

Hon Andrew Bayly

Minister of Commerce and Consumer Affairs
Minister for Small Business and Manufacturing
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29 February 2024

Strengthening bank processes and consumer protections against scams – Open letter to the New Zealand banking industry

As the Minister of Commerce and Consumer Affairs, I am writing to urge you to take immediate and concerted action to enhance your processes and protections to better safeguard your customers from scams and fraud.

As you are aware, there has been an increase in the prevalence and sophistication of online scams and fraud. In the year ending 2023, it is estimated New Zealanders lost nearly \$200 million to online scams and fraud. The financial and emotional toll on victims is significant, with some victims losing their entire life savings. This also reduces New Zealanders' trust and confidence in the financial services sector and in transacting online.

I was pleased that in September 2023, the New Zealand Banking Association announced a range of initiatives the banking industry would undertake to counter scams and fraud. I look forward to seeing progress on these commitments.

Last year, the Finance and Expenditure Committee made three recommendations to the banking industry to bring New Zealand closer to the levels of protection held by our overseas counterparts such as Australia, Singapore, and the United Kingdom. The Government agrees with these recommendations, and I am writing to you to outline my expectations of the sector.

1: Confirmation of Payee system

One of the recommended measures was a confirmation of payee system that matches the name of an intended recipient with their account. This scheme has been effective in the United Kingdom and Australia. I would like a confirmation of payee system introduced and am aware the New Zealand Banking Association is seeking to implement this.

I will be closely monitoring your progress and have asked my officials to keep me updated. I expect you to prioritise this work so that the system is operational as soon as possible, with roll-out commencing by the end of this year.

2: Update the Code of Banking Practice

The Finance and Expenditure Committee recommended the banking sector update the Code of Banking Practice to provide further measures that help consumers from scams and fraudulent activity.

I was disappointed to hear the banking sector has not prioritised a review of the Code given the increasing prevalence of bank scams, and urge you to update the Code to provide better consumer protections. If the code is not updated within the year, I will consider options for a regulated mandatory code.

3: Investigate a voluntary reimbursement scheme for victims of authorised payments scams

I understand it is common practice for banks to reimburse customers targeted by unauthorised payments scams, unless the customer has been negligent, failed to comply with the bank's terms and conditions, or has not taken reasonable steps to protect their account information.

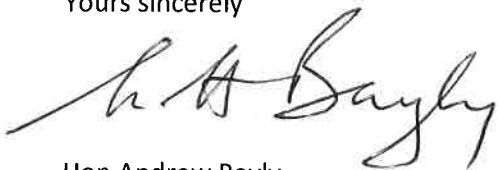
However, I understand customers victim to authorised payments scams are not reimbursed – for example, if a customer has been deceived into making payments to a scammer. Banks have a duty to act with reasonable care and skill, which includes identifying and acting on possible signs of fraud. Where you do not act on possible signs of fraudulent behaviour, or suspicious payments, my view is that you should reimburse customers. I recommend you investigate a voluntary reimbursement scheme in line with international best practice, and request that you update me by the end of September.

I support an industry-led approach to this work, as you bring considerable experience and expertise to this area. In addition to the proposals above, I encourage you to continue to develop other initiatives and systems to protect consumers from scams and online fraud and invite you to propose options to Government.

Finally, I want to be clear that the responsibility for tackling scams and online fraud sits with everyone – Government, industry, and consumers. However, I consider the banking sector is well placed to take further steps to protect its customers from online fraud and scams. I will be watching your progress closely.

I look forward to meeting with the New Zealand Banking Association to continue this discussion and receiving updates about your progress in implementing these initiatives.

Yours sincerely

A handwritten signature in black ink, appearing to read 'A Bayly', written in a cursive style.

Hon Andrew Bayly
Minister of Commerce and Consumer Affairs