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Mr Matt Thistlethwaite MP
House of Representatives
Parliament House
Canberra ACT 2600

By Email – Matt.Thistlethwaite.MP@aph.gov.au

Dear Mr Thistlethwaite

New Payments Platform

At the Economics Committee hearing with the Reserve Bank on 24 February, you asked about procedures around tackling fraud in the New Payments Platform (NPP). You also asked about the scenario in which somebody authorised an immediate payment from their account and later realised that they should not have done so. I undertook to come back to you with a response.

Financial institutions participating in the NPP are acutely aware of the risks from the near real-time nature of the NPP. Fraud management has been a significant focus of the NPP program and its participating financial institutions from the start of the project. A key feature of the system is that only the sending customer will be able to authorise payments from their accounts. The receiving entity (the payee) will not be able to use the NPP to withdraw money directly from another person's bank account.

As now, each financial institution will continue to be responsible for the security arrangements with its customers, such as ensuring the authenticity of customer payment requests. Customers making NPP payments will, as now, need to keep their passwords secure along with the devices that they use to initiate payments (e.g. mobile phones and desktop computers), and financial institutions have a range of mechanisms in place now that will continue to protect their customers (such as an authentication code when making a payment to someone for the first time). Industry rules for the NPP will require financial institutions to connect securely to NPP infrastructure and to have effective fraud controls in place for their customers, which can include real-time monitoring of customer payment patterns. Under the system rules, if a financial institution suspects a fraud, it has the right to prevent the payment from proceeding.

The NPP will have an addressing service that will provide a customer with the ability to register with their financial institution an account 'alias', such as a phone number or email address, which will be linked to their BSB and account number. Where a payment is made via the NPP using an alias, the process will typically include a payee-name validation step, giving the payer the opportunity to check the payee's name and to discontinue the transaction if the payer is not confident of the payee's identity. There are robust registration procedures and liability

allocation rules between financial institutions relating to this process. A financial institution that registers an alias for their customer will be required to make sure that a payee-name accurately reflects the customer (e.g. a fraudster will not be able to register Australian Tax Office or Red Cross as its payee name) and the financial institution will be liable to the payer financial institution to the extent that it has not taken appropriate steps to prevent misleading registrations. Financial institutions currently have procedures in place where they verify that the person with whom they communicate is the person they say they are, i.e. identity checks will continue to apply. Of course, in the event that a false alias is registered and attempted fraud occurs, the affected person would need to contact their financial institution for this to be resolved.

If, despite the payee-name validation step, a payer customer realises they have sent a payment to an unintended payee, the industry rules for the NPP will give the payer the right to seek to recover funds via their financial institution and will place requirements on the payee's financial institution to investigate. If the customer contacts their financial institution reasonably promptly (within 10 days) and the payment is found to be a 'mistaken payment', and funds are available, the NPP rules will require the payee financial institution to withdraw the funds from the payee's account and return them to the payer financial institution. A 'mistaken payment' is an NPP payment initiated by a payer customer, who is a 'user' for the purposes of the ePayments Code, which, as a result of the payer customer's error, is directed to the wrong account. For example, the payer customer uses or inputs incorrect payee customer account details, either accidentally or because of being advised by the payee of wrong account details, or selects an incorrect payee from a list of potential payees.

We are advised that there is an industry working group finalising materials relating to the addressing service, which will be made available to all NPP participants in the next month or so for review. This will contain some consumer materials such as 'frequently asked questions' and principles for customer terms.

Yours sincerely

cc: Stephen Boyd, Secretary, House of Representatives Economics Committee
(by email – economics.reps@aph.gov.au)