in relation to the No-Blame pot funding:

7 Seed funding banks that are part of the APP Steering group – These banks will fund the No Blame Fund for 2019 and will be mandated under the FPS rule change to contribute to the No-Blame Pot in 2020. These Banks are fully engaged through multiple avenues and do not require additional, specific communications at this time.

Direct participants of FPS who will be mandated under the FPS rule change - These PSPs will contribute to the No-Blame Pot in 2020 through an FPS rule change and mandatory levy. Targeted engagement is underway. Through April and May these PSP's have each had two, one to one meetings or calls to provide updates and discuss the exceptions, as well as attendance at three working group sessions, There have also been two roundtables held in May to help shape the proposed Change Request and supporting documentation.

Direct participants of FPS who will not be mandated under the FPS rule change - These PSP's will not be subject to the mandatory levy under the FPS rule change for funding the No-Blame Pot in 2020 as they meet the criteria of one of the 5 exemptions (see Annex 5). Through April and May these PSP's each have had one, one to one meetings or calls.

Agency Banks (not direct participants of FPS) – These have been engaged through targeted one to one calls. This is being complimented with Direct Participant communication to indirect PSPs.

PSR: The PSR is fully engaged with fortnightly meetings scheduled to inform and seek advice.

Annex 5

Exemptions and their justification

UK Finance held a series of meetings with several PSPs and industry participants in which a list of potential exemptions were discussed. Several of these were discounted before finalising the five below.

UK Finance then organised two meetings with all Direct Participants of Faster Payments that would be in scope of the Change Request. At these meetings further changes were made to the existing exemptions and an additional exemption was suggested (exemption #5).

There have also been additional engagement calls with out of scope Direct Participants and several industry representatives to ensure that the list of exemptions has been approved by the widest community possible. It was also agreed that these exemptions are also applicable to indirect participants.

It should be noted that the exemptions are cumulative. The de minimus exemption will be applied after all other exemptions (therefore PSPs will be exempt from the CRM fee on the first 100,000 eligible FPS transactions that are not otherwise exempted).

Proposed exceptions	Rationale
Exemption #1 – Payments Originating Overseas and Returns (**POO transactions**)	– This is the simplest and lowest cost way to operate the charge. – POO transactions are exempt as the Code only covers transactions between GBP-denominated UK domiciled accounts. So PSPs whose customers are victims of fraud over POO transactions will not be able to claim from the 'no blame' fund. Therefore, these transactions are exempt from the CRM Fee. – Returns are exempt from funding as they carry no risk of APP fraud.
Exemption #2 - De minimis threshold All Direct Participants, DCNSP and DA will receive their first 100,000 Faster Payments per annum free of funding the No Blame Pot. Each payment over this threshold will be charged the full flat rate levy unless they are subject to another exemption.	– This exemption is to ensure that the CRM Fee does not act as a barrier to entry for smaller PSPs as an unexpected incremental cost. – There is a large jump in numbers from the smallest Direct FPS participants who process fewer than 100,000 FPS transactions per annum and the mid or large participants who process significantly more than 100,000 transactions per annum. This removes a barrier to entry for the smaller PSPs.
Exemption #3 – No current accounts Exclusion of Direct Participants, DCNSP and DA with no current or payment account offerings. The Direct Participant does not allow customers to make Faster Payments from a payment account.	- Certain Direct FPS Participants make payments to known persons or businesses as part of their commercial proposition, rather than a payment service. Examples of this model are Direct FPS Participants who use FPS to pay known merchant acquirers only and/or PSPs that do not offer current accounts. – These transactions are far less likely to be victims of APP fraud and therefore are exempt from the funding. The following would be exempted by this exemption: • Direct Participants, DCNSP and DA merchant acquirers who pay their merchants who have a commercial contract in place. • Direct Participants, DCNSP and DA who do not offer a current account.

	If the acquirer is an indirect participant, this is in the commercial space and passing on this exemption would need to be negotiated or discussed with the sponsor bank as this will be part of the overall commercial contract.
Exemption #4 – Pre-set accounts Direct Participants, DCNSP and DA whose customers can only pay to pre-set up accounts and this is the only product offering.	– These are primarily used for saving accounts and these transactions carry low risk of APP fraud, therefore they are exempt from the fee.
Exemption #5 - Low level value of transactions All transactions below £30 are exempt.	- Operationally it was felt that handling and processing instances of APP fraud beneath £30 using the Code would not be cost effective for PSPs. - £30 is also in line with industry standard limits for contactless payments. - To align with exemptions under the Regulatory Technical Standards on PSD2 for rules on low value remote electronic payment transactions. - Payments of this size are rarely exploited by fraudsters. - This is based on the following data, compiled by UK Finance and published on our website in ‘Fraud The Facts 2019’: 1) The average amount APP fraud in 2018 was £4,186. 2) The average purchase scam (which is the smallest value APP scams by a considerable margin) was £881. 3) Discussions with several industry operational working groups have confirmed that frauds of less than £30 are rarely seen.

