BANK BRIEF

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Spring 2005

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IRISH BANKERS FEDERATION

Account Switching

The Irish Bankers Federation has launched a new **Code of Practice on Account Switching** to make account switching as hassle-free as possible for consumers. Under this Code the country's leading retail financial institutions have committed themselves to new step-by-step procedures that will make it easier for personal customers to switch accounts from one financial institution to another.

If you decide to switch your personal account, your new bank will give you a switching pack. It clearly explains what to expect along the way, who is responsible for what, how long it will take and exactly what you have to do. Each participating financial institution will produce their own switching pack which will be available to customers on request. The switching pack also sets out the steps to complete before account switching takes place, opening your new bank account and activating it.

If you decide to switch your account, your new bank will have your new account up and running within ten working days once they have approved your application.

Your previous bank will provide your new bank with information on your standing orders and direct debits to complete switching your account. As soon as the new bank sends a signed Transfer of Accounts Form, the switch will be completed within seven working days.

This Code will provide a very clear and simple road map for consumers who wish to switch accounts from one financial institution to another. As such, it will further enhance, in a very significant way, consumer choice and competition in the marketplace.

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Opening Your New Bank Account

When you are opening your new bank account your new bank will provide you with the following items to help you compare accounts:

- A copy of the relevant terms and conditions (including services provided on your new account)
- Full particulars of any standard fees and charges that are payable
- Any interest rates that apply

Your new bank will ask you if you intend to transfer your existing account(s). If this is the case, your new bank will provide you with

- A switching pack
- A point of contact for any queries or assistance

And advise you to:

- Order bank cards and cheque book for the new account as required
- Set up internet and telephone banking and any relevant bill payment arrangements, as required
- Inform your employer and other credit transfer sources of your new account details
- Ensure there are sufficient funds in both the new and old accounts for their operation and to cover any standing orders/direct debits, cheques, Laser card transactions and fees and charges due. This should include fees and charges that may be due on your old bank account when it is closed

Your new bank will then require you to complete an account transfer document that will:

- Authorise the setting up of standing orders and direct debits on your new account based on existing arrangements on your old account
- Transfer the balance

When you receive your new bank cards from your new bank, you must return your old bank cards to your old bank. You must also return unused cheques for your old account to your old bank in order to receive a refund of government stamp duty.

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The Switching Steps

The switching steps, set out below, can be used to switch all current, deposit, and savings accounts held by personal customers that are not subject to advance notice of withdrawal and are free from guarantees or other obligations.

Step 1 – Information Transfer

When your old bank receives the transfer form from your new bank, it will complete the following steps:

- Send a list of active standing orders and direct debits to your new bank and to you
- Inform direct debit originators of your new account details for the direct debits which are on the list
- Refund stamp duty on any unused cheques which you have returned
- Apply stamp duty to your old bank account cards if not already applied
- Apply any charges and/or interest due
- Close your old bank account
- Transfer the balance to your new bank account
- Send you an account closing statement

Step 2 – Completion of Switching and Transfer of Balance

When the list of standing orders is received by your new bank, it will set them up on your new account. When the direct debit originators receive new account details for your direct debits, they will change your account details immediately and present the next direct debit on your new account.

When you receive the list of standing orders and direct debits from your old bank, you should check it carefully. If you wish to make any changes to standing orders and direct debits on your new account, you should contact your new bank.

The switching process will take no more than seven working days.

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Card Fraud in Ireland

The amount of fraud perpetrated on credit cards issued here by the five clearing banks (AIB, Bank of Ireland, permanent tsb, NIB and Ulster Bank) amounted to €10 million in 2002, the latest year for which figures are available. Fraud on cards has been increasing since then by about 30% year on year. This figure refers only to fraud on credit cards.

Credit card fraud accounts for the bulk of 'plastic card' fraud that is perpetrated. The incidence and cost of credit card fraud has been increasing in recent years.

