



The UK's Fraud Prevention Service

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**COMMENTS BY CIFAS – THE UK'S FRAUD PREVENTION SERVICE –
ON THE PAYMENTS COUNCIL'S
NATIONAL PAYMENTS PLAN CONSULTATION**

CIFAS is the UK's Fraud Prevention Service with over 270 Members spread across banking, credit cards, asset finance, retail credit, mail order, insurance, investment management, telecommunications, factoring and share dealing. Members share information about identified frauds in the fight to prevent further fraud. CIFAS is unique and is the world's first not-for-profit fraud prevention data sharing scheme.

Given that CIFAS operates primarily within financial services, we have a direct interest in the operation of this sector, and welcome the opportunity to comment on relevant aspects of this consultation.

1. The Payments Council is minded to develop a proactive industry plan to manage what it sees as the irreversible decline in cheques. Do you agree that a plan for cheques should be developed?

CIFAS agrees that a plan for cheques should be developed.

2. For which types of payment currently made by cheque do new alternatives need to be introduced?

CIFAS suggests that the types of payment currently made by cheque for which new alternatives need to be introduced include:

- Gifts of money that can be sent with a greetings card without spoiling the surprise element of the gift.
- Payments to small tradespeople like window cleaners who would not wish to reveal their bank details to all their customers for fear of identity fraud.
- Person to person transactions such as an individual selling a car.
- Deposits on purchases. People generally would not wish to reveal their card details for fear that there would then be nothing to stop the recipient debiting the balance of the purchase. With a cheque there is more control.
- Large payments on completion of building work or the installation of a kitchen, for example, where an element of control is again essential.

3. Would it be acceptable for the National Payments Plan to include a target date of 2018 for the closure of the cheque clearing (on the assumption that acceptable alternatives to cheques have been developed)?

On the assumption that acceptable alternatives have been developed, CIFAS agrees this target date would be acceptable. It will be essential that, when considering alternatives, the Payments

Council takes into account the level of computer access available to those who are financially disadvantaged and to the elderly and infirm, to ensure that there are no barriers to their ability to use the alternatives.

4. What sort of education of users is needed to support the migration away from cheques?

Users will need to be given full information about the reasons behind the need for change, the new options that are being provided, clear information about the way these should be used, their advantages and disadvantages and any cost implications.

5. Do you agree that, as part of the National Payments Plan, there should be an objective review of the future of the Cheque Guarantee Card scheme?

This would naturally seem to flow from the review of cheques, though CIFAS would make the point that, as long as cheques remain in existence, the cheque guarantee card scheme will also be required.

6. What other actions, if any, should there be in the National Payments Plan in relation to cheques?

For SMEs forced to take cards there are costs. Rental of the machines sometimes costs more than the commission on transactions (and in some cases can be double the commission). CIFAS therefore recommends that consideration of the cost implications for SMEs is taken into account fully, and that steps are taken to address this problem by removing the rentals altogether.

7. Do you agree that, as part of the National Payments Plan, there should be an objective review of the future of the paper credit clearing?

CIFAS accepts that this would be logical.

8. The Payments Council believes that the National Payments Plan should be developed on the assumption that cash will remain a major payment method for the foreseeable future. Do you agree?

CIFAS agrees that this is the case. For example, because of the problem of card skimming, it gives individuals a secure option for certain transactions that are particularly vulnerable, such as paying for petrol.

11. What improvements would lead to the greater take-up of direct debits by users?

Two possible improvements occur to CIFAS. First, there is a perception among consumers that direct debits give them less control than standing orders. In order to encourage consumers to choose direct debits instead of standing orders, this perception needs to be addressed. The introduction of a fixed amount direct debit that cannot be varied without the explicit consent of the account holder, as opposed to the current implied consent, might be of some help in this respect. Second, CIFAS suggests that the banks need to increase consumer confidence by having a system in place that facilitates faster reversals of incorrect transactions as some banks are reluctant to honour the current direct debit guarantee in a speedy fashion.

12. Would you support the introduction of a time-limited guarantee for direct debits in place of the current unlimited guarantee?

While CIFAS can see that the introduction of a time-limited guarantee might have attractions for direct debit originators, it could well be a double-edged sword in that this would not be something that consumers would welcome. It would not seem to us to be fair that a consumer whose account had been debited in error by an originator could have his or her claim for a refund (of what is, after all, his or her money) refused on the grounds that he or she was “too late”.

13. What time limit do you think would be appropriate?

As mentioned in our answer to question 12, CIFAS has reservations about the proposal for a time limit. Moreover, the consultation paper did not specify the likely duration of any such limit, which makes it difficult to make a judgement on an appropriate limit, if one were to be introduced. A time limit of 5 weeks, for example, would be completely unacceptable, but a time limit of 5 years could be more defensible.

14. What measures to improve the accuracy and end-to-end delivery of reference information, with internet and telephone banking payments and with other direct credits, could usefully be introduced?

It occurs to CIFAS that a system could be developed to validate reference information that accompanies electronic payments. For example a credit card bill being paid on-line involves the customer providing the credit card number as the reference. Credit card numbers can already be validated. Equally, it would be helpful if there was a straightforward (system-based, not paper-based) and accessible way for companies, including SMEs, to validate sort codes and bank account numbers as the details are input into banks' internet banking systems, rather than having errors later rejected.