Discounted Exemptions

The following exemptions were also discussed at the roundtables but then discounted for various reasons:

Proposed exceptions	Discounting Rationale	
Exemption #6: Payment activities performed by the PSP	It was agreed that this is too general and more specific exemptions elsewhere cover this topic better. Therefore, it was agreed that this exclusion would be removed.	

Exemption #7: Exclusion of business to business payments	It was noted that whilst this was an obvious exclusion as these transactions are not covered by the Code, in practise it would be difficult to implement. It was also noted that it would only exempt PSPs which only make business to business payments.	
Exemption #8: Exclude payments to credit cards	In practise this would be too difficult to determine so this exclusion was be removed.	

Price per transaction before and after exemptions are applied

Price per Transaction before exemptions	**£0.019623**
Price per transaction after exemptions	**£0.029044**

Breakdown of the additional cost of each transaction on the price per transaction

Exemption	**Price Difference**
Exemption #1: Payments Originating Overseas (POO) & Returns	**£0.000024**
Exemption #2: De minimis threshold.	**£0.000036**
Exemption #3: No current accounts	**£0.001056**
Exemption #4: Pre-set accounts	**£0.0**
Exemption #5: Low level value of transactions under £30	**£0.008305**

Annex 6

FPS CRM Fee Governance Group

Name of Committee / Group	FPS CRM Fee Governance Group
Group status	Strategic Governance Group
Reporting to	UK Finance Board
Date Governance agreed	25/7/2019
Date Governance to be reconsidered	Annually
Establishment/ Background	To ensure effective reimbursement of ‘no blame’ APP scams losses by consumers, the CRM Steering Group proposed the creation of a ‘no blame’ fund. The CRM Fee is how funding will be raised, calculated on certain FPS transactions A Change Request was submitted to Pay.UK on behalf of several FPS Direct participants on 7th June 2019. This fee is based on the amount anticipated the no blame fund will require to meet annual reimbursement outlays and administration charges and set a pence per in-scope transaction (the ‘price per transaction’). As all of APP fraud levels, no blame calls on the fund and FPS transactions will be subject to change, the CRM Fee unit price per transaction must be capable of amendment to ensure it remains capable of ensuring reimbursement of no blame cases. This governance group will convene annually to consider the review of the future no blame funding requirement and whether this requires a change to the price per transaction. It may be on an ad hoc basis if such a change is needed more urgently (see ‘meeting frequency’ below).
Purpose and objectives	The purpose of FPS CRM Fee Governance Group is to consider and ratify any changes to the APP CRM fee.

<table>
<tr><td></td><td>
<u>Objectives:</u>

Ensure that the CRM fee is reflective of the levels of APP fraud
Ensure the fee does not negatively impact on constituent members business models.
Ensure the exemptions continue to be appropriate and make business sense.
Ensure that PSPs outside of the membership of the Group are consulted on material changes to the fee structure and that the impact on their business models is recognised and taken into account

All decisions on changes to the price per transaction should be reported to the boards of both Pay.UK and UK Finance.
There will be periodic review of the effectiveness of this group and whether it continues to be of value, and in addition its constitution and governance to ensure it is operating at maximum effectiveness.
</td></tr>
<tr><td>Membership</td><td>
This governance group shall be made up of all the Direct Participants of the Faster Payments Service. Currently, this is the following PSPs:
<table>
<tr><td>The Access Bank UK</td><td>Atom Bank</td></tr>
<tr><td>Barclays</td><td>BFC Bank</td></tr>
<tr><td>Bó</td><td>Citi</td></tr>
<tr><td>Clear.Bank</td><td>Clydesdale Bank</td></tr>
<tr><td>The Co-Operative Bank</td><td>CreDec</td></tr>
<tr><td>Danske Bank</td><td>Ebury</td></tr>
<tr><td>Evalon</td><td>Ipagoo</td></tr>
<tr><td>LHV</td><td>Lloyds Bank</td></tr>
<tr><td>Metro Bank</td><td>Modulr</td></tr>
<tr><td>Monzo</td><td>Nationwide</td></tr>
<tr><td>NatWest</td><td>Payrnet</td></tr>
<tr><td>Prepay Solutions</td><td>Santander</td></tr>
<tr><td>Spectrum</td><td>Starling Bank</td></tr>
<tr><td>TransferWise</td><td>TSB</td></tr>
<tr><td>HSBC</td><td>Virgin Money</td></tr>
<tr><td>Turkish Bank UK</td><td></td></tr>
</table>
</td></tr>
<tr><td>Chair</td><td>The Group will elect a Chair at their first meeting. Responsibility for any changes of Chair rests with the group. The chairmanship will be reviewed periodically and at least every three years.</td></tr>
</table>

