

GBIC

## Annex Q10 (Additional Information)

*Question 10: Do you provide a service to your customers of verifying the match between the IBAN of the beneficiary and the name on the beneficiary account prior to the initiation of the transfer?*

In addition to our answer to Question 10 of the consultation we would like to add the following points regarding the evaluation of services for verifying the match between the IBAN of the beneficiary and the name on the beneficiary account prior to the initiation of the transfer („IBAN Verification Services“):

### 1. General comments

Banks may offer valuable services in the broader context of identity verification: Among others, the ongoing ERPB initiative on a possible SEPA API Access scheme, can be mentioned. Part of these value added services could indeed encompass the validation of own customers and their accounts vis a vis third parties for specific use cases. In contrast to this, market participants have discussed including such a mechanism as a general component in the context of consumer protection. While acknowledging the potential of market-driven solutions for specific products or use cases, we want to advise caution regarding their overestimated role in general fraud avoidance.

In our view, the latter **IBAN Verification Services cover only very specific and local fraud scenarios** just recently appearing in only a few EU countries such as the Netherlands. In Germany, we have not identified a general need for IBAN Verification Services in a broader SEPA payments context. In consequence, **we do not see a proven relevance and need to establish IBAN Verification Services on a European level.**

In addition, **IBAN Verification Services aim to prevent only a very limited amount of fraud cases.** Typically, fraud scenarios with relevance for the use of IBAN Verification Services may arise from cases of social engineering where the payer is deceived and manipulated into making payments to the fraudster instead of the intended payee (beneficiary). In many of such cases, IBAN Verification Services may not prevent the execution of the fraudulent payment since the fraudster typically also deceives the payer into ignoring any signal of mismatch generated by the IBAN Verification Service. This has also been confirmed to us by reports from fraud specialists from countries or payment service providers (PSPs) that have implemented IBAN Verification Services for certain national payments.

### 2. Negative consequences of IBAN Verification Services for payers/customers

The use of **IBAN Verification Services may also lead to confusion of payers, possibly also resulting in damages.** In particular in blurry cases or false negatives, signals of mismatch generated by the IBAN Verification Service may deter payers from executing payments to the originally intended payee. This may result in damages such as late payment fees, late delivery and a right of the payee to refuse performance of the contract with the payer.

### 3. Interferences of IBAN Verification Services with PSD2

**Mass payments require a unique criterion for the clear allocation of each individual payment.** In the context of SEPA payments, it is well established by Article 88 PSD2 as well as by the recent decision of the ECJ

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dated March 21st, 2019 (ECLI:EU:C:2019:242) that the IBAN serves as the unique identifier ("IBAN-only rule"). It provides for a clear allocation of the individual payment and a clear allocation of liability between the payment service user and its PSP. Given the short execution time for instant payments and the large amount of transactions, the IBAN-only rule is essential for the proper functioning of the SEPA system. Since the name of the payee is not unique it may therefore not serve as the unique identifier and should not be mistaken as such by the payer. In any case, it should be clear that the IBAN-only rule is not be affected by the use of any IBAN Verification Service.

#### **4. Data protection risks arising from the use of IBAN Verification Services**

We are also concerned that **the implementation of IBAN Verification Services may result in unintended new risks arising from the disclosure of confidential information and personal data to third parties.**

The use of IBAN Verification Services would require the disclosure of confidential and personal data of the account holder on the side of the payee by the payee's PSP. Depending on the individual IBAN Verification Service, the payee's PSP has to either (1) disclose the name of the payee to the IBAN Verification Service provider or the payer's PSP or (2) the information that the IBAN provided by the payer matches or does not match the name of the account holder provided by the payer. In any case, the matching signal generated by the IBAN Verification Service therefore enables the payer to receive personal information on the account holder of any IBAN provided even if he does not intend to make a payment to the payee's account. This may lead to abuse of IBAN Verification Services not only resulting in new risks for the payee but also in negative consequences reputation of the PSP and of the safety of online/mobile payments in general.