



The Money Charity Response - Pay.UK Call for Information on CRM Fee Proposal (September 2019)

The Money Charity is a financial capability charity whose vision is to empower people across the UK to build the skills, knowledge, attitudes and behaviours to make the most of their money throughout their lives.¹

We welcome the opportunity to respond to Pay.UK's Call for Information on a proposal by seven Participants to introduce a Faster Payments Service (FPS) rule requiring the payment of a Contingent Reimbursement Model (CRM) fee.

In this response, we confine ourselves to 'Question Group B – Consumer benefits', which is where our main interest and expertise lies. We make some overall comments on the issue then answer questions B1 to B4 in the Call for Information.

Overall Comments

As a financial capability charity, our concern is whether the payments system is designed, structured and priced in ways that help people make financially capable decisions. The influence on decision-making of 'choice architecture' has been

¹ See box on back page.

evidenced persuasively by behavioural economics.² Scammers exploit weaknesses in existing choice architectures, human and technical, in order to perpetrate their scams.

Clearly, it is in the interests of consumers for payments systems to be designed so they are scam-resistant and, when scams do occur, the innocent customer is not left out of pocket. The UK payments system does not yet have robust anti-scam protections. There appear to be many weaknesses, including for example non-verification of payees and, indeed, the presentation of the payee name entered by the consumer as if it has been verified by the system.³ It is important that anti-scam protections are developed as fast as possible and firms are incentivised to make these investments.

We therefore welcome the APP Code,⁴ which provides consumers with some protection from APP scams and firms with an incentive to reduce the frequency with which scams succeed.

We agree with the principle of comprehensive coverage: the code should not depend on voluntary sign-up, but should be obligatory on all system participants, as, for example, the direct debits guarantee rule applies to all participants in the BACS system who carry out direct debits. Whether a Pay.UK rule is the way to achieve the necessary coverage, we are not in a position to say. It may be that regulation or legislation would be a more appropriate way to establish comprehensive coverage with fair sharing of costs.

We are concerned that the costs of reimbursing scammed customers may be passed back to consumers via a per transaction fee. As well as being a direct cost to consumers, this would reduce or eliminate the incentive for firms to invest actively to make the UK payments system scam-resistant.

Finally, we are concerned that the proposed fee (a flat rate volume-based fee) will be regressive in impact, i.e. shift costs from those making large payments to those making small payments. This is part of our wider concern about the use of flat-rate charges in the UK payments system, for example for small value electronic transactions.⁵ We think there needs to be a full market study of the UK payments value chain to see whether large firms are using market power unfairly to benefit themselves at the expense of small firms and ordinary consumers.

² Kahneman, Thaler et al

³ Most Faster Payments interfaces return the payee name entered by the consumer, inadvertently making it look like the payee name has been confirmed by the payments system.

⁴ Contingent Reimbursement Model Code for Authorised Push Payment Scams.

⁵ Many small traders continue to apply a '£5 minimum payment' rule for card payments because they find the charges on small transactions too high, despite presumably negligible marginal costs to the payments system.

Answers to consultation questions (B1 to B4: consumer benefits)

B1) Do you think that the proposed rule supports improved consumer outcomes? Does this vary depending on whether the consumer's PSP has or has not signed up to the Code?

We do not see how the proposed rule would improve consumer outcomes, as benefits to consumers depend on implementation of the APP Code, not on the CRM fee. The emphasis should be on achieving full coverage of all firms whose systems are used by scammers to perpetrate their scams. It may be that regulation or legislation would be the best way of achieving full coverage and a fair sharing of costs.

We are also concerned that firms may pass the cost of the CRM fee back to consumers, as the proposal leaves this to the discretion of firms.⁶ Passing the cost back to consumers would not benefit consumer outcomes, and would subvert the Code by turning it into a compulsory consumer insurance scheme.

B2) Would the proposed rule create incentives for PSPs to invest further to help reduce fraud for their own customers?

We are concerned that with (a) a regressive pricing rule (2.9p charge per transaction⁷) and (b) the opportunity to pass the charge onto the consumer, firms may insulate themselves from the cost of implementing the APP Code, which would reduce the incentive to invest in anti-scam system redesign.

Refunds to scammed consumers should be seen as a business cost, to be reduced by investing in improved systems and technology, as with other business costs.

B3) Are these improved consumer outcomes dependent on the proposed CRM Fee, or do you think that there are alternative ways that these improved consumer outcomes could be delivered (e.g. a different FPS rule or other means altogether)? Please provide an explanation of your view.

From the explanation given in the Call for Information⁸, the claim process for consumers of firms who have not signed up to the APP Code seems roundabout: first they have to go to the Financial Ombudsman Service then use a FOS ruling to gain access to the 'no blame fund', which is administered by firms who have signed the Code.

⁶ Pay.UK Call for Information, page 12.

⁷ Page 21.

⁸ Page 24.

It seems to us that the priority should be to get all firms signed up to the Code. If some firms refuse to join voluntarily, they should be required to participate by regulation or legislation, i.e. adherence to the Code should be a requirement for participation in the payments system. This is too important an issue to be left to the individual will of payment system participants.

From a consumer point of view, what is required is 100% coverage. Firms should accept the costs of no-blame scams in proportion to the degree that their systems are used to facilitate the scam.

B4) How do you currently plan to ensure your customers are reimbursed in 'no blame' situations? Would this change if the proposed FPS Rule were (or were not) implemented?

This question is not directly for us, as we are not a bank or PSP. However we think that firms should strive to make the process as quick and non-bureaucratic for consumers as they can. The reimbursement should be made directly to the consumer by the firm where the payment was originated. The firm should seek to learn as much as possible about the scam from their investigation of the payment and should use this information to inform their investment in anti-scam processes and technologies.

Firms should also work with the enforcement authorities to try to procure the detection, arrest and prosecution of as many scammers as possible. Representations should be made to Government to increase the enforcement resources going into preventing digital crime, treating digital crime on par with analogue crime.

(end)

The Money Charity is the UK's financial capability charity providing education, information, advice and guidance to all.

We believe that everyone achieves financial wellbeing by managing money well. We empower people across the UK to build the skills, knowledge, attitudes and behaviours to make the most of their money throughout their lives, helping them achieve their goals and live a happier, more positive life as a result.

We do this by developing and delivering products and services which provide education, information and advice on money matters for those in the workplace, in our communities, and in education, as well as through influencing and supporting others to promote financial capability and financial wellbeing through consultancy, policy, research and media work.

We have a 'can-do' attitude, finding solutions to meet the needs of our clients, partners, funders and stakeholders.

Tel: 020 7062 8933

hello@themoneycharity.org.uk

<https://themoneycharity.org.uk/>