

How payments are changing

Using verification to support payment efficiency, fraud prevention and compliance



Contents

Executive summary	3
.....	
The need for secure, real-time transactions to deliver the experience customers expect	4
.....	
Why every organisation taking Direct Debit payments should pay attention to the Bacs rules	8
.....	
Direct Debits: the one simple check that creates a seamless, hassle-free sign up	9
.....	
How will payment regulations drive innovation and reduce fraud?	12
.....	
Conclusion	14
.....	

Gary McVie
Director of Identity
and Fraud Products

Executive summary

How people make payments has changed. From signatures to chip and pin, from contactless to biometrics and today, payments made by wearables.

In a digitally driven marketplace, businesses not only face the pressure of evolving technology, but the growing demands of consumers. And this pace of change isn't slowing. The time between developments and enhancements is reducing. Flexible solutions that can quickly be enhanced, without disrupting the ability to transact is essential. It takes one innovative organisation to quickly disrupt the norm.

Mobile commerce increased 38% in 2015¹ as customers embraced the ease and speed of making purchases in just a few clicks. People now expect every payment to be that simple, meaning businesses must find a way to keep their customers happy and their processes secure.

At the same time, regulation is changing in response to consumer trends – for example applying more robust checks to protect digital transactions and more data orientated security through GDPR.

Simple changes that enhance current practices can support a compliant, customer centric strategy. In addition, developments to payments, such as the recently revised Bacs Direct Debit Scheme rules, simply reinforce security and authentication – responding to the trends of a digital society.

In a fast paced, consumer led world, regulations and processes need to work better with each other. They need to be secure, dynamic and efficient. Where and how do businesses start?

Understanding trends, and opportunities will be key. This paper outlines some of the main points for consideration, alongside evolving trends, in the payments industry.

"People now expect every payment to be simple - businesses need to find a way to balance customer happiness with security and process"

1. <http://www.criteo.com/media/1894/criteo-state-of-mobile-commerce-q1-2015-ppt.pdf>

The need for secure, real-time transactions to deliver the experience customers expect

From chequebook to smartwatch

New technology brings new payment options, new opportunities and new challenges. Today's businesses need to deliver the fast, efficient services their customers have come to expect, while working to counter the risks of fraud.

The UK makes **£6 trillion worth of payments and 11 billion transactions² every year**. The way payments are made is changing rapidly. The last decade has seen cheques become almost obsolete and mobile banking succeed online banking in popularity. Bills dropping onto the doormat have been replaced by Direct Debits, and the once-revolutionary chip and pin feels dated following the introduction of contactless.

New payment methods are faster and more efficient, requiring just a few clicks on a smartphone or a single touch through a phone app or watch.

Payment fraud has increased by a quarter

Customer experience can make or break a business. A good experience equals higher spend, repeat business and increased loyalty. On the other hand, every negative encounter can lose business and damage your reputation. Unfortunately, more people remember and relay a negative experience than a positive one. Why? Because they expect every interaction to be positive.

Overlaid with this is the pressure to keep your business – and customers – protected from fraud. Fraud affects the entire electronic payments value chain, spreading rapidly across geographies and industries. It also increases costs, reduces revenue, damages reputations and impacts the customer experience.

Financial fraud loss in the UK, through the use of payment cards, remote banking and cheques, increased by 26% in 2015 compared to 2014, totaling £755 million. 75% of this occurred through payment cards, with the main attacks being impersonation and deception, as well as malware and data breaches³.

In Europe, around 60% of card fraud is associated with Card Not Present (CNP) transactions. But what's driven this rise in payment fraud?

2. Accura, Fighting Fraud, 2016

3. Financial Fraud Action UK, Fraud: The Facts, 2016

4. Experian research, commissioned with Consumer Intelligence, October 2016



The rise in payment fraud is partly due to the growth of personal data. The richness and breadth of data available on an individual makes it much easier for criminals to imitate genuine customers and obtain goods in their name. Hence the surge in account application fraud. Money transfer have also increased, supported by multi-channel transactions, with the levels of money being transferred capturing the attention of criminals.