The overall cost of credit card fraud has to be seen in context as follows:

- Standing at around 0.1%, the cost of fraud as a percentage of the total annual turnover generated using credit cards (est. €7.6 billion in 2003) is very low and has relatively changed very little over recent years.
- Estimates for 2003 indicate that there were some 1.8m credit cards in issue in the Republic, generating 86m transactions.

Every effort is made to keep the cost of credit card fraud to a minimum. Individual institutions have introduced many initiatives as part of the on-going battle against fraud. However, certain industry-wide initiatives have also featured, including information/training for retailers.

As the umbrella body for the payments system here, the Irish Payment Services Organisation (IPSO) is spearheading the introduction of Chip & PIN technologies for credit and debit card payments here to further enhance the security of payment cards. To be phased in by 2005, the new process will see a PIN (Personal Identification Number) being keyed in at the point of purchase as an alternative to the current method of signing a receipt. Chip technology further enhances card security as it eliminates the possibility of the card being copied.

Plastic card fraud is an on-going problem - an 'occupational hazard' - in all countries. A key objective for card issuers is to stay well ahead of the fraudsters so that fraud is prevented entirely or greatly curtailed.

The cardholder's interests are fully protected where a transaction was not authorised by him/her and it can be proven that he/she did not behave negligently with his/her PIN. It is important that customers regularly check their credit card statements and query/alert the issuer about any anomaly. As appropriate, the issuer will investigate the role of the merchant - the agreement between card issuer and merchant sets down the procedures that the latter must follow. Whether the query relates to a credit card transaction undertaken at home or abroad, the role of the merchant can be examined by means of enquiry through the network of issuing and/or acquiring banks.

All banks that issue credit cards here have appropriate protection in place for cardholders who unwittingly find themselves the victims of fraud, i.e. transactions not authorised by them (save where the cardholder has acted fraudulently or with negligence). That said, all issuers strongly advise cardholders to exercise care when using their card and to always try to ensure that they broadly know the party with whom they are doing business.

Advice to Customers when using Cards

Whether using your ATM card to withdraw cash from an ATM machine or your Laser or credit card to purchase groceries, or to make a payment over the telephone, **you should always view your card as the key to your account and treat it accordingly**.

DO

- sign the back of your card as soon as you receive it. Destroy any cards which are past their expiry date.
- memorise your PIN. This is your security code and no one can operate an ATM without both a valid card and the corresponding PIN.
- have your card ready as you approach the ATM. This will help you to conduct your transaction quickly.
- ensure privacy when conducting a transaction. Shield the keypad with your hand to prevent others from seeing your PIN.
- take your card, cash and transaction slip with you on completing a transaction. Keep this written record for future reference.
- tell your bank immediately if you discover that your card is lost. If you suspect that your card has been stolen, report it to the Gardaí. Cardholders should key the telephone number of the lost/stolen department of their issuing bank into their mobile phone - especially before travelling abroad.
- keep a record of your card number. This may be required in the event of problems.
- check that the specially-sealed envelope containing your PIN has not been tampered with. If you find the envelope has been interfered with in any way, contact your bank as soon as possible.

DO NOT

- give your card to anyone.
  It is for you and your use only.
- disclose your Personal Identification Number (PIN) to anyone.
  You're the only person who should know it.
- delay at the Automated Teller Machine (ATM).
  If you make a withdrawal, check your cash quickly and move away.
- use a telephone in a crowded place to conduct your banking business.
  There may be a danger you will be overheard.
- leave open the amount of the payment when paying for goods or services by card.
- **leave your card unattended in a restaurant. When paying your bill, bring your card to the payment terminal yourself.**
- be careless in the handling of your cards. For example, don't leave them lying around at home or in an accessible place when you are away from home.

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Chip and PIN

In May 2002 the Irish Payment Services Organisation (IPSO) announced the launch of a programme to move credit and debit cards away from magnetic stripe technology, using a signature, to a Chip (or smartcard) technology, using a Personal Identification Number (PIN). This programme of change represents a revolutionary development in the way that consumers and retailers will interact at the point of sale.

