Treasury Select Committee inquiry into consumers and economic crime
TSB Bank response

TSB is pleased to provide written evidence to the Treasury Select Committee’s inquiry into consumers and economic crime. We welcome the opportunity to set out our thoughts on the important questions that the Committee is considering.

In April 2019, TSB became the first bank in the UK to offer its customers a full Fraud Refund Guarantee. This ensures that our 5.2 million customers are protected against all types of transactional fraud losses – whether it is unauthorised transactions on their accounts or customers tricked into making authorised payments to fraudsters – where they are an innocent victim of this increasingly frequent and sophisticated type of crime.

The Fraud Refund Guarantee forms just one part of our three-part strategy to combat the devastating effect that fraud can have on businesses and consumers across Britain:

1. **Prevent** fraud through continuous improvement of our fraud prevention systems, as well as delivering workshops and awareness programmes directly in communities across the UK – to give customers and the wider community the tools and information they need to protect themselves from the latest scams;
2. **Protect** customers where they do fall victim to fraud – standing in to cover their transactional fraud losses under the Fraud Refund Guarantee;
3. **Pursue** the criminals behind the attacks on our customers, by cooperating with law enforcement agencies, nationally and locally, to bring the fraudsters to justice.

We believe that by playing a leading role in the way that industry thinks about and tackles fraud, we can help make the UK a safer place to bank and do business.

**The scale and nature of economic crime faced by consumers, including emerging trends**

Many customers value the ease of an ever-increasing digital economy, but as customers spend more money and time online the frequency, sophistication and organisation of fraud attacks on them has increased. For example, ShieldPay found that in 2018 one in four people fell victim to bank fraud in the UK. UK Finance identified that £1 in every £3 of attempted fraud scams was stolen in 2018, totalling £1.2 billion stolen by fraudsters. In these cases, 98% of unauthorised fraud victims were refunded, and only 23% of authorised fraud payment fraud victims were refunded. When you consider that the good work by industry prevented a further £1.66 billion of losses, a true sense of the scale of the problem becomes evident.

For a period of a fortnight in 2018, almost the entire volume of UK bank fraud was directed solely at TSB customers. Amongst many methods of attacks directed at TSB, during the peak of the attacks TSB came second only to Amazon in worldwide phishing attacks. The experience of the 2018 fraud attack has equipped TSB with an in-depth insight into the threat that fraud crime poses to financial services and its customers, as well as a renewed ambition to tackle it differently.

The fraud attack on TSB took place immediately after the online and mobile access outages caused by TSB’s IT systems migration in May 2018. Although TSB’s fraud prevention defences remained ‘up
and running’ throughout this episode, repelling the majority of attacks, the systems outage had created a scenario where fraudsters were more easily able to confuse and entrap our customers with some of the most complex and sophisticated scams seen to date. We’ve resolved all customer complaints in relation to migration and refunded all customers who were innocent victims of fraud.

This experience renewed our ambition to think about fraud differently. We learnt that the overwhelming majority of Authorised Push Payment (APP) scams involve entirely innocent victims of crime. We also saw how the increasing sophistication of the crime, and the involvement of organised criminal gangs, means that anybody can fall for a scam – irrespective of their level of financial awareness, their profession or their level of education.

It was these observations that led to the decision to introduce a Fraud Refund Guarantee in April 2019. Under the Fraud Refund Guarantee we refund customers by the end of the next business day, provided we don’t need to investigate further.

We considered carefully the ‘moral hazard’ argument when designing the Guarantee; the risk that customers would be negligent in the knowledge that they were covered, and as a result lead to the perpetuation of more fraud. Simply put, we know that no customer wants to be the victim of fraud. An analogy is that the advent of car insurance and seatbelts does not make drivers more likely to crash, but instead protects them when the worst happens. The idea that only careless customers fall victim to fraud is manifestly untrue; the increasing sophistication of the crime means that anybody can fall for a scam – irrespective of their level of financial awareness, their profession or their level of education.

The TSB Fraud Refund Guarantee ensures customers are refunded in instances where they would not have been previously, for example:

- If a customer has been socially engineered into resetting their login details or withdrawing money from a branch and handing it over to fraudsters.
- If a customer’s account has been taken over after they gave access away to a fraudster without realising.
- If a customer has been negligent and handed over memorable information to the fraudster.
- In cases of push payments, where warnings are displayed to the customer but they pushed the payment through regardless.

Alongside the Fraud Refund Guarantee, TSB customers that are victims of fraud will be provided with tailored advice on the fraud attack they have suffered. We believe that by being more transparent with customers we can help foster a customer culture of sharing fraud prevention advice, as well as gaining a better standard of evidence from a customer that knows they are helping to bring a criminal to justice – rather than fighting for a refund.

