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PAY.UK CALLS FOR “NO-BLAME” FRAUD REIMBURSEMENT

Independent operator announces conclusions and recommendations following Call for Information on financing a central fund

London, Friday 15 November 2019: Pay.UK, the UK’s independent payment scheme operator, has concluded there is no industry consensus to finance a central fund to reimburse innocent victims of Authorised Push Payment (APP) “no-blame” fraud – with the payments sector raising doubts over the proposed model’s implementation and effectiveness. In response, Pay.UK has today proposed a series of actions and alternatives to help the industry drive this issue forward.

This announcement comes following a proposal from a group of seven payment providers, seeking to amend the Faster Payments Scheme rules. They proposed introducing a rule requiring all payment providers that directly connect to the Faster Payments system to pay into a shared central fund, which would be used to reimburse innocent victims of APP fraud in cases of “no-blame”. Pay.UK gathered evidence through the first public call for information inviting views from banks, building societies, charities, consumer groups and businesses on the proposal.

Commenting on the announcement, Paul Horlock, CEO, Pay.UK, said: “We believe that innocent victims need to be reimbursed in a “no-blame” scenario, as does most of the industry. We launched our call for information to understand from the industry how best this might be achieved.”

The evidence from the call for information reveals a lack of consensus among payment providers on how to fund “no-blame” reimbursement. It also points to a number of unresolvable issues with the proposal, including whether it would be effective in driving investment in fraud prevention, the impact it would have on competition, and whether it could be effectively implemented or enforced.

Despite the proposal not receiving widespread support, there was overwhelming agreement among payment providers that customers should be reimbursed in a “no-blame” scenario. Pay.UK is now calling on industry and regulators to work together to find a solution that gives customers peace of mind and meets the needs of different types of payment providers.

Horlock continued: “The evidence we’ve gathered suggests that giving payment providers more flexibility and control – for example, through a self-funding model – in the way they fund reimbursement is more likely to lead to better and consistent outcomes for consumers. It is critical that the whole industry plays its part. We’ve already seen examples of payment providers taking significant steps to protect their customers independently, and we believe a

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flexible alternative will create the conditions for all parties to tailor their approach to funding and offer consumers a consistent experience.”

The payments industry has worked with consumer representatives to develop the voluntary APP CRM Code, which sets customer protection standards for signatories, including defining when victims should be reimbursed by their payment provider. This is a significant achievement, which is already helping to protect customers.

To give customers further reassurance, Pay.UK is inviting support from industry and regulators to work together to explore the feasibility of developing an “APP Guarantee” in the Faster Payments Scheme. This would formalise payment providers’ commitment to protect their customers on an enduring basis in the event of a “no-blame” APP scam.

Pay.UK has also welcomed the Treasury Committee’s recommendation to introduce legislation to underpin the Code and protect the interests of victims of fraud.

Horlock concluded: “Consumers must remain the central focus as we move forward. We are keen to see government and regulators help deliver a consistent solution for them across all payment systems. Without regulatory intervention, any further work – including the proposed Guarantee – would be dependent on consensus across the industry. In the meantime, the power to compensate individual customers remains in the hands of payment providers.”

ENDS

Notes to Editors:

What is Pay.UK?

- Pay.UK is an independent, not for profit, company that operates the Faster Payments, Bacs and cheque systems.
- The Faster Payments system enables banks, building societies and other payment service providers (PSPs) to offer online and mobile payments to their customers. We also administer the rules that define how these PSPs use our system to transfer funds on behalf of their customers. We are regulated by the Bank of England as well as the Payment Systems Regulator because what we do is critical to the economy and the people and business who make payments every day.

Background – the “CRM Fee Change Request”

- An Authorised Push Payment (APP) fraud or scam is made when people request that their PSP make a payment from their account to another account. Scams involving APPs occur when consumers are tricked into authorising a payment to an account that they believe belongs to a legitimate payee – but is in fact controlled by a scammer. Payments related to APP scams can be made over different payment systems and over different payment channels, including the phone, online, or in person, and most are completed instantly.

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- In May 2019 the APP CRM Code (“the Code”) was launched by eight founding PSPs. The Code is voluntary and sets customer protection standards for signatories – including defining when victims should be reimbursed by their PSP.
- The code went live in May and since then, work has continued to determine how to fund one particular case of APP scam known as “no-blame”. This is where both the customer and PSP have met the requirements of the Code, but a fraud has still been perpetrated. Work on “customer blame” and “PSP blame” scenarios was concluded before the Code went live.
- A group of seven PSPs – all Code signatories – made a proposal to Pay.UK at the end of July asking that we amend the Faster Payments Scheme rules. They proposed introducing a rule requiring all PSPs who directly connect to the Faster Payments system to pay into a shared central fund, which would be used to provide reimbursement in cases of “no-blame”.
- Our rules and regulatory requirements ensure we consider the views of all relevant service users when considering such proposals. To support this, we asked stakeholders for their views and insights through a Call for Information (Cfi), which closed on 1 October. This was the first public consultation on a specific mechanism to fund cases of “no-blame”.
- In parallel, the industry has progressed work to consider alternative ways to reimburse consumers in a “no-blame” scenario, focusing on individual PSPs reimbursing their customers directly, rather than through the central fund. This is referred to as the “self-funding” model.

Our conclusions

- We received a strong response to our Call for Information giving us significant evidence and insight. This demonstrated no consensus for funding “no-blame” through a central fund.
- Pay.UK has concluded from the evidence and our analysis, that we cannot progress the CRM Fee proposal because:
 - The lack of consensus among banks, building societies and other payments providers means the proposal couldn’t be implemented or enforced in practice.
 - The approach of creating a shared, central fund could dampen individual incentives to invest in fraud controls.
 - Requiring all parties to manage their risk in the same way, regardless of their business model, and systems and controls, could create undesirable competition effects.
 - We don’t think it is right from a policy perspective for our rules to be used to make a separate and voluntary initiative mandatory.
- However, very positively, we found the vast majority of PSPs support providing reimbursement to customers in cases of “no-blame”. Pay.UK wants to work with the payments industry to harness this positive intent. Today we have made a series of recommendations to move this issue forward quickly.

Our recommendations

Pay.UK will do all it can within the scope of its powers as a payment systems operator to ensure consumers are protected and don’t fall victim to fraud.

- From this the Call for Information, it is clear that there needs to be a concerted effort to reach consensus on the funding of “no-blame”. We think there is a role for regulators, the payments industry and Pay.UK in reaching that consensus. We have today proposed the steps that we think should be taken next on this issue, including:

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- We welcome the Treasury Committee's report into Economic Crime recommending the introduction of legislation to underpin the Code and protect the interests of victims of fraud. We are keen to see Government and regulators help deliver a consistent solution for consumers across all payment systems.
- The adoption into the Code of a flexible self-funding model that meets the needs of different PSPs and gives customers peace of mind.
- Pay.UK has outlined the possibility of a Guarantee (similar to the Direct Debit Guarantee), and is ready to coordinate work on the feasibility of this, with support from regulators and industry.

Find out more on our website: wearepay.uk or get more detail on the systems we manage: bacs.co.uk, chequeandcredit.co.uk, fasterpayments.org.uk, paym.co.uk.