

SMART2

Note on optional pan-European fraud information field

Why this field is helpful and how it should be used

Version 1.0 of 24 November 2020

Background and purpose of this note

In June 2019, the SCT Inst Migration Action Round Table (SMART2) published a recommendation note on “Best practices to support PSPs in detecting/combating fraud and scam”¹ with the aim to support the development and use of uniform practices at a pan-European level, both at inter- and intra-PSP level.

One of the SMART2 recommendations at inter-PSP level was to

*“put in place an ideally pan-European fraud scoring solution at PSP level that allows the payer’s PSP to **provide a fraud score for outgoing payments, preferably in the payment message itself, to support the payee’s PSP in its inbound fraud detection activities, without entailing any liability shift.**”*

Such solutions are currently being piloted or pioneered at national level in different communities. For optimal results and potential alignment, any work on defining a pan-European fraud scoring approach should take into consideration these solutions and related first usage experiences.”

Another recommendation for the inter-PSP space was to

*“**define a standard set of data elements and a related ISO 20022-based transmission format for the exchange of contextual information** (e.g. the information that this is the first time this payer sends a payment to this payee account) **between payer’s PSP and payee’s PSP to facilitate fraud detection activities at beneficiary PSP level.**”*

After the publication of their note, SMART2 participants continued, among other things, to zoom in on potential options to enhance fraud detection at beneficiary PSP level with the help of input provided by the originator PSP as part of a payment transaction. The group followed with great interest the piloting of a fraud indication marker solution in the Dutch community.

While the SMART2 participants saw the potential benefit of such a solution, quite a few shared their concern that an introduction of a similar fraud indication marker at a pan-European level might give rise to diverging legal interpretations as to whether the score indicated by this marker entails a liability shift from the originator PSP to the beneficiary PSP. SMART2 participants also took note of the fact that this concern was raised by the EPC Scheme Evolution and Maintenance Working Group (SEMWG) in its recommendation not to, at this

¹ Available for download on the website of the Euro Banking Association at https://www.eba.eu/media/azure/production/2210/smart2_20190618_fraud_detection_best_practices_v10.pdf
Emphases in the quotes have been added for the purposes of the present note.

stage, take forward the change request² submitted by the Dutch Payments Association to include this fraud indication marker as an optional field part of the SEPA Instant Credit Transfer Scheme Rulebook.

At the same time, SMART2 participants continue to see a strong benefit in the implementation of an optional field in the inter-PSP payment dataset for the communication of contextual information by the originator PSP to the beneficiary PSP to enhance fraud detection possibilities. The present note is therefore aimed at supporting the definition and implementation work needed to ensure that such an optional field can be deployed across Europe in the near future. To this effect, the note explains the benefits of this field and sets out recommendations on how this field could be used and populated at a pan-European level.

“Providing information, not judgment”: Why an optional fraud information field is helpful

The SMART2 participants endorsing this note support the inclusion of an optional attribute for the interbank payment dataset to be carried as part of the payment transaction (pacs.008) in the sub-field “Type” under “Details” by using the code word “FRAD,” in line with the technical specifications detailed by SCT Inst-compliant payment systems already carrying/implementing this field.³ This field is seen as fulfilling the SMART2 best practice recommendation of June 2019 to “define a standard set of data elements and a related ISO 20022-based transmission format for the exchange of contextual information between payer’s PSP and payee’s PSP to facilitate fraud detection activities at beneficiary PSP level.”

In line with this specific recommendation, however, the SMART2 position is that this optional field should transport contextual information only, which may be used to support the fraud assessment of the beneficiary PSP. Contextual information is information that reveals details about the context of a transaction, e.g. the initiation channel used or the fact that it is the first transaction this originator makes to this beneficiary.

It is important to note that the field should not include any fraud score reflecting any fraud-related assessment by the originator PSP, because this is seen by the SMART2 participants as hampering pan-European adoption due to the potential liability risks involved. If there is a fraud suspicion at the level of the payer’s PSP based on the contextual information (and potential other intelligence) that it holds at the initiation point of the transaction, the originator PSP should reject the transaction and start its own investigation as per standard practice. If the originator PSP sends the transaction to the beneficiary PSP, it does so because its own checks have not revealed any fraud suspicion. The contextual information included in the fraud information field is only provided to support any fraud-related checks on the beneficiary PSP side, which could lead to different results based on the additional information held by the beneficiary PSP.

The use of the optional field is at the discretion of both the originator PSP and the beneficiary PSP. For the avoidance of any doubt, it could be considered to specify in addition that the optional tool has no effect, directly or indirectly, on the liability of each of the originator PSP and the beneficiary PSP.

² SEPA Instant Credit Transfer Rulebook: 2020 Change Request Public Consultation (EPC002-20, v1.0, 12 March 2020), p. 31.

³ See Annex 1

To make the scope of this recommended field very clear, it will be called “Fraud Information Field” in the context of this note (rather than “Fraud Indication Marker” as in the change request the Dutch Payments Association submitted to the EPC).