Although fraud is a problem for both card-present (CP) and card-not-present (CNP) transactions, online CNP payments carry the biggest risk. With the advent of PSD2, alongside a rise in the adoption of open APIs, card payments, as we know them today could be redundant.

Given that ecommerce is forecast to rapidly expand over the coming years – spurred by growth in international trading and advanced shopping options – businesses need to tackle this now. Customers won't tolerate disruption, and expect making a payment to be as seamless as buying a new pair of shoes. So the real challenge is to build extra security into existing processes.

Next generation payments

The challenge is to introduce measures that reduce fraud without disrupting the payment process. While customers have come to expect smooth, speedy transactions, they also want to be reassured that their data is safe and understand how it's protected.

Biometrics are set to become the next mainstream change and may be part of the solution for easy, unobtrusive payment validation. With over a third of people finding that remembering multiple passwords is a challenge⁴, people are already embracing fingerprint technology to access smartphones and laptops. The majority of people are comfortable with this stage of biometrics and agreed they would be happy to use their fingerprint to make a payment as well as to access an account.

Despite some hesitation around using retinal scans and camera recognition – methods perhaps seen as more intrusive – 76% of people interviewed saw biometrics as the future of identity verification⁴. Since personal interactions are generally harder to clone, this could be an important development in the fight against fraud.

Automation is critical

Automated checks offer both speed and security, whether the customer is making a purchase online or in person. When integrated with existing payment systems, simple extra checks help speed up the process of validating a customer and reduce the risk to them, as well as protecting your business from fraud. Doing this at point of sign up, before a payment is made, can stop fraud at the source, preventing payment delays. It also increases customer confidence in the company they're purchasing from or setting up a Direct Debit with.

Automated processes can enhance efficiency by checking multi-factors including the customers identity, but also that they are the holder of the bank account being used to make the payment. This adds another layer of protection against fraud, saving organisations the expense of paying indemnity claims and dealing with possible reputational damage.

Bank account verification enables businesses to protect their cash flow, and in turn their forecasting of payments. Retailers have an additional benefit, in that they get to protect goods – such as mobile phones – against being fraudulently purchased and not recovered. Crucially, automated checks can also help bring you in line with the latest governance.

Balancing speed with agility

Customers expect fast, efficient and timely transactions, and businesses need to adapt to meet this expectation across every channel. But building in extra anti-fraud measures needn't be disruptive or inconvenient. In fact, it's a win-win for both customers and organisations.

However, much the payment landscape changes, our need for swift reliable processes remains constant. And as payments become easier to make, understanding identities and bank account ownership is more important than ever. Using agile payment solutions means you can meet customer needs and stay one step ahead of fraudsters.

Bank account validation
makes the link between your
customers and their bank
account details

[Download our guide](#)

