Future of Payments

Tackling **authorized push payment (APP)** fraud: a challenging and evolving Payments environment

Piers Reynolds,
Partner, Freshfields LLP

Laura Feldman, Barrister, Freshfields LLP, and Lecturer in Law, University of Oxford[1]

ABSTRACT

The U.K. Payment Systems Regulator (PSR) has introduced significant changes to the U.K. payments landscape. The recently introduced mandatory reimbursement regime (the Scheme) allows victims of "authorized push payment" (APP) fraud to reclaim fraudulently transferred funds from the sending payment system provider (PSP) that processed the payment unless certain limited defenses apply. This novel Scheme, which is unique globally, aims to redistribute the burden for fraud between PSPs and consumers, encourage PSPs to introduce greater measures to tackle fraud, and curtail disputes in this area. We explain the Scheme, assess its operation to date, explore potential difficulties, and conclude with practical guidance for PSPs managing the new measures.

1. This article was finalized on July 30, 2025 and reflects the position at that point in time.

1. Introduction

There are two main avenues of recourse that victims of APP fraud may pursue in the U.K.: the "mandatory reimbursement scheme" for payments using the faster payment system (FPS), or through the courts. The Scheme, which has applied since October 7th, 2024, allows victims of APP fraud to make a claim from the sending PSP (the Sending PSP) for reimbursement in most cases. APP fraud arises where the victim "authorizes" the payment but under false pretenses. The new reimbursement requirement does not apply to international payments, payments made for unlawful purposes, payments across other payment systems (a separate scheme exists for CHAPS), civil disputes, and where the customer has acted fraudulently or with gross negligence. Claims falling outside the scope of the Scheme may be subject to litigation. There are limited grounds to challenge APP fraud in the courts because of the bank's obligations to execute customer instructions unless exceptional circumstances arise. This article will focus on the Scheme as opposed to the common law as that currently covers most payments in the U.K.

2. The Scheme

The Scheme operates as follows:

- PSPs must provide mandatory reimbursement in most cases of a payment scam where a claim is made within 13 months of the final payment. There are two exceptions: where the PSP can show that the customer has acted fraudulently, or with gross negligence (known as the "customer standard of caution").
- A Sending PSP (a PSP, which holds the customer's account) must reimburse the victim within five business days, except where they "stop the clock". Sending PSPs can "stop the clock" by investigating further, for example by gathering additional information.
- The cost of reimbursement, which is capped at £85,000, is shared equally between the Sending and receiving payment service providers (the Receiving PSP). The Sending PSP can levy an optional claim excess of £100.
- Pay.UK oversees the Scheme,[2] but the binding legal instruments that implement the requirements envisage that the PSR can undertake enforcement action where necessary.
- Additional care is required for "vulnerable consumers", as defined in accordance Financial Conduct Authority (FCA) standards.

2.1 The Scheme in operation

Six months after the Scheme was introduced, the PSR published a thought piece providing a snapshot of its operation [PSR (2025)]. It notes that during the first three months since implementation, around £27m was returned to victims via in-scope claims (which represents 86% of funds lost) and the overwhelming majority of claims (98%) were awarded without resort to the customer standard of caution.[3] More recently, PSR consumer research reported that most consumers surveyed were unaware of the Scheme. We may, therefore, see an increase in claims with expected growing awareness of the reforms.

PSPs are closely scrutinized for their management of the Scheme as Pay.UK is required to collate comprehensive data on performance.[4] We were expecting the publication of the data but this has not as yet materialized. This may mean that Pay.UK is struggling to process that data and/or that there are issues with PSPs providing the information.

Where a fraud claim cannot be resolved between a PSP and the consumer, it can be referred to the Financial Ombudsman Service (FOS). There is currently limited insight available into the volume of fraud and scam claims with the FOS following the implementation of the Scheme, though it has reported a steady increase in complaints in relation to APP fraud. Shortly before the introduction of the Scheme, the data for the three-month period between July and September 2024 indicated circa.

2. Pay.UK is a corporation that manages membership of the FPS used to process most payments in the U.K.
3. The PSR published further data in July 2025 (available at: https://tinyurl.com/mkm4t5wf), indicating that during Q1 2025 87% of the money lost to APP scams was returned to victims, 86% of claims were closed within 5 business days, and 3% of claims were rejected due to the consumer not taking enough care over the transaction or their claim. Notably, around third of claims during Q1 2025 were not within the scope of the Scheme with many likely falling within the category of civil disputes as opposed to fraud.
4. PSPS must retain and report on the total volumes and value of APP fraud claims that: have been reported; that are reimbursable and those that are not reimbursable; closed within the 5 business day and 35 business day deadlines; claims where the Sending PSP has informed the Receiving PSP of the claim within the notification period; where the Receiving PSP has responded to a Sending PSP's information requests in a timely and accurate manner; where the consumer standard of caution has been applied; where the customer is assessed as vulnerable; as well as the total number and value of claims reimbursed and the total volumes and values of claims where the Sending PSP received the reimbursable contribution amount within 5 business days.



9,000 complaints about fraud and scams [FOS (2024)], which is significantly higher than in the same period the previous year and an increase on the previous quarter in 2024.[5]

Of these complaints, around 55% related to APP fraud. The FOS has not published specific fraud and scam data for the period from October to December 2024 but noted 8,830 current account complaints compared to 7,804 complaints in the same period during 2023 and that "[f]raud and scams continues to be the main driver of these complaints". The FCA's recent annual report notes 28% more cases about fraud and scams in 2024/25 than in the previous year (35,416 up from 27,675) [FCA (2025)]. Despite the introduction of the Scheme, the FOS has predicted that it will receive almost 37,000 fraud and scam complaints for the 2025-26 fiscal year, which would represent a notable increase in claims compared to the previous year. Nonetheless, the annual report finds that for the initial six months of the Scheme, there was a low volume of complaints relating to the Scheme. This likely reflects the time-lag between a claim for reimbursement, attempts to resolve the dispute between the consumer and retail, and referral to the FOS. The annual report also finds that there has been an increase in cases where there is an ongoing civil dispute about the suspected underlying fraud or scam or investment. This suggests that uncertainty regarding the line between civil disputes and fraud remains challenging (see further section 3.1.3 below).

The fact that the Scheme is not predicted to have any impact on cases reaching the FOS raises questions. It could imply that many of the claims caught by the Scheme were previously covered by the voluntary CRM (Contingent Reimbursement Model) code of practice for APP scams. The CRM arrangement accepted by many PSPs allowed victims to reclaim funds transferred fraudulently in many cases.[6] A further reason could be that the complexities of the Scheme may simply lead to disputes between consumers and PSPs to ascertain the interpretation of many aspects of the regime (discussed below in section 3). If we do see escalating APP fraud claims reaching the FOS, it may call into question the benefits of introducing the Scheme.

5 6,264 complaints reported in the same period the previous year.

6. Under the CRM, which has since been retired following introduction of the Scheme, signatories committed to (inter alia) protect customers with procedures to detect, prevent, and respond to APP scams; provide a greater level of protection for customers considered to be vulnerable to fraud; respond effectively to the receipt of funds from this type of fraud; and reimburse customers who were not to blame for the scam.

3. The challenges

There are a number