

7 October 2024

Dear Chief Executive Officer

## **ACTION REQUIRED: FCA EXPECTATIONS ON AUTHORISED PUSH PAYMENTS (APP) FRAUD REIMBURSEMENT**

Financial crime, including fraud, does enormous damage to society – funding criminal activity, undermining market integrity, eroding consumer confidence and potentially having a significant financial and emotional impact on households across the country. That’s why we have made reducing and preventing financial crime, including APP fraud and money laundering, a priority in our multi-year strategy.

New measures to support victims of APP fraud come into force today. The Payment Systems Regulator (PSR) is implementing changes relating to reimbursement requirements for APP fraud carried out through the Faster Payments System (FPS) and CHAPS. You are receiving this letter as the Chief Executive of a Payment Service Provider (PSP) that may be captured by the PSR’s reimbursement requirement either now or in the future.

We wanted to set out our expectations relating to these measures, the role of the Consumer Duty and what you can expect from the FCA through a data-led approach to monitoring progress. If you have not already done so, we are asking you to ensure that your firm has appropriate oversight, systems and controls in place to comply with these requirements.

### **Background**

On 19 December 2023, the PSR released its policy statement PS23/4 Fighting Authorised Push Payment Scams: Final Decision<sup>1</sup> and Specific Direction 20 Faster Payments APP Scam Reimbursement Requirement<sup>2</sup>, requiring all PSPs that send or receive payments over the FPS to reimburse victims of APP fraud from 7 October 2024.

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<sup>1</sup> [PS23/4 Fighting authorised push payment scams: final decision \(psr.org.uk\)](https://www.psr.org.uk/ps23-4-fighting-authorised-push-payment-scams-final-decision)

<sup>2</sup> [Specific Direction 20 \(Faster Payments APP scam reimbursement requirement\) \(psr.org.uk\)](https://www.psr.org.uk/specific-direction-20-faster-payments-app-scam-reimbursement-requirement)

On 6 September, the PSR released policy statement PS24/5 Fighting Authorised Push Payment Scams: CHAPS APP Scams Reimbursement Requirement<sup>3</sup> and Specific Direction 21 (SD21) CHAPS APP Scam Reimbursement Requirement<sup>4</sup> directing PSPs that participate directly and indirectly in CHAPS to reimburse APP fraud carried out via CHAPS. This will also come into effect on 7 October 2024 and aligns closely with Specific Direction 20 relating to FPS APP fraud.

Broadly, these reimbursement requirements oblige all firms to which they apply to reimburse all in-scope customers who fall victim to APP fraud via FPS and CHAPS, unless the customer was involved in committing the fraud themselves or acted with gross negligence. PSPs will share the cost of reimbursing victims equally between the sending and receiving firms to incentivise them to detect and prevent fraud.

Treasury has also published a Statutory Instrument (SI) that will amend the PSRs 2017 to enable PSPs to delay processing a payment transaction by up to 4 business days after they receive the payment order where they have reasonable grounds to suspect fraud or dishonesty ('payment delays legislation'). In the accompanying Policy Note<sup>5</sup>, the Treasury states the changes will allow PSPs to adopt a risk-based approach to payments and give firms more time to assess potentially fraudulent payments when this is needed, increasing firms' ability to tackle APP fraud while minimising the impacts on legitimate payments.

To reflect Treasury's proposed changes, we published a Guidance Consultation (GC24/5: Authorised Push Payment Fraud: enabling a risk-based approach to payment processing<sup>6</sup>) setting out changes to the guidance in our Approach Document<sup>7</sup> to help explain how PSPs should apply the legislative provisions, so they are able to further tackle APP fraud while minimising the impact on legitimate payments. We also consulted on changes which explain how we expect PSPs to address suspicious inbound payments while continuing to process payments quickly and efficiently. We plan to publish final guidance with an accompanying policy statement by the end of 2024.

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<sup>3</sup> [PS24/5 CHAPS APP scams reimbursement requirements \(psr.org.uk\)](https://www.psr.org.uk/ps24-5-chaps-app-scams-reimbursement-requirements)

<sup>4</sup> [Specific Direction 21 \(CHAPS reimbursement\)](#)

<sup>5</sup> The Payment Services (Amendment) Regulations 2024. Delaying payments processing when there are reasonable grounds to suspect fraud or dishonesty. [Policy note.pdf \(publishing.service.gov.uk\)](#)

<sup>6</sup> <https://www.fca.org.uk/publications/guidance-consultations/gc24-5-app-fraud-enabling-risk-based-approach-payment-processing>

<sup>7</sup> <https://www.fca.org.uk/publication/finalised-guidance/fca-approach-payment-services-electronic-money-2017.pdf>

## **Our expectations**

### *Anti-fraud systems and controls*

PSPs should be working to reduce APP fraud by improving their anti-fraud systems and controls. This is also the best way for PSPs to limit their potential liability. These systems and controls, including at onboarding and through ongoing transaction monitoring, firstly help to prevent customers from falling victim to APP fraud, and secondly help to identify fraudsters and prevent them from receiving payments. Ongoing monitoring will help to improve PSP involvement in any available data sharing initiatives.