Direct Debit bank account verification

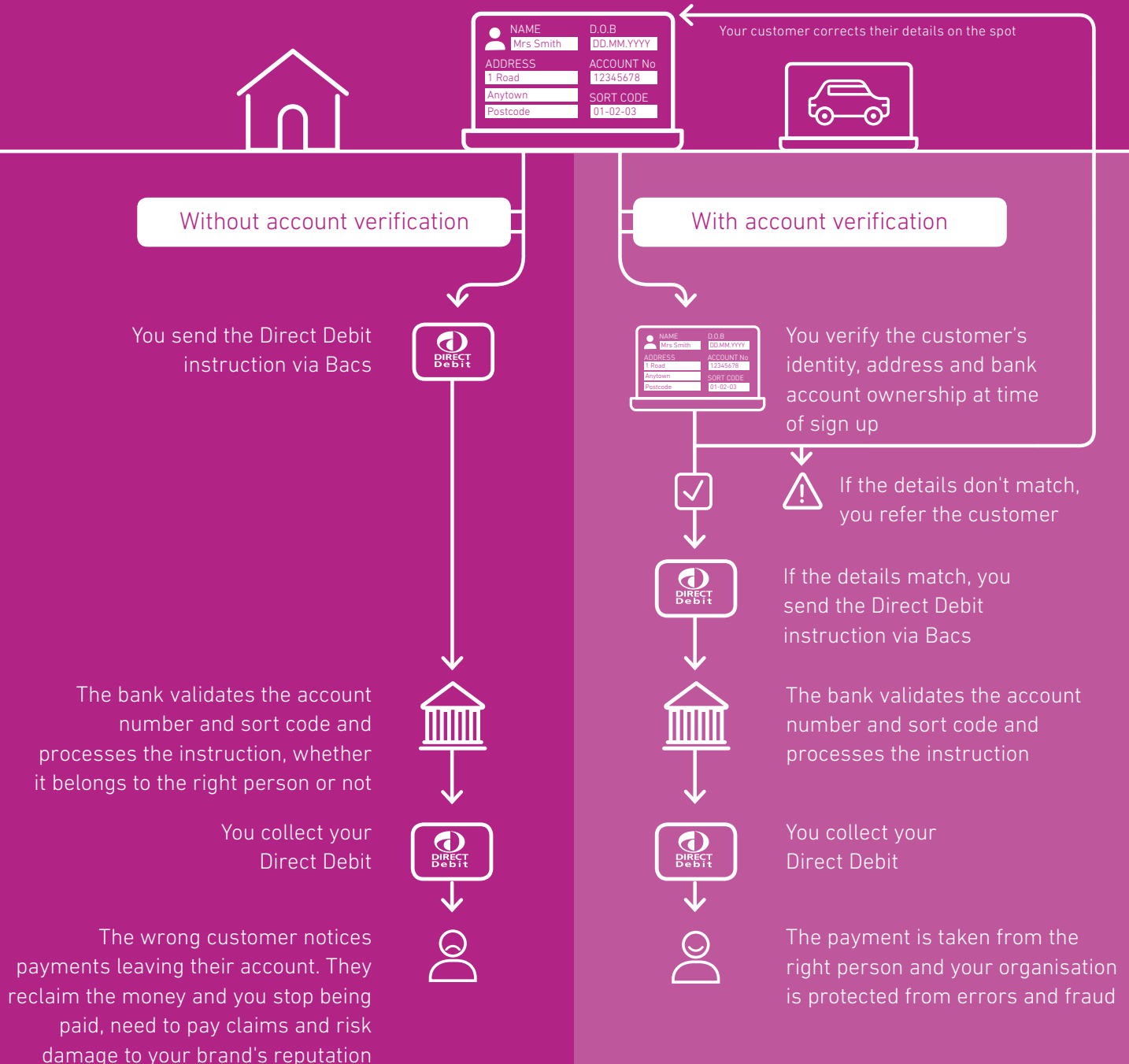


Speeding up the process and reducing the risks

Direct Debits are a great way to receive payments. But the adoption of paperless sign up of customers leaves plenty of room for error and too many opportunities for fraud.



Your customer or agent enters their name, address and bank account details



Without payment verification you're left open to errors and fraud. With payment verification, you get it right first time. You reduce the costs of missed payments and claims, save time making corrections and managing complaints and reduce the risk of fraud. And you keep your customers happy and your brand's reputation intact.

Darryl Warner
Product Manager,
Identity, Fraud and
Payments

Why every organisation taking Direct Debit payments should pay attention to the Bacs rules

As paperless sign-ups become the norm, organisations need new strategies for fraud prevention. The Bacs updated guidelines make essential reading.

Direct Debits have been running successfully for almost half a century⁶ and now process over 4 billion payments each year. Yet, in the face of rapid technology changes, Bacs acknowledges that what's worked for the last 50 years may not work for the next 10.