There are three principal caveats to our Guarantee. Whilst losses due to unauthorised fraud are uncapped, there is a limit on authorised payments of £1m per claim. This is easily sufficient to cover TSB’s customers, and designed solely to prevent abuse of the Guarantee. In addition, TSB will not repay losses where fraud is committed by an individual on their own account, or where the customer is complicit in the crime. Finally, customers that abuse the Fraud Refund Guarantee, for example, by repeatedly ignoring personalised account safety advice, may be excluded from future refunds. We may also adjust the Guarantee terms in the future to prevent abuse or detect fraud, subject to notice.
We are pleased that consumer interest groups, including Which?, Resolver and Age UK, and business interest groups, such as the Fair Business Banking APPG and the SME Alliance, have publicly supported the introduction of the TSB Fraud Refund Guarantee.

**Consumer education, responsibility and vulnerability in relation to economic crime**

Fraud is a crime. Defrauded customers are victims of a crime, and have the right to be treated as such. Regardless of where legal liability sits, it is clear that customers are increasingly unable to protect themselves from fraud, or to absorb the consequences when they fall victim.

The industry campaign ‘Take Five’ has played an important role in helping equip customers with the tools and skills to protect themselves from fraud. But we have noticed that customers, once defrauded, are often too embarrassed to talk about their experience, and so the opportunity to share their experience with others, and prevent future fraud losses, is often missed.

To better equip people to tackle fraud, and to give them the confidence to share their experience, in 2018, TSB ran over 100 public education workshops for TSB customers and other members of the community, often targeting areas which data told us were fraud hotspots. At a series of sessions hosted in the TSB branch in Stowmarket in East Anglia, every one of the 80 attendees fed back that they felt more confident in being able to spot fraud after attending. So far in 2019 TSB has delivered 62 fraud prevention events across the UK, to over 3,600 attendees.

Early analysis also shows that strong fraud protection builds banks’ appeal to customers and customers’ trust in banks. A TSB poll\(^1\) conducted in April 2019 found that 84% of people would find a bank appealing if it helps protect them from fraud, does the right thing if they fall victim to fraud, and actively works with the police to catch fraudsters. The same survey also found that 60% of banking customers believe that fraud protection would make them trust a bank more.

Following the success of these sessions, we have committed to hosting further workshops across TSB’s branch network, including in Birmingham, South Wales, Somerset, Fife and Hull in the coming months. At these events, TSB’s Branch Partners and the fraud team will be on hand to provide the local community with all the tips they need to stay one step ahead of fraudsters and answer any questions local residents have on fraud.

**The role and effectiveness of financial institutions in combating economic crime that consumers face**

TSB welcomes the important work that the Payment Systems Regulator, UK Finance, consumer groups and the financial services industry have undertaken to develop an APP scams voluntary code. The code is undoubtedly a step forward for the financial services industry and its customers.

We believe that it is important a culture of innovation is encouraged across different industries, including banks, to prevent customer fraud. For example, to improve accountability and to drive innovation we would like to see Payment Service Providers (PSPs) publish the volume of no-blame

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\(^1\) Basis poll for TSB of 3000 non-TSB customers and 300 TSB customers conducted in April 2019
fraud incidences that they have had on a quarterly basis. We would also like the amount that each PSP pays into the Contingent Reimbursement Model each year to reflect the amount that they claimed for no-blame APP in the previous year, rather than their share of payment transactions. These two additions would create an incentive for fraud prevention, and foster a culture of competition on fraud prevention measures.

The current legislative and regulatory landscape, including any weaknesses

We welcome the work that is being done to provide customers with more protection against fraud. We believe that there should be a greater focus on pursuing the criminals that commit fraud, and more effective cross-industry coordination to tackle economic crime. This is why we welcome the creation of a Government-led Economic Crime Strategic Board and the taskforce’s focus on pursuing the perpetrators of fraud.

We are committed to pursuing the criminals that commit fraud. Our experience in April 2018 found that working closely and quickly with police forces and national agencies is a successful way of increasing arrests and convictions. That is why in December 2018, TSB launched a new partnership with the Metropolitan Police, to bolster London’s fight against fraud. Our partnership included an initial investment of £200,000 in the Met’s anti-fraud programmes, with a focus on enhancing skills, raising fraud awareness and deploying increasingly sophisticated methods and tactics to confront economic crime. We were the first bank to direct funds to fight fraud to supplement local police resources, and our ambition is to grow this investment to other regions across the UK – work which is ongoing.

TSB is working closely with all stakeholders, forging a direct alliance with telephone network operators (to fight attacks such as SIM swaps), retailers (to strengthen data security) and charities (to educate customers and support victims) – enlisting these organisations in our fight against fraud.

The potential for technology and innovation to assist those committing and combatting economic crime

There is significant potential for technology and innovation to better protect customers against fraud. For example, by sharing data industry and police can identify economic crime hotspots, better helping customers who live in these areas, and by targeting the perpetrators of the fraud.

TSB has used our fraud insight data to identify some of the UK’s fraud hotspots and has targeted fraud awareness education programmes at these areas. In addition, we have also been able to supply evidential material to directly enable the prosecution of repeat criminal offenders. To unlock the benefits that technology can bring to combat economic crime the regulatory and legislative framework must encourage innovation and competition on fraud.

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