pay.uk

2 Thomas More Square
London E1W 1YN

[redacted]
www.wearepay.uk

The Rt Hon. Mel Stride MP
Chair of the Treasury Committee
House of Commons
Committee Office
London
SW1A 0AA

7 February 2020

Dear Mr Stride,

Pay.UK response – Treasury Committee report on Economic Crime: Consumer View

Pay.UK welcomes Treasury Committee's report 'Economic Crime: Consumer View' published on 1 November 2019. We are especially supportive of the view that the Contingent Reimbursement Model (CRM) Code should be underpinned in legislation, in particular giving public policy makers and regulators the ability to put in place market-wide rules to protect the interests of victims of fraud is something that we strongly support.

Pay.UK is an independent, not-for-profit company, created following a key recommendation in the Payments Strategy Forum's (PSF) 2016 Strategy. The PSF, which was established by the Payment Systems Regulator, recommended that the governance of the Bacs, Faster Payments and cheque clearing payment systems operators should be consolidated into a single payment systems operator – now called Pay.UK.

As well as operating these three key payment systems, Pay.UK also delivers a variety of other services relating to payments and is responsible for designing the New Payments Architecture – which will upgrade and enhance the UK's retail interbank payment systems.

As the system operator of the UK's retail payments services and given our position at the heart of the payments ecosystem, we wanted to respond with our insight on some of the points in the report.

Confirmation of payee

Pay.UK has developed and delivered the rules, standards and relevant documentation for the first phase of confirmation of payee. This phase enables all UK Sort Code-owning payments service providers (PSPs) that are able to enrol in the Open Banking directory, to participate in confirmation of payee, and will allow them to incorporate confirmation of payee into existing and new payment services. It is now the responsibility of those PSPs to build their capabilities and solutions to incorporate confirmation of payee to help prevent payment misdirection, some of which may be caused by fraud. The first confirmation of payee implementations are expected by the end of March 2020.

Paragraph 42 sets out a recommendation that “The Payment Systems Regulator should therefore ensure that all relevant firms can implement Confirmation of Payee by the end of 2020”.

Pay.UK, as the owner of the rules and standards for confirmation of payee which were established in the first phase, is now considering a second phase of activity towards enabling a confirmation of payee capability that all account-holding PSPs can implement. As part of this, Pay.UK will look to enable the following additional propositions so that all relevant firms can participate in confirmation of payee should they choose to:

- Accounts with non-sort code ‘owning’ PSPs addressable through secondary reference numbers (e.g. agency banks that have Collection Accounts with their sponsoring bank – such as small building societies)

- Other sort code and account number (SCAN) addressable accounts with PSPs not in scope for the first phase, i.e. those PSPs in Crown Dependencies – for example firms based in the Isle of Man

The second phase activity has just commenced and we will continue to work with the industry through 2020 to define the rules and standards.

Paragraph 43 sets out a recommendation that “*spelling mistakes are flagged within the new Confirmation of Payee System*”.

The capability to identify and flag simple spelling mistakes is built into the confirmation of payee rules and standards. When a typographical error is identified by the payee PSP (the bank receiving the confirmation of payee request), it will respond to the payer PSP (the bank sending the confirmation of payee request) in one of two ways:

1. Advise that a positive match has not been achieved but a ‘close match’ has been identified and provide the payer bank with the name on the payee’s account. This detail is then passed to the payer with a clear warning notification. The payer is then able to check and make an informed decision as to whether the correct account has been identified.

2. The payee’s bank can, alternatively, accept a spelling mistake, on a risk assessed basis, in which case the payer will receive confirmation that the account matches, allowing a payment to continue. In this example, the payee bank will take on the liability in case of a fraudulent transaction.

It is important to note that whilst the rules account for typographical errors, the processes are very reliant on the quality of data input by customers. Education of customers will be critical both before a transaction is made and at the moment of input. We see a great opportunity for participating firms to learn from the experiences gained in the implementations that are about to commence.

Contingent Reimbursement Model

2 Thomas More Square
London E1W 1YN

[redacted]
www.wearepay.uk

In paragraph 114, it is stated that "*the code should now be made compulsory through legislation*" as the first year review of the Code is approaching.

Pay.UK welcomes Treasury Committee's recommendation to make the Code mandatory via legislation. We believe that this would lead to improved consumer outcomes across all payment channels, not just Faster Payments[1].

Pay.UK recently announced a decision following our Call for Information on introducing a requirement into the FPS Rules for Participants to pay a Contingent Reimbursement Model (CRM) Fee[2]. The proposal was for the fee to raise money to fund a central pot to reimburse no blame victims of APP Fraud (with the Code defining when a no blame scenario has taken place as well as introducing minimum standards of fraud controls). This came as a result of Pay.UK receiving a change request from UK Finance on behalf of seven Faster Payment Scheme (FPS) Direct Participants: Barclays; HSBC; Lloyds Banking Group; Metro Bank; Nationwide; RBS; and Santander.

The evidence that we gathered through the public call for information raised a number of issues, and our independent Board concluded that it was not possible to progress the change request for a number of reasons:

- 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 didn't think it right from a policy perspective for our rules to be used to make a separate and voluntary initiative mandatory.
- The lack of consensus among banks, building societies and other payments providers meant the proposal couldn't be implemented or enforced in practice.

Through our call for information, Pay.UK was pleased to find that payment providers were clear that they believed that innocent victims of fraud should be reimbursed in a 'no consumer or no PSP blame' scenario, with many PSPs supporting a "self-funding approach" as opposed to a centralised fund. The PSPs are now deciding how to take the question of funding forward. The power to compensate individual customers is, and always has been, in the hands of the payment service providers should they wish to do so.

[1] APP Fraud can happen over the Faster Payments Scheme, CHAPS and via on-us transactions (a transaction between two customers who use the same bank). Pay.UK is responsible for only the Faster Payments Scheme in the above.

[2] https://www.wearepay.uk/wp-content/uploads/2019/11/Overview-of-Pay.UK-Decision-Document-15-Nov-2019.pdf

Pay.UK Limited is a company limited by guarantee, incorporated in England. Company Registration Number: 10872449
Registered Office: 2 Thomas More Square, London, E1W 1YN Email: enquiries@wearepay.uk

Delaying Faster Payments

In paragraph 50, a recommendation is made that there should be "*a mandatory 24-hour delay on all initial or first-time payments*".

Faster Payments are set up to be near real-time and execute immediately on receipt from a PSP of customer present payments or on the future date confirmed by the payer. As Pay.UK would not have the information to administer any such delay, our assumption is that such an obligation could only be placed on PSPs, who would be in a position to assess whether and when a delay is warranted.

I would be happy to discuss any of the above points raised in this response with you.

Yours sincerely,

Paul Horlock
CEO

[redacted]
W: www.wearepay.uk
A: 2 Thomas More Square, London E1W 1YN

pay.uk
The new home for Bacs, Faster Payments and Cheque and Credit Clearing

CC: Chris Hemsley, Managing Director, The Payment Systems Regulator