In 2023, we published examples of good practice of how PSPs can mitigate the risks of APP fraud<sup>8</sup>. We continue to work with PSPs on their anti-fraud systems and controls, with an emphasis on how PSPs prevent harm to their customers, including how they tackle the risk of being used by money mules to launder fraudulent funds. In particular, PSPs should:

- have effective governance arrangements, controls and data to detect, manage and prevent fraud;
- regularly review their fraud prevention systems and controls to ensure that these are effective; and
- maintain appropriate customer due diligence controls at onboarding stage and on an ongoing basis to identify and prevent accounts being used to receive proceeds of fraud or financial crime.

### *Capital and liquidity*

PSPs should recognise and manage their potential liability and the impact this may have on their capital and liquidity. We expect PSPs to review and adjust their business models and transactions to mitigate against any risk of prudential impact that may result from potential APP fraud reimbursement liabilities.

### *Consumer Duty*

Under the Consumer Duty, firms must avoid causing foreseeable harm. An example of foreseeable harm would include a consumer becoming victim to a scam relating to a firm's financial products due to the firm's inadequate systems to detect and prevent scams, or inadequate processes to design, test, tailor and monitor the effectiveness of scam warning messages presented to customers.

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<sup>8</sup> [Anti-fraud controls and complaint handling in firms \(with a focus on APP Fraud\) | FCA](#)

Further, if a firm identifies that it has caused customers harm, either through its action or inaction, the firm must act in good faith by taking appropriate action to rectify the situation. This includes considering whether remedial action, such as redress, is appropriate. Firms should ensure their customers are adequately supported throughout the lifecycle of a product or service after the point of sale – in particular, if they want to make a complaint.

### *Information*

We remind PSPs that they are required, by the PSRs 2017, to provide information about the availability of alternative dispute resolution procedures for payment service users and how to access them as part of their pre-contractual information. This includes informing eligible customers about the availability of the Financial Ombudsman Service.

### **'On us' APP fraud reimbursement**

Internal book transfers, also called 'on us' or intra-firm payments, are where both the sending and receiving payment accounts are held with the same firm or group and can therefore be executed through an internal channel rather than an external payment system, such as FPS. The PSR's reimbursement policies for APP fraud will only apply to payments routed through FPS and CHAPS.

Consumers are unlikely to understand that the level of protection that a PSP provides against APP fraud may vary depending on the type of payment process used. We are therefore concerned that consumers will not understand if they receive a lower level of protection in respect of an intra-firm payment, compared to a payment made by FPS or CHAPS, and that this will lead to poor consumer outcomes. Under the Consumer Duty firms are required act to deliver good outcomes for consumers.

We expect you to ensure your approach to 'on us' APP fraud meets your obligations under the Consumer Duty. If you are planning to provide a lower level of protection to 'on us' APP fraud reimbursement compared to payments made through FPS and CHAPS, we ask you to contact us to provide an explanation of the steps you have taken to meet those obligations.

### **What you can expect from us**

The FCA and the PSR will work together to monitor firms' compliance with the PSR's reimbursement regime. We will use data arising from the reimbursement regime to monitor for prudential issues, conduct breaches and inadequate systems and controls and ensure that it is effectively protecting consumers against APP fraud without adverse impacts on the broader payments system.

As part of the process for monitoring PSPs' implementation of the payment delays legislation, we are also looking to gather data from PSPs on payment execution timings to assess the level of additional friction in the system, and values and volumes of delayed payments under the new SI.

### **How to communicate with us**

We remind you of your ongoing obligations to notify us without undue delay of any material changes in your firm's circumstances, including significant systems and controls and/ or prudential issues<sup>9</sup>.

If you have any questions about the scope of the PSR's Specific Direction 20 or 21, please contact the PSR directly.

If you need to speak with us, please contact your usual FCA supervisor, or otherwise use the channels on our contact page including the Supervision Hub on 0300 500 0597.

Yours faithfully,

Matthew Long, Director, Payments & Digital Asset; Supervision, Policy & Competition

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<sup>9</sup> Regulation 37 of the PSRs 2017 of [The Payment Services Regulations 2017 \(legislation.gov.uk\)](https://www.legislation.gov.uk/ukreg/2017/1000) and [SUP 15 for Banks & Building Societies - FCA Handbook](#)