

PSR confirms plans for banks to reimburse APP scam victims

AT A GLANCE

June 2023

What's new?

- The Payment Systems Regulator (PSR) published a [policy statement](#) on 7 June 2023, confirming it will require payment service providers (PSPs) to reimburse authorised push payment (APP) fraud losses in all but exceptional cases.
- The requirements will apply to all PSPs which send and receive Faster Payments in the UK, including retail banks and building societies. They come after PSR consultations in [November 2021](#) and [September 2022](#), and are part of reforms progressing through Parliament via the Financial Services and Markets Bill (FSMB).
- The requirements will come into force in 2024, and the PSR expects industry to start implementation work now.

What does this mean?

- The requirements will introduce minimum standards for PSPs to reimburse victims of APP fraud from 2024, with additional protections for vulnerable customers.
- The standards will replace the voluntary Contingent Reimbursement Model (CRM) Code.
- In 2022, there were 207,372 confirmed cases of APP fraud, worth £485.2m, of which 59% (by volume) were reimbursed. The PSR's ambition is for around 95% of losses to be reimbursed under the new requirements.
- The requirements apply to Faster Payments sent and received by PSPs in the UK, including payment initiation service transactions. The PSR is working with the Bank of England to define a similar reimbursement model for the CHAPS system, and will announce further details in early Q3 2023.
- The PSR is broadly taking forward the proposals as consulted on, requiring sending PSPs to reimburse all victims of APP fraud, with two exceptions: cases of first party fraud, and gross negligence (the latter does not apply if the victim is a vulnerable consumer).
- Under the requirements, the cost of reimbursement will be split 50:50 between receiving and sending PSPs. Under the CRM Code, sending PSPs bear the vast majority of reimbursement costs.
- Sending PSPs must reimburse customers within five business days (this has been extended from 48 hours under the original proposals), with a 'stop the clock' provision for certain actions such as gathering additional information.
- Sending PSPs can deny claims submitted more than 13 months after the final payment to the fraudster. No retrospective claims will be permitted.
- The PSR has removed the proposed £100 minimum threshold for claims, and will consult in Q4 2023 on the

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appropriate level for a claim excess (this excess would not apply to vulnerable customers).

- It plans to consult on a maximum value for claims in Q4 2023, including whether this maximum will apply to vulnerable customers.

What do firms need to do?

- Industry, the PSR and Pay.UK have already introduced a number of measures to reduce APP fraud, including expanding the roll out of Confirmation of Payee, and ongoing work to improve intelligence sharing between firms e.g. via the Enhanced Fraud Data (EFD) scheme.
- The reimbursement changes will require firms to go further to adopt innovative, data-driven approaches to prevent APP fraud and change customer behaviour.
- Automated risk-based decision making will be key to meeting the five-day reimbursement timeframe, which is notably shorter than most firms work to under the CRM.
- Receiving PSPs should consider enhancing customer onboarding controls to detect fraudsters.
- The PSR suggests that a risk-based approach to payments, with firms making better decisions on when to hold or stop a payment, is needed to improve fraud prevention rates. However, as the PSR acknowledges, legislation is needed to facilitate this.

- The changes will require PSPs to enhance coordination and information sharing, with further developments to EFD likely to be needed.
- The PSR is leaving it to industry to design a dispute resolution mechanism between sending and receiving PSPs. A centralised process will be required for operational efficiency.
- Firms should consider their obligations under the FCA's vulnerable customers guidance, ensuring they proactively identify vulnerable customers and apply appropriate protections - this may include additional interventions in the payment process and tailored communications.
- Firms should also have regard to the FCA's Consumer Duty rules, which come into force on 31 July 2023 for open products and services. The rules require firms to avoid causing foreseeable harm and so will impose a higher standard for scam detection and prevention. Firms should test and monitor the effectiveness of scam warning messages in line with the Duty's consumer understanding outcome.
- More broadly, firms should consider how they can use customer communication and education strategies, including behavioural economics techniques, to enhance customers' awareness of APP scam risks and how to avoid them.

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Next steps

The requirements will be implemented through a combination of Pay.UK Faster Payments rules and PSR directions. In Q3 2023, the PSR will consult on further details, and the FSMB is expected to receive Royal Assent. In Q4 2023, the PSR plans to publish final legal instruments given to Pay.UK, along with a specific date in 2024 for the requirements coming into force.

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