Principally, this is being driven by escalating levels of fraud. But in some markets, such as parts of Asia, the move to smartcards is mainly driven by the inherent benefits of non-cash / non paper mechanisms. The scale of card fraud, which is highly international in nature, has been growing at very high rates around the world, but Europe has seen some of the highest level of growth. In response to this development, the main cards schemes – Europay, MasterCard and Visa produced a set of technical specifications (called EMV) for the card payments infrastructure. EMV requires Chip technology to operate. The highly secure nature of Chip cards will make the cards far less vulnerable to fraudsters. The Chip also facilitates the wider use of PIN as a means of verifying the identity of the cardholder.

The use of Chip and PIN has been in existence in France for about twelve years. The French have confirmed that they will be moving to the new EMV specification during 2004. They have proven that the use of Chip and PIN is acceptable to cardholders and merchants and they have also proven that the use of such a system significantly reduces counterfeit fraud.

IPSO, as the umbrella body for the payments industry in Ireland, has been responsible for managing the co-ordination of Ireland's response to this international development. The individual financial institutions have been managing their own projects which have involved enormous re-engineering of systems and the application of very high levels of resources over several years.

When a customer presents a debit or credit card for payment for goods and services, checkout staff will no longer have to ask for a signature. Instead the customer's cards will be placed in a terminal and then the customer will key in a PIN and this will be a much simpler and faster process.

This change is the largest project to unfold in this country since the euro changeover, and is estimated to be costing the industry almost €100 million.

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EU Savings Tax Directive - THE FACTS

In an attempt to crack down on tax evasion, the European Union have introduced the Savings Tax Directive from 1st January 2005. This directive will be implemented in member states and third party jurisdictions and the directive covers only the tax affairs of individuals and not companies. The reason being that companies are already subject to close scrutiny through the filing of regular tax returns and audits.

The Finance Act 2004 contains the detailed measures implementing the EU Savings Tax Directive[1]. The objective of the Directive is to ensure that interest income earned in one jurisdiction by individuals who are resident in another jurisdiction is reported to the tax authority in the jurisdiction of residence.

The Directive imposes obligations on financial institutions to gather certain information from customers opening accounts which can or will earn interest. The Irish authorities have decided that the Directive's account-opening provisions should apply to residents as well as to non-residents and this is now the case with the obligations having come into effect in 2004. At a practical level this requires all 'paying agents' to establish the identity and residence of all new customers based on passport or national identity (ID) card. Identity consists of name, address and tax identification number while residence is determined by permanent address as presented.

Financial institutions will make their first reports to the Revenue under the terms of the Directive in early 2006 regarding interest earned by residents of relevant (currently other EU) territories in the second half of 2005.

As Ireland does not have a national identity (ID) card in our national legislation, this has been defined for Irish residents as an official document containing the following:

(a) the name;
(b) the address; and
(c) the Personal Public Service Number (PPSN).

The legislation allows the Revenue Commissioners to specify other suitable documents as Irish National ID cards and the guidance notes issued to financial institutions by the Revenue also permits an Irish driver's licence to be considered for these purposes.

The Irish Bankers Federation has voiced concerns to the Revenue Commissioners and to the Department of Finance that the account opening measures contained in the Finance Act as a consequence of the Directive will go beyond the measures already required under anti-money laundering rules. These additional measures place further restrictions on Irish resident customers attempting to open interest earning accounts. While IBF is pleased to report that many of these issues have now been resolved through constructive interaction between the industry and the Revenue Commissioners, the industry body will continue to work with the authorities to ensure the smooth application of the Saving Tax rules.

[1] The measures were previously adopted as Statutory Instrument 717 of 2003, which was revoked with the enactment of the Finance Act, 2004.

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Congratulations to the following on winning our Crossword Competition which appeared in the Summer 2004 edition of Bank Brief:

Mairead Quilter
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Sophie Hegarty
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Bank Brief is produced by the Irish Bankers Federation (IBF) in response to the needs of second-level teachers and students of business and home economics subjects.

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