FINANCIAL CONDUCT AUTHORITY
PAYMENT SYSTEMS REGULATOR

Preventing and responding to authorised push payment scams: The role of payment system operators

Call for input from payment service providers

May 2017

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1. Introduction

1.1 On 30 March we published the final terms of reference[1] for our work considering the potential for operators of push payment systems to play an expanded role in reducing consumer harm from authorised push payment (APP) scams.

1.2 This work forms one part of our response[2] to the super-complaint we received from Which? regarding APP scams.

1.3 In this project, we are focussing on APP scams that target consumers, and the systems that consumers use for push payments (CHAPS and FPS).

1.4 We have two objectives for this project:

1. We will consider whether it would be effective and proportionate for operators of push payment systems to play a greater role in preventing and responding to APP scams (and possibly wider fraud). The expanded role might be in the form of actions that the operators might take, or new requirements that the operators might place on PSPs using their systems.

2. If we conclude that new measures are appropriate, we will consider whether it would be best to introduce them through regulatory action or through other approaches (for example, industry led). If we decide on a regulatory approach, we will develop proposals for consultation.

1.5 To achieve these objectives, our work will focus on answering five key questions:

1. How do UK practices towards APP scams compare with those in other countries?

2. How do practices towards APP scams compare with practices for other UK disputed payments?

3. What can be learned from non-payment networks?

4. What are the economic incentives for preventing and responding to APP scams?

5. If appropriate, what actions can we take to expand the role of payment system operators in APP scams?

1.6 We are issuing this call for input to gather views from payment service providers (PSPs) to help inform our work. It is part of our wider information gathering work for this project.

1.7 We are doing a call for input from PSPs because:

- PSPs interact with payment systems, either directly or indirectly, on behalf of their end users. As a result, they are well placed to provide views as to whether there is any more

1 https://www.psr.org.uk/psr-publications/policy-statements/authorised-push-payment-scams-role-of-operators-final-terms-reference
2 https://www.psr.org.uk/sites/default/files/media/PDF/PSR-Which-super-complaint-response-December-2016.pdf

that operators of those payment systems could potentially do to reduce harm from APP scams.

- PSPs frequently operate across multiple geographies and jurisdictions, and may be aware of practices in other systems that we should consider as part of this work.

- PSPs also typically themselves undertake a significant amount of fraud prevention and mitigation work in order to reduce harm to their customers. They may therefore be well placed to provide views as to whether it is appropriate for elements of this work, or complementary work, to take place at the centre of payment systems.

1.8 While this call for input is focussed primarily on gathering input from PSPs, we also welcome submissions from other interested parties.

1.9 We are interested in understanding potential actions that operators of push payment systems could take to help reduce consumer harm from APP scams.

1.10 We are interested in potential actions that could reduce consumer harm through both:

- helping to prevent APP scams in the first place, and

- helping with an effective response when APP scams are reported.

1.11 We are interested in potential actions that may reduce consumer harm by:

- targeting fraud generally, including APP scams, or

- targeting APP scams specifically

1.12 We are interested in two broad categories of potential actions:

- Actions that operators could take directly themselves, such as the development of new capabilities into the central payment system technical infrastructure

- Actions that operators could take to place additional requirements or responsibilities on PSPs that use the system in question

Context of this work

1.13 We recognise that we are undertaking this work during a period of significant wider change within the payment industry. This includes:

- the proposed consolidation of Bacs Payment Schemes Ltd (BPSL), Faster Payments Scheme Ltd (FPSL) and Cheque & Credit Clearing Company Ltd (C&CCL),

- development of the new payments architecture (NPA) and the wider work of the Payment Strategy Forum (the Forum)

- the Bank of England's alternative delivery of the UK high value payment system

- the implementation of the second EU Payment Services Directive (PSD2) and

- the development of Open Banking.

1.14 There is also wider work already underway by various bodies aimed at addressing consumer harm caused by APP scams, including:

- The work of the Forum developing confirmation-of-payee capabilities, and on financial crime-related initiatives – in particular, those related to financial crime intelligence sharing and payment transaction data sharing and analytics
- The work of the Joint Fraud Taskforce, in particular its initiatives relating to recovering funds paid out as a result of scams; development of further public education campaigns; work on developing a strategic action plan for the treatment and protection of fraud victims and vulnerable consumers
- The work we agreed that Financial Fraud Action UK would lead on as part of our response to the Which? super-complaint. This work includes developing best practices for banks when responding to reports of scams, work on information sharing, and collecting better data on the scale of the issue.