The Direct Debit Guarantee means customers are entitled to refunds when payments are taken in error, or fraudulently. While its primary aim is to safeguard customers, it's also intended to work in the interests of service users and banks.

Bacs released their updated Service User's Guide and Rules to the Direct Debit Scheme in February 2017. The guide includes clearer rules and support to enable organisations to challenge invalid indemnity claims, quickly. It prescribes the method for paperless sign ups, stressing that organisations need to validate:

- the identity and address of the payer
- their account details
- that the account details relate to / are owned by the payer.

The guide makes it clear that failing to verify these details may result in an increased risk of fraud.

The consequences of such fraud include indemnity claims, loss of goods and services, reputational damage and damage to trust in the Direct Debit scheme.

But if the consequences are disruptive, the solution is anything but. Adding in account ownership verification is simple – an automated check can be quickly integrated into your existing payments system or accessed online.

Doing this at the point of sign up means you detect errors or fraudulent activity before payments are taken, not after.

[Download the Bacs guidelines here](#)

[Read the Bacs press release here](#)

Direct Debits: the one simple check that creates a seamless, hassle-free sign up

Direct Debits transformed the way companies took recurrent payments from their customers, making life simpler for all involved. As a payment method, it has efficiency at its core.

They've vastly improved the payments process for businesses and consumers alike. But for many companies, current methods of signing new customers up rely heavily on manual processes, meaning there's room for error. And, as has been reported, paperless sign-ups make it easier for fraudsters to arrange payments from someone else's account.

When you set up a new Direct Debit, the sort code and account number are given a 'modulus check' to make sure they're a valid combination. This tells you the sort code and account number could belong to a genuine account, but doesn't tell you the account exists or who that account belongs to. So unless you check this separately, there's a chance the account could be set up in someone else's name.

Failing to check ownership of the account can result in payments being taken from the wrong account, whether in error or due to fraud. It also means you fail to comply with the latest Bacs Direct Debit Scheme rules and could even be prevented from offering Direct Debits as a payment solution – therefore hampering your versatility for payments.

Let's look at a current process:

- Your customer or agent enters their account name, account number and sort code.
- You take the customer's name and address and send the Direct Debit instruction to the bank via Bacs.
- The bank checks the account number and sort code.
- If the account number and sort code are valid, the bank processes the instruction whether it belongs to the right person or not.
- If the details are incorrect, either through error or fraud, you must refund the money subsequently debited under the Direct Debit Guarantee. By which point you will also have lost the goods or services sold.

"Direct Debits are a great way to receive payments. But the current method of signing customers up leaves plenty of room for error and too many opportunities for fraud."



In this scenario, not only do you have the hassle and expense of dealing with errors, refunds and possible negative PR, you'll likely lose money, as well as any goods or services obtained by the fraudster before they were detected. You also risk giving genuine customers a poor experience and damaging their confidence in your brand.

There is another way. If you verify the customer's identity, address and – crucially – bank account ownership at the point of sign up, the whole process becomes much smoother:

- You verify the customer's identity, address and bank account ownership at the time of sign up
- If the details match, you send the Direct Debit instruction via Bacs
- The bank validates the account number and sort code and processes the instruction
- The subsequent Direct Debit is taken from the right person and your organisation is protected from errors and fraud

This way, if the details don't match, you can check them with the customer and correct errors on the spot. And if they're fraudulent, you can refer the customer to the fraud investigations team before a payment is taken, as opposed to after.

This simple step can save you time, reduce human error and let you deal with errors or fraud on the spot, and prevent payment delays. As well as making the experience a lot smoother and more reassuring for the customer.



How will payment regulations drive innovation and reduce fraud?

Regulations are tightening. Most new and existing rules have a common denominator: the customer. More specifically, the need to know who the customer is and validate their identity.

The revised version of the Bacs Service User's Guide and Rules to the Direct Debit Scheme place a heavy emphasis on 'Know Your Customer' (KYC).

