

## **The complaint**

Mr and Mrs C complain about Citibank UK Limited's (Citi) handling of SWIFT payments into their account (now closed) over a two-year period. They say Citi compromised their accounts by failing to comply with Article 7 of the Funds Transfer Regulations, which requires a bank to verify the accuracy of the beneficiary information on transfers. And also that Citi failed to send a final response to their complaint within 15 calendar days, taking 91 days to respond.

As Mr C is the main correspondent I have just referred to him in this decision. Mr C has complained separately about Citi's closure of their accounts.

## **What happened**

On 1 July 2022 Citi emailed Mr C that it was closing all their accounts, but didn't give reasons. Mr C complained the next day and reviewed their accounts and said he discovered that since 2019 Citi had credited 17 inbound SWIFT transfers made payable to a non-existent company. He said the funds were due to him in a personal capacity, but the payer had mistaken their home address for a corporate identity.

On 24 July Mr C emailed Citi saying it had not complied with Article 7 of the Funds Transfer Regulations (FTR), which require banks to verify the accuracy of the beneficiary information on inward transfers. He said Citi had failed to raise any questions with them about these transfers. Mr C thinks Citi's closure of their accounts was due to unjustified concerns that their personal account was being used for business reasons. Mr C wants to know why the transfers weren't processed by Citi in line with the regulations.

Citi wrote to Mr C on 25 July saying the payments issue would be dealt with within 15 days. On 9 August Citi referred the payments issue to its Funds Transfer Team. Mr C told Citi it's in breach of the rules for responding to their complaint, but Citi suggested this was a new complaint. Citi said Mr C raised the same concern on his other complaint about an incoming SWIFT transfer from a payee not in his name and it responded within the timeframe. Citi offered Mr C £300 as a gesture of goodwill due to the inconvenience caused by the delay in responding to the initial complaint in August 2022.

Concerning the funds transfer, Citi said the remitter used STP (Straight Through Processing) by which routing funds are credited without manual intervention. Citi said there was no error on its part relating to the SWIFT transfers, as per its final response letter of 25 October 2022. Mr C wasn't satisfied with this response and referred their complaint to our service. Mr C disagrees that SWIFT transfers were automated and said it hadn't performed due diligence.

Our investigator didn't recommend that the complaint be upheld. He questioned Citi on its application of Article 7 of the FTR and it explained that the remitter had used STP, resulting in the funds being credited to the account without any manual intervention by Citi. He said manually initiated payments are generally more at risk of fraud than electronic transfers, and with these transfers manual intervention by Citi wasn't possible.

Mr C said where the payment service provider (PSP) of the payer is based outside the UK (in this case the US), paragraph 2 of Article 7(3) refers to the name of the payee and the payee's account number and the accuracy of both had to be verified. Mr C thought that such checks met an obligation to ensure an individual's account is not used illicitly by third parties.

Citi disagreed with Mr C and referred to the European Banking Authority (EBA) guidance. Citi said it complied with paragraphs regarding 'Incomplete information' and 'Verification of information on the payee: '61. When verifying the accuracy of information on the payee pursuant to points (3) and (4) of Article 7 of Regulation (EU) 2015/847, PSPs should consider whether or not their relationship with the payee amounts to a business relationship as defined in point (13) of Article 3 of Directive (EU) 2015/849 and apply customer due diligence measures in line with point (1) of Article 13 of Directive (EU) 2015/849 should that be the case.'

Citi said it had a business relationship with Mr C, had verified his identity and applied due diligence measures on a risk-based approach, and it had met the verification requirements in Article 7.3 of the FTR. The investigator questioned Citi's compliance with Article 7.1 and Citi said it manages meaningless information on transfers by means of a list of phrases, random characters or meaningless designations and this aligns with the recommendations set out in paras 26 and 27 of the EBA guidance. Citi said In Mr C's case, the payee and account name would have been validated against the list, and as they didn't flag for review, were accepted.

Citi described other checks it deploys, including Rule-Based Logic, Real Time Payment Monitoring, Post Event Monitoring and Post Event Sampling, as outlined by the UK Finance Guidance and Section 29 of the EBA Guidelines.