16. What opportunities would you identify to exploit the ATM infrastructure for non-cash transactions?

It occurs to CIFAS that one possibility might be for consumers who do not have access to the Internet to be able to use a debit card in an ATM to pay a utility bill by using the keypad to input the recipient organisation's account code, sort code, amount, etc.

23. Do you agree that at the present stage of market development the contactless and prepaid card sectors are best left to initiatives from individual payment service providers and card schemes?

CIFAS agrees.

26 – 30. What role should the Payments Council play in the development of mobile payment services, including setting the standards for mobile payments? In particular, do you agree that the National Payments Plan should support the development of mobile payment services between bank accounts? What principal characteristics would users find attractive in a mobile payment service? What role do mobile phone payments potentially play in providing alternatives to traditional forms of payment? What other actions, if any, should there be in the National Payments Plan in relation to mobile payments?

CIFAS is concerned at the potential for fraud in relation to mobile payment services. Given the volumes of fraud prevalent in the acquisition of mobile phones and the potential for money laundering if mobile payments were to become a 'possible alternative to cash', CIFAS has serious misgivings about the possibilities mooted in the paper and would advise extreme caution.

34. What other payments innovations requiring action at industry level should be considered by the Payments Council?

CIFAS can see advantages to the introduction of online access to BACS, particularly for SMEs, over an ordinary internet terminal.

37. What role can the Payments Council play in promoting financial inclusion?

Please see our answer to question 3.

38. What other bodies should it work with to deliver this role?

Other bodies should include those who represent those on low incomes, e.g. DWP and NACAB, the elderly, e.g. Age Concern and Saga, and charities who represent those who have particular difficulties in using computers and/or telephones for whatever reason, e.g. RNIB, Parkinson's Disease Society and the MS Society.

39. What are the main challenges to the integrity of payment systems that need to be addressed collaboratively?

One possible challenge might be in relation to the introduction of faster payments, where a clerk makes a keying error which results in a loan being wrongly transferred into a particular account. Whereas in the past there was a window of opportunity in which to rectify such an error, with faster payments this will not be the case and this could cause problems.

Public confidence in the integrity of the direct debit system has been negatively affected by the ease in which direct debits can be set up on an account by criminals. An ability to 'flag' accounts for a time so that any new direct debit instructions are referred to the account holder could help maintain public confidence. This ability would, of course, only be suitable for those who have recently suffered identity theft, or had their bank details stolen.

40. How should consideration of measures against fraud be included in the assessments which the Payments Council makes of proposals for innovation?

CIFAS suggests that integral to all proposals for innovation should be a thorough risk assessment that would seek to identify any associated risks or weak points, the scope for fraud, the possible cost of fraud and the cost of mitigating it. In addition, public confidence in any payments system should be a key determinant as to whether an innovation should proceed and should override financial considerations.

43. How should the National Payments Plan address new technologies, such as biometrics, which may contribute to customer security?

CIFAS suggests that the National Payments Plan has a role to play in looking at any use of technology that might contribute to customer security. The arguments for and against the use of biometrics are well-known, and it will be important for the Plan to canvass the views of the appropriate experts, consumers (and consumer bodies) before making any far-reaching decisions.

For example, although this does not fall within the ambit of biometrics, CIFAS is aware that, a few years ago (and admittedly prior to the significant growth in online purchasing), a number of providers introduced a small number of credit cards that included on them a photograph of the holder. These were well-received and proved to be an effective fraud deterrent. It occurs to

CIFAS that the inclusion of a photograph on a card, when combined with Chip and PIN, could make the public more inclined to accept the withdrawal of cheques by creating a greater sense of security. In relation to improving customer security, CIFAS suggests that it will be important to acknowledge that, while some consumers might favour the use of biometrics, others would vehemently oppose it. It will therefore be essential to ensure that customers are given a genuine choice.

44. What actions, if any, should the National Payments Plan include in regard to data sharing?

With reference to the answer to question 39, there could be a benefit to financial institutions, businesses and consumers from the sharing of closed account numbers. A means of checking that an account is still open at the time the direct debit is set up would help reduce the number of fraudulent instructions. This could be enhanced further by the ability to verify that an account number is valid and is held in the name of the person 'authorising' the direct debit, in the same way that credit card transactions are verified.

46. What role should the Payments Council play in raising the profile of fraud and security issues and in lobbying government and the public authorities?

CIFAS suggests that the Payments Council should do so only when its constituent members agree that it should, and only where there is a consensus across its member organisations on any particular issue.

49. Would you support an initiative, led by the Payments Council, to establish a better understanding of the costs of UK payments? If so, how do you think this should be taken forward? What supporting information do you think would be relevant to such an exercise?

CIFAS would suggest that one piece of research that is almost crying out to be done is to look at a number of SMEs and what it actually costs them to process payments. This could, however, lead to the need to change the prices of different types of payment to reflect the true cost (in terms of bank charges). Before commissioning such research, therefore, there would have to be an understanding that banks and other institutions would be willing to reduce costs where the research found the costs to be beyond what could realistically be borne by the market.