Despite being in a world heavily fuelled by digital technology, 81% of businesses admit finding it hard to achieve a single customer view⁷ – an essential part of the KYC guidelines and fraud detection. How can you get to know your customers when they're hidden behind technology?

As it stands, banks aren't liable for money that ends up being taken from the wrong account, whether that's due to fraud or mistakes made when inputting details.

It is just as important to carry out KYC, Bank Account Validation and Verification of Bank Account ownership before making payments to beneficiaries.

In addition, with the Second Payment Service Directive (PSD2), the EU has ruled that multi-factored ID checks should be used to enhance strong customer authentication. Businesses will be allowed to choose how they meet these requirements, but will have to establish two out of three of the following criteria:

- **Knowledge** – something only known by the customer
- **Possession** – something specifically owned by the customer
- **Inherence** – something original to the customer

"The revised version of the Bacs Service User's Guide and Rules to the Direct Debit Scheme place a heavy emphasis on 'Know Your Customer' (KYC)."



Along with PSD2 comes the Fourth Anti-Money Laundering Directive (4AML), which also concentrates on the need to know customers better. It means organisations will need to complete risk assessments and customer due diligence, and keep reports on file as evidence that the business relationship is strong and of legitimate standing.

With these steps towards risk-free payments come some important considerations for businesses. Not only do they need to respect regulations by implementing advanced anti-fraud solutions, they also need to deliver a smooth, uninterrupted customer experience.

With a number of regulations to comply with, organisations need to consider them all as a whole. PSD2, 4AML, KYC, they all advocate and mandate the need to know who a customer is, validate them and authenticate them. Therefore, businesses would be wise to consider what this looks like as a single strategy that complies with all – whilst focussing on the expectations of the customer. This won't be a simple change, but will inevitably protect both business and consumer from fraud and losses as a result.

Conclusion

In our fast-paced, technology-driven world, people expect interactions to be simple and near-instant, whether they're doing the weekly food shop or signing up to a Direct Debit.

Customers who've grown to expect quick and easy transactions won't take kindly to having to go through lengthy identity checks and risk assessments simply to make a payment.

Keep extra steps quick and easy, and they'll soon become an accepted part of the process. Already common online, services like MasterCard 'SecureCode' and 'Verified by Visa' add an extra layer of authentication.

The future will be led by innovation. One company working towards PSD2 requirements has trialled the use of selfies to fulfil the inherence element, together with the use of a password for knowledge. It's this sort of creative thinking that could turn the authentication process into something that actually engages customers and drives growth.

Providing the payment process remains fast and customer focussed, and that businesses tell customers exactly how their data will be used to protect them, the changes should result in a better experience as a whole.



Experian's account verification solutions replace manual processes with real-time verification of the customer's identity, address and bank account ownership at the point of sign up. This helps you:

- remove manual processes, reducing errors
- reduce the risk of fraud, and spot it earlier
- sign customers up quicker and give a better experience
- support regulatory requirements such as Bacs Direct Debit Scheme rules.

If you'd like to learn more about how Experian's payments solutions could help, including product demos, contact the team on:

0844 4815888

info@experianidentityandfraud.com

Visit our fraud and identity resource site:

www.experian.co.uk/identity-and-fraud/resources

Sign up to our identity and fraud Blog:

www.experian.co.uk/latest-thinking



Registered office address:

**The Sir John Peace Building, Experian Way,
NG2 Business Park, Nottingham, NG80 1ZZ**

T: 0844 4815888

E: info@experianidentityandfraud.com

www.experian.co.uk/identity-and-fraud

© Experian 2017.

Experian Ltd is authorised and regulated by the Financial Conduct Authority. Experian Ltd is registered in England and Wales under company registration number 653331.

The word "EXPERIAN" and the graphical device are trade marks of Experian and/or its associated companies and may be registered in the EU, USA and other countries. The graphical device is a registered Community design in the EU.

All rights reserved.

CM-317-3465