The investigator thought that Citi had explained its processes clearly and applied them to the relevant regulations/guidelines regarding the transfers into Mr C's account. He said Citi accepted it had failed to address Mr C's complaint in time, and Mr C had accepted its offer of £300 compensation, which was fair. He found Citi's explanations about its transfer process credible and that it has systems in place which follow the EBA Guidance, and FTRs.

Mr C disagreed with the investigator and requested an ombudsman review their complaint. He said he had direct knowledge of the establishment of the standards on which the FTR is based and is well aware of the objectives. He said these impose a clear obligation on banks to have systems to verify the accuracy of beneficiary information, without any 'carve-out for STP'. He said this obligation is set out in a recommendation on wire transfers, as follows:

"For qualifying wire transfers, a beneficiary financial institution should verify the identity of the beneficiary, if the identity has not been previously verified, and maintain this information in accordance with Recommendation 11."

Mr C said Citi's reliance on paras 61 and 62 of the EBA guidance is flawed as this doesn't require the payee's service provider to take additional action in circumstances where the named payee has an existing business relationship with the service provider. He said their complaint is that the payee in this case was a non-existent entity with which Citi could not have had a business relationship. It's failure to flag this error compromised their accounts in that it might have suggested business use.

Mr C said Citi hadn't referred to UK finance guidance, which offers no suggestion that STP is an obstacle to compliance. He said Citi told him, 'We are surprised in equal measure that longstanding payments have been taking place over the past three years and it was not until we moved to transfer your relationship that this issue surfaced'. Mr C said the issue came to light because of his contact with the payer and there had been no means for him to identify the payer's error from Citi's information. Mr C said there's no relevance to Citi's handling of 'meaningless information' as the beneficiary name wasn't meaningless, just inaccurate.

### **What I've decided – and why**

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

Mr C complains that Citi didn't process transfers to his account in accordance with the financial regulations. This is separate to Mr C's complaint about Citi's closure of his

accounts, which has also been considered at this service. Mr C will be aware that we are not the regulator of financial businesses, the Financial Conduct Authority (FCA), we provide a complaint handling service. This means we decide complaints on what we consider to be a fair and reasonable outcome in the circumstances, rather a determination solely on the regulations.

Part of Mr C's complaint is about Citi's failure to respond to their concerns about its breach of the Funds Transfer Regulations (FTR). I can see that Citi took far too long about this and I'm pleased it has offered Mr C £300 compensation and I think this is reasonable. Mr C has agreed the payment and so if it hasn't already been paid, Citi should make this payment without further delay.

Mr C has referred to Citi's handling of 17 SWIFT payments into their account. He said Citi failed to comply with Article 7 of the FTRs, concerning verification of the accuracy of the beneficiary information on inward transfers. He thinks this led to Citi's decision to close their accounts. In this case, Citi received funds for the correct account number, but the payee's address was input rather than the payee's name. Citi does not consider that it breached the FTRs in not identifying these details as incorrect information.

The details and quotation of the regulations relevant to the transfers Mr C received have been fully set out by the parties and by our investigator, and I don't intend to repeat them all here. However, I have looked closely at the requirements that apply to transfers and the contention between Mr C and Citi as to the obligations on businesses.

Mr C said the requirements on banks with regards to verifying transfers are not altered by STP. My understanding is that STP is the common approach of banks making automated, electronic SWIFT payments. I don't think Citi is suggesting these are exempt from the regulatory requirements for transfers, just that these involve no manual intervention. It would have been preferable if Citi had identified the incorrect payee for the transfers at an early stage, and I have looked at the requirements on banks in this regard.

From an overview of the requirements on Citi as PSP of the payee Citi must have adequate procedures, based on a risk-based approach. Citi isn't required to have an automated process to check that the payee's name on incoming payments matches exactly that of the client. Citi does have an obligation to identify missing or meaningless information and have in place processes which could have identified if the information was missing or meaningless.

Mr C questioned the procedures in place at Citi to detect whether the payee's name was in accordance with the rules of the payment system. Mr C requested details of Citi's compliance with Article 7.1 of the FTRs to show that the payments were reviewed over the 14-month period.