Quorum	The quorum necessary for the transaction of the Group should be at least 51% of the group's total membership (currently 16).
Alternates	Alternates should be agreed in advance and operate at a similar level/skillset to the main participant.
Method of Working	• The Group will assess and review the Management Information provided by UK Finance which will include a recommendation on changes to the price per transaction. • The Group will hear any advice or suggestions from the Fund Administrator (or any other credible source) about how the price per transaction should be changed. • Mode of decision making is by two thirds majority (67%+). • UK Finance in its role of secretariat will provide agendas, papers and minutes. • The group may include ad hoc meetings or workshop sessions to consider specific issues, made up of either a subset of its members or with additional experts. • Observers or subject matter experts may be invited to attend meetings and/or provide advice. • Participation may be permitted by teleconference. • Observers may include representatives of PSPs outside of the membership of the Group
Meeting frequency	The FPS CRM Fee Governance Group will meet to assess the price per transaction on an annual basis. Should there be an urgent need to change the price per transaction, the Chair may call an ad hoc meeting with a minimum of 4 weeks and a maximum of 8 weeks' notice. If there are no ad hoc meetings, it is expected that the price per transaction will remain stable for the entire year.
Secretary	UK Finance

Annex 7

Customer Journey: Mandatory vs Voluntary

The following slides shows the customer journey for reimbursement under a voluntary reimbursement funding model and then under an equivalent mandatory model. They show only what would happen in a scenario where neither the sending, nor the receiving, PSP were signed up to the Code.

Before establishing the customer journey process flow, a set of overarching principles were agreed at the APP Steering Group on 19th February.

Overarching Principles

1. Customers who have met their requisite level of care will always be reimbursed (either via the PSP or No Blame Fund)

2. Customers who have not met their requisite level of care will not be reimbursed, except in cases of vulnerability

3. Vulnerability is always taken on a case by case basis and assessed as such

4. The sending PSP always administers the reimbursement (within the timings stipulated within the code)

5. Shared blame between PSPs is always assumed to be a 50/50 reimbursement split, when the customer has met their requisite level of care

6. Nothing in this Code should prevent any PSP, whether UK-based or not, exercising its discretion to provide ex gratia payments to a Customer should it decide to do so (however, ex gratia payments are to be made on a case by case basis and will not affect the overarching CRM principles for reimbursement)

