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Improving Trust in Safe and Certain Payments

Payments Strategy Forum | Second Payments Community Event

FCDS WG - Overview

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- Current payment systems in the UK have some areas of weakness that can be exploited for financial crime activities
- Harm all end-users of payments: individuals, businesses, charities and government/ public sector organisations; (…and PSPs)
- Joined up view across fraud and financial crime:
  - fraud
  - money laundering
  - bribery and corruption
  - sanctions breaking
  - terrorist financing
- Address crime as an issue for society, not just a commercial issue for PSPs

FCDS WG - Approach

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- Objective
  - To engender user trust in safe and certain payments through collaboratively preventing financial crime
- Monthly WG meetings
- 3 editorial teams
  - Identity
  - Transaction Data Sharing and Analytics
  - KYC data sharing/ sanctions data
- Working Group of over 40 members
  - trade associations
  - public sector users
  - credit reference agencies
  - small PSPs
  - medium banks/ challenger banks
  - large banks and building societies
  - payment scheme operators
  - payment system operators/ vendors
  - lawyers
  - regulators
  - consultancies

FCDS WG Detriments

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Customer identity, authentication, and knowledge

- An identity is used successfully by a criminal (3rd-party)
- A payment is made to a wrong account
- Friction in the payment experience
- Understand who is the payment recipient / beneficiary

International payments and account activity

- Perceived risk of fraud is higher for international payments
- Lack of understanding of ultimate beneficiary owner (UBO)
- Emergence of alternate PSPs and methods where regulation is less robust

Data Sharing, Reference Data, Analytics

- Real-time payment risk assessment is limited
- Banks cannot work quickly together to target mule accounts

Customer Education & Awareness

- Lack of customer awareness about mule account activity
- Lack of customer awareness of widespread methods use for fraud

FCDS WG – Solution proposals

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- Education and awareness activities
- Standards for managing identity
- Payments transaction data sharing and analytics
  - Improved sharing of financial crime intelligence
- Know-your-customer (KYC) data sharing (for business customers)
  - Quality of data on sanctions lists

Customer Education and Awareness

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- Current fraud / financial crime threats are already covered by existing Education and Awareness campaigns/ messaging activities within the industry
- Priority therefore is for the payments industry / community to engage and support existing plans and activities
- Important that the industry enables a forward-looking component to pre-empt small but growing payments methods
- Support cross-industry collaboration for clarity of messaging
- Frequent review / monitoring of effectiveness of existing activities; determine whether supplementary activity is required

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Standards for Identity, Verification, Authentication, and Risk Assessment

Proposed Identity solution

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A: Technical Standard:

- Develop a single technical standard to ensure that PSPs use the same language to describe identity and its attributes

B: Governance Standard:

- Develop a single governance standard. enforced through audits, to
  - set proportionate/ risk-based requirement for identity validation, verification and authentication
  - provide assurance guidance to PSPs for validating and verifying identity evidence
  - describe elements of processes that should be carried out

C: Digital identity roadmap

- Develop requirements and roadmap for digital identity services to support payments (and financial services)
  - a single system for national digital identity for all accountholders, and UK residents
  - collaborate with national digital identity services

Solution Capabilities	
1	Identity Validation
2	Identity Verification
3	Enrolment and Issuance
4	Authentication
5	Information Attribute Exchange and Confirmation
6	Payment Risk Assessment
7	Mutual Authentication (Account Management)

Identity solution - Benefits

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Benefits to consumer/ users

- Improved protection from account takeover, identity theft, account misuse and other financial crime
- Higher confidence in payments processing
- Improved ability to assert identity and ownership of accounts

Benefits for regulators/ legislators

- referenceable standard for identity

Benefits to PSPs

- clear, consistent rules across all payment mechanisms and customers.
- clear principles of operation for identity proofing, verification, authentication and risk scoring
- consistent standard for data sharing and risk scoring … and ability to procure and consume common services from a number of providers

Examples of fraud types addressed

- Unauthorised Card Not Present transaction (£398m* in 2015)
- Remote Banking Fraud losses (£169m* in 2015)
- Direct debit fraud
- Telephone Banking Fraud

*(*source: FFA Fraud Report 2015)*

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Payments Transaction Data Sharing and Data Analytics