Citi acknowledges that Article 7.3 of the FTRs contains a requirement on the PSP of the payee to verify the accuracy of the information on the payee. And Citi says it complies with paras 61 and 62 of the EBA guidance in this regard by means of its verification of Mr C's identity and ongoing customer due diligence measures on a risk-based approach.

Citi described the 'statutory position' of the PSP of the payee in respect of the transfers. It said Chapter II, Section 2 of Regulation (EU) 2015/845 (Retained EU legislation) (the 'FTRs') contains the obligations. I can see that this includes (Articles 7 to 9) concerning the obligation to detect missing information on the payer or payee. This requires the PSP to have effective procedures, including, where appropriate, ex-post monitoring or real-time monitoring.

I can see that Citi uses, 'Real Time Payment Monitoring', 'Post Event Monitoring' and 'Post Event Sampling' to check transfer payments. These are set out within the UK Finance Guidance and Section 29 of the EBA Guidelines, and I think they represent a coherent suite of checks appropriate to the requirements on Citi. Mr C may not agree and would point out

the address anomaly on the inward transfers he received, but I don't think this would necessarily have been identified by the required checks. This doesn't mean the checks Citi deploys are unreasonable.

As to Citi's approach to meaningless information on transfers it uses 'Rule-Based Logic' to detect anomalous payee and payer information. Citi said all payments are reviewed against a compiled list, which is reviewed periodically, of meaningless phrases, random character string or meaningless designations that make no sense and will review any such payment in more detail, including engagement of the remitting bank for the correct information. In Mr C's case the payee and the account name would have been validated against the list, but it did not flag against this list and so did not go for further review. Citi says its approach is aligned to the recommendations set out in the EBA Guidelines, paragraphs 26 and 27.

Mr C said that Citi has omitted any reference to Article 7.3 of the Regulations, which states that before crediting the payee's account, the PSP of the payee 'shall verify the accuracy of the information on the payee referred to on the basis of documents, data or information obtained from a reliable and independent source.' The Article refers to the name and account number of the payee as needing to be verified to prevent crime and this is separate from the obligation to identify missing or meaningless information in the transfer. Mr C says Citi failed to do this and as a result, potentially compromised the integrity of their accounts by not notifying a problem with the instructions from the payer over a 14-month period.

As Mr C says, the payee in this case was a non-existent entity with which Citi could not have had a business relationship. Citi's relationship was with Mr C, and this was underpinned with the due diligence and risk-based checks that it has to carry out. It's unfortunate that neither party identified the non-existent payee or the sending bank, but I don't think that means Citi failed to deploy the checks it was required to carry out or that it has solely relied on the EBA guidance for the checks it deploys.

Essentially the regulations require Citi to implement effective, risk-based procedures for determining whether to carry out a transfer of funds lacking complete payer and payee information and for taking the appropriate follow-up action. But for a bank to deploy these checks it must of course be aware that the information referred to in the FTR Articles is missing or incomplete. Citi didn't reach this conclusion about the transfers to Mr C's account and so there was no reason for it to enquire. Even if it had, industry guidance permits banks to allow such a payment through the system on a risk-sensitive basis. I think this acknowledges the difficulty in detecting incorrect or meaningless payee information.

I am of the view that Citi has relied upon the FTRs in putting in place its policies and procedures in respect of compliance. From what I have read, Citi's deployment of Real Time Payment Monitoring, Post Event Monitoring and Post Event Sampling is in accordance with UK Finance Guidance and the EBA Guidelines. I'm not aware of any concerns from Citi's regulator, the FCA about its deployment of checks and compliance with the regulations in circumstances similar to Mr C's. And, I haven't seen any evidence with which to decide that Citi does not have adequate procedures, based on a risk-based approach, as Mr C suggests.

I have concluded that Citi has acted reasonably in its handling of the transfers into Mr C's account and has treated Mr C fairly and so I don't think it would be fair to require Citi to take any further action. I realise that Mr C will be disappointed by this decision, but I hope he can appreciate the reasons why I have reached it. It is open to Mr C to contact the FCA regarding his concerns about regulatory compliance, but should note that the FCA won't consider individual complaints.

### **My final decision**

For the reasons I have given it is my final decision that the complaint is not upheld.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr C and Mrs C to accept or reject my decision before 27 May 2024.

Andrew Fraser  
**Ombudsman**