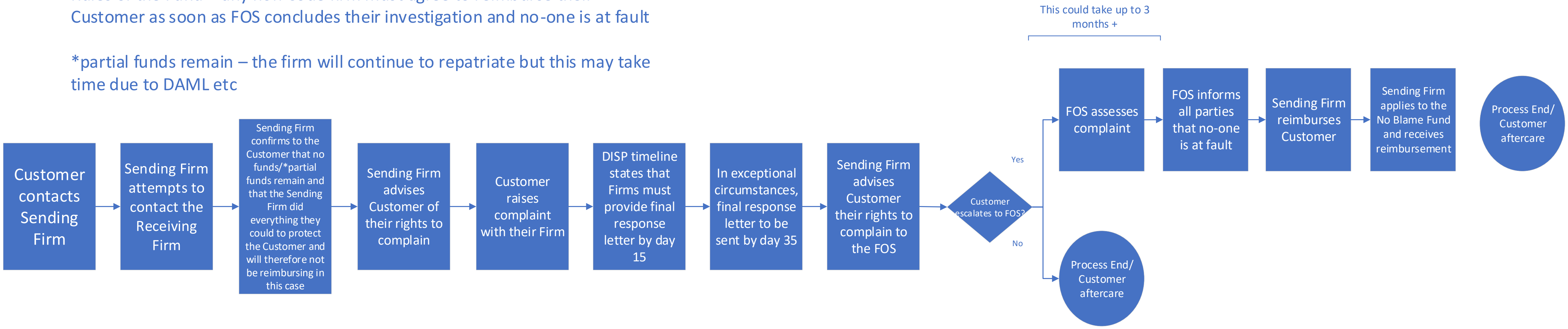
Customer Journey

UK FINANCE

Mandatory Payment Scheme

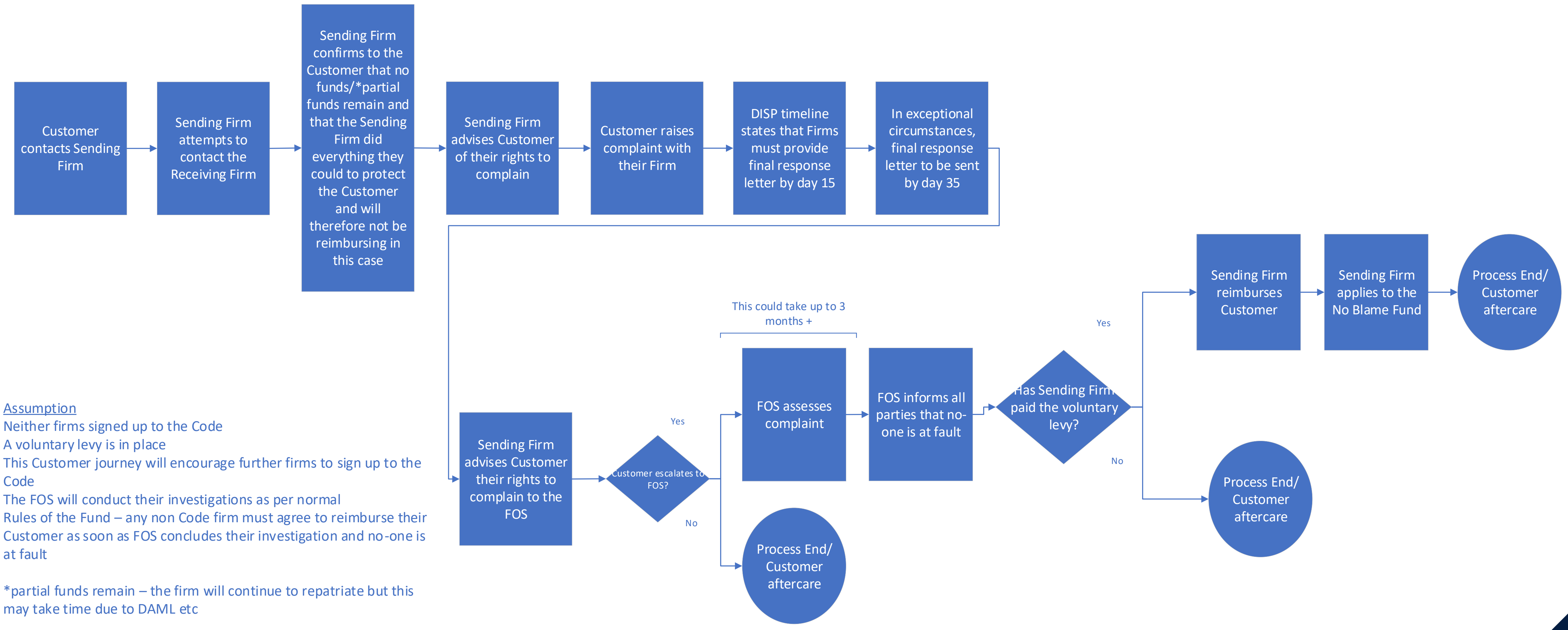
<u>Assumption</u>
Neither firms signed up to the Code
An industry wide levy is in place
This Customer journey will encourage further firms to sign up to the Code
The FOS will conduct their investigations as per normal
Rules of the Fund – any non Code firm must agree to reimburse their Customer as soon as FOS concludes their investigation and no-one is at fault

*partial funds remain – the firm will continue to repatriate but this may take time due to DAML etc



Customer Journey

Voluntary Payment Scheme



<u>Assumption</u>
Neither firms signed up to the Code
A voluntary levy is in place
This Customer journey will encourage further firms to sign up to the Code
The FOS will conduct their investigations as per normal
Rules of the Fund – any non Code firm must agree to reimburse their Customer as soon as FOS concludes their investigation and no-one is at fault

*partial funds remain – the firm will continue to repatriate but this may take time due to DAML etc

Conclusions

Under a mandatory scheme **all** customers that meet their requisite level of care will be ultimately entitled to reimbursement, even if neither the sending or receiving bank are signed up to the Code. This will have to go through FOS when neither PSP is signed up to the Code but, crucially, the customer will ultimately receive their funds back if they have done nothing wrong. This provides consistency for all customers in the UK.

Under a Voluntary Scheme only customers PSPs who have paid into the voluntary fund will be entitled to No Blame Fund reimbursement. This creates a situation where customers could have taken equal levels of care and yet one is reimbursed and another isn't. This sends out a confusing-message for customers and one which we might expect consumer groups, media and potentially regulators to challenge industry on.

Therefore an agreed mandatory scheme is of clear benefit to customers, and also industry. It is a chance for the finance industry to create a clear and powerful message that if a customer is a victim of fraud in which they are not to blame, they will be reimbursed.