Financial Crime Intelligence Sharing

Solutions options

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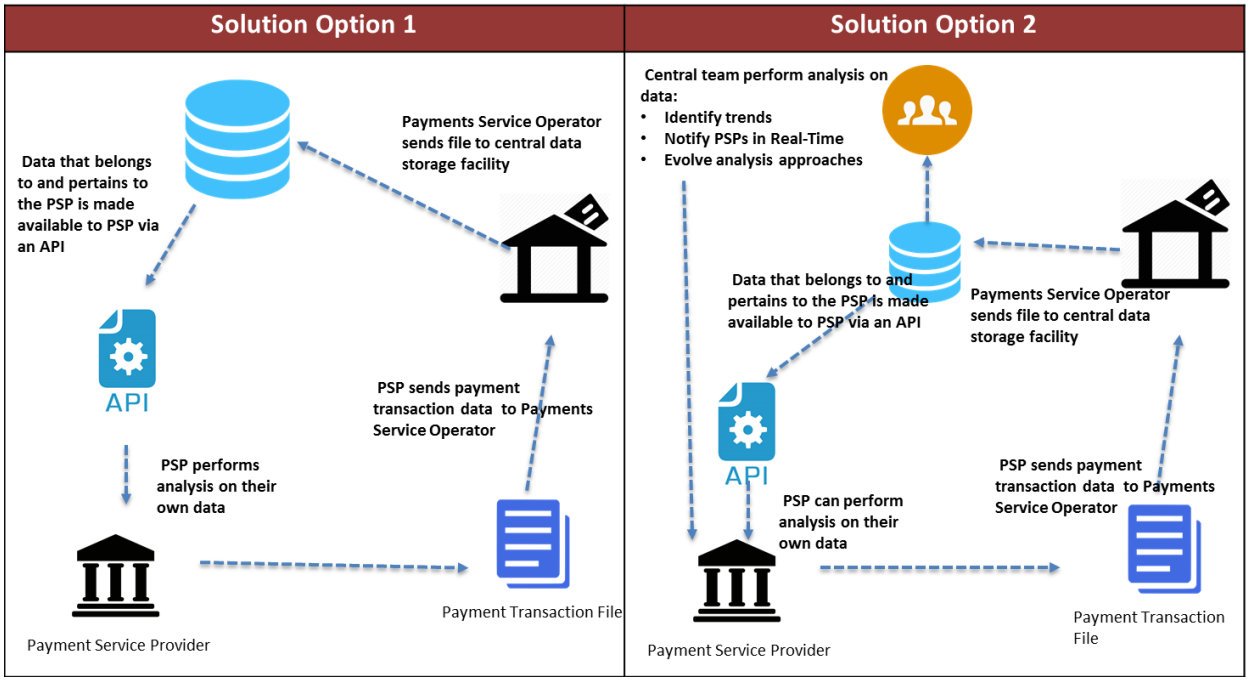
- The Working Group considered 2 main options, plus variations
  - Central transaction data sharing repository
  - Analytical capability: local to PSP; or central industry capability



Benefits of Data Sharing / Analytics Solution

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- Identification of money mules accounts
- Funds repatriation to victims of crime
- Flexible to be applied to an ever-changing range of criminal activities
- Macro-scale: force particular types of criminal activity out of the UK payments system

Detriments addressed

- Day-to-day concern about risk of identity theft, risk of fraudulent activity
- Insufficient reference data and lack of knowledge share
- Banks cannot work quickly together to target mule accounts and to prevent funds being paid away
- Real-time payment risk assessment is limited, reducing the capability of customers and PSPs to act against fraudulent payments.

FC Intelligence Sharing – Solution Proposal

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- Industry builds a single view of confirmed, suspected and attempted fraud data and other financial crime data,
  - subject to robust legal framework
  - data held is made available to PSPs
- Expand sharing of typologies and trends for anti-money laundering (AML) and other financial crime
  - definition of the standard / format / materiality in which the PSPs would share
  - extending the existing light registry / central repository
- Transaction/ customer-level sharing
  - share transaction/ customer level data & actions between PSPs.
  - encompass confirmed, suspected and confirmed attempted crime
  - address regulatory barriers to improve repatriation of funds to victims
  - work with government to assess barriers for sharing suspicion
  - link into the shared analytical capability solution

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Trusted KYC Data Sharing and Storage Repository

Enhanced Sanctions Data Quality

Know Your Customer (KYC) Sharing - Recommended solution

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- Working Group recommendation is for industry to adopt **Central Know Your Customer (KYC) Utility Repository** model - focused on business customers
  - consolidates KYC
  - a non-competitive process,
  - into a shared services utility for member institutions.
- Further consideration due to dependencies on
  - implementation of the proposed Identity & verification solution
  - regulatory/industry initiatives in flight e.g. PSD2
- Dependencies / linkages to
  - broader financial services beyond payments
  - regulatory and legislative bodies

KYC Data Sharing - Benefits

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Provide a utility to improve management of anti-money laundering and fraud risks, for business customers:

- Reduce duplication of efforts by both customers and financial institution
- Increase the speed of customer transaction execution and on-boarding
- Improve switching process for customers
- Provide greater transparency of financial institution, customer and UBO (ultimate beneficiary organisation)
- Improved reference data will reduce money laundering; improve adherence to sanctions
- Enable easier integration into the wider global KYC environment
- Reduced costs for the industry in compliance: people, systems

Solutions Data Quality – Proposed Solutions and Benefits

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Solution proposal

- An Advanced Sanctions Data Model has been developed by the UN 1267/1988 Security Council Committee.
- Solution proposal for the industry to engage with the PSR and HM Treasury to adopt the Advanced Sanctions Data Model
- In addition
  - data improvements to the HM Treasury list
  - process improvements to the investigation process
  - construct additional screening lists for sectoral and dual-use goods sanctions

Benefits

- Enable improved detection capabilities for PSPs
- Help eliminate frequent errors that find their way onto the lists
- Help the transfer of Sanctions Entity information between states
- Improved customer experience through faster, more accurate risk decisions
- Fewer false positives & false negatives
- PSP confidence in customer due diligence (CDD) processes

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Progressing the Strategy

How the Strategy will move from draft to final

Beyond draft strategy

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- Phase 1:

  13th July - to draft strategy publication – this sets out the Forum's view that the UK payment systems need to modernise and change to stay fit for purpose and meet changing end users need;

- Phase 2:

  14 September – end of Consultation Period – develop high-level quantitative cost/benefit analyses for each relevant solution; review responses to enhance the CBA

- Phase 3:

  November 2016 – publish strategy document

- Phase 4:

  November and beyond – potential for detailed design phase for solutions to be progressed

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Next Steps

What we'd like from everyone in the Payments Community

Our request to you

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Please:

- Read the Strategy and think about what it means for you and those you represent;
- Respond to the questions it asks – as many or as few as you wish;
- Get more engaged if you can to help ensure its success; and
- Ask us your questions!