In detail, the provision of contextual information by the originator PSP to the beneficiary PSP as part of the payment transaction is considered to be extremely useful by the SMART2 participants for the following reasons:

- Since this information is received as part of the payment transaction it relates to (rather than as a separate communication or via a different channel), there is no matching required and the information can be processed by fraud detection tools in real time, together with the rest of the transaction.
- Contextual information supports the beneficiary PSP in its fraud detection work. It can, among other things, help to detect unusual patterns or exceptional circumstances around a payment or a set of payments, especially if it is used widely and in the same manner by PSPs across Europe. Combined with other fraud detection measures, this makes the fraud information field a very powerful tool, which can, for instance, help beneficiary PSPs to identify mule accounts at their level.
- The fraud information field can also be used to make fraud detection at the beneficiary PSPs more effective: the PSP may use the contextual information provided to exclude certain transactions from more extensive checks. Depending on the PSP’s fraud detection set-up, this may reduce false alerts, speed up the fraud checking process and/or make it less costly. The checks on the information field should, however, be seen as additional controls by the beneficiary PSP and not simply replace existing controls at the level of the beneficiary PSP.
- The contextual information provided in the fraud information field can further be used for the ex-post analysis of anti-money laundering cases and thus play an important role in fighting financial crime in this area.

How this fraud information field could be populated

The SMART2 participants agreed that the provision of contextual information on the following areas would be particularly helpful:

- Initiation/delivery channel via which the originator PSP has received the initiation request (e.g. mobile channel, API channel etc.)
- Party that authorised the payment initiation (e.g. payment initiation service provider or originator)
- Purpose of the payment transaction (e.g. salary payment)
- Information on any key first events related to the payment transaction (e.g. it is the first time that this originator initiates a transaction to this beneficiary account)

To ensure pan-European harmonisation in the use of this new optional field, SMART2 participants see a strong need for a pan-European definition of the underlying business practices, including the codes to be used for the population of this field.

Conclusion

The exchange of contextual information between the payer and the payee via a dedicated field in the payment transaction is considered by SMART2 participants as an important element to boost co-operation in payment fraud detection and combatting and to increase the related success rates.

The definition of this field as an optional feature in the inter-PSP ISO 20022 message flow of the relevant EPC Scheme Rulebook(s) is seen as an important step in the implementation of future-proof and harmonised pan-European fraud fighting measures in the collaborative space. Given the need for real-time fraud detection mechanisms in the context of instant payments, the inclusion of such a field is particularly recommended for the EPC SCT Inst Scheme Rulebook. The optional character of this field should ensure that PSPs can implement it at their ease, as soon as they are able to both process and provide the contextual information to be exchanged as part of this field.

The present note has explained in detail why the use of a pan-European fraud information field for the exchange of contextual information between originator PSP and beneficiary PSP is considered as highly beneficial by the fraud experts of the endorsing SMART2 participants and how such a field should be used and populated. It has also made it clear that the use of this field as recommended by the SMART2 participants should not entail any change in standard fraud-related practices and in the responsibilities of the different parties involved.

With this note, the endorsing institutions, among other things, have responded to the call for input voiced by the EPC SEMWG in its assessment of the initial change request submitted by the Dutch community. The key objective of the note is to contribute to a Europe-wide roll-out of this fraud information field for euro instant payments via the EPC SCT Inst Scheme Rulebook, in order to take pan-European collaboration on fraud detection and combatting to the next level and to ensure a harmonised implementation of this optional field at PSP level.

Annex 1: Definition of the field

The sharing of contextual information can be done via the payment transaction (pacs.008) in the sub-field "Type" under "Details" by using the code word "FRAD". Up to ten characters can be used. String:

```
<RgltryRptg>  
  <Dtls>  
    <Tp>FRAD<Tp>  
    <Cd>XXXX* </Cd> [*up to 10 instances are allowed]  
  </Dtls>  
</RgltryRptg>
```

List of endorsing AS-PSPs

This note has been created by participants in the SCT Inst Migration Action Round Table (SMART2), an infrastructure-agnostic forum aimed at dealing with issues of an operational nature impacting a smooth end-to-end execution of instant payments in SEPA that might benefit from joint analysis and exchange.

For more information about SMART2, please consult: <https://www.abe-eba.eu/market-practices-regulatory-guidance/sct-inst-migration-round-table-smart2/>

The note has been endorsed by representatives of the following AS-PSPs:

- ABN AMRO
- Banco Sabadell
- Bank of Ireland
- BBVA
- CaixaBank
- DNB Bank
- Erste Group Bank
- ING
- OP Corporate Bank
- Rabobank
- Raiffeisen Landesbank Südtirol
- UBS

Contact details

For any comments or questions concerning the above note, please contact the Secretariat of the SCT Inst Migration Action Round Table at association@abe-eba.eu.