1.15 In providing views, we would encourage respondents to consider this wider background of change and its interaction with any potential change in the role of payment system operators. In particular, we are interested in views as to:

- whether the existing programme of change will effectively address consumer harm from APP scams
- whether the current programme of change needs to be amended to effectively address consumer harm from APP scams
- whether there needs to be changes in the role of payment system operators that are incremental to those already underway in the existing programme of change

2. Questions

Q1 Do you think that the operators of UK push payment systems should play a greater role in helping to reduce consumer harm from APP scams? If so,

- Provide your views on the specifics of what this greater role should be, including the potential associated benefits and costs
- Provide your views on how the introduction of this greater role could interface with the wider programme of industry change currently underway (including the implementation of the new payment system operator (NPSO) and development of the NPA)
- Highlight any potential barriers to the introduction of such measures

Please provide your response in consideration of the wider background of change currently underway in the payments industry (as described at paragraphs 1.13-1.15 above).

Q2 Are you aware of any practices of push payment system operators in other countries that are aimed at reducing consumer harm from APP scams? If so:

- Describe these practices
- Provide your views as to whether you think it would be appropriate to introduce similar practices within the UK

Q3 Please provide your views as to whether you think there is merit in push payment system operators developing any of the following technical functionalities and processes:

- Centralised monitoring of payment transactions by the payment system operator to identify potentially fraudulent activity
- Development of fraud-related communication through the central system infrastructure (e.g. that enables either the central system or sending PSPs to flag potentially fraudulent payments to receiving PSPs)

Q4 Do you think there is merit in considering the introduction of a "chargeback" type mechanism, similar to that in place in card-based pull payment systems, for consumer-initiated push payments?

- If so, how would a similar mechanism function?
- If not, what characteristics of pull payments make such a mechanism appropriate for use in card-based pull payment systems and not push payment systems?

Q5 Are there any further comments you would like to make at this time?

3. Next steps

3.1 Please provide us with your response by **30 June 2017**. Responses can be emailed to us at app-scam-pso-project@psr.org.uk. Or posted to us at:

APP scams project team
Payment Systems Regulator
25 The North Colonnade
Canary Wharf
London
E14 5HS

3.2 Please note in some instances we may request follow-up meetings to discuss responses received from stakeholders.

Disclosure of information

3.3 Generally we will seek to publish views or submissions in full or in part. This reflects our duty to have regard to our regulatory principles, which include those in relation to:

- publication in appropriate cases
- exercising our functions as transparently as possible

3.4 As such, we would ask respondents to minimise those elements of their submission which they wish to be treated as confidential – we will assume consent for us to publish material which is not marked as confidential. If respondents include extensive tracts of confidential information in their submissions, we would ask that they submit non-confidential versions which they consent for us to publish. We will also not accept blanket claims of confidentiality, and will require respondents to identify specific information over which confidentiality is claimed, and to explain the basis on which confidentiality is sought.

3.5 Despite this, we may be asked to disclose a confidential response under the Freedom of Information Act 2000. We may consult you if we receive such a request. Any decision we make not to disclose the response is reviewable by the Information Commissioner and the Information Rights Tribunal.

3.6 Respondents should note that we will not disclose confidential information that relates to the business or affairs of any person, which we receive for the purposes of our functions under the Financial Services (Banking Reform) Act 2013 (FSBRA), unless one of the following conditions apply:

- The information is already lawfully publicly available.
- We have the consent of the person who provided the information and, if different, the person it relates to.
- The information is published in such a way that it is not possible to ascertain from it information relating to a particular person (for example, if it is anonymised or aggregated).

- There is a 'gateway' permitting this disclosure. Among the gateways is the 'self-help' gateway whereby the PSR will be able to disclose confidential information to third parties to enable or help it to perform its public functions. Those receiving information disclosed under the gateway are still bound by the confidentiality regime.

25 The North Colonnade
Canary Wharf London
E14 5HS
Telephone: 0300 456 3677
Website: www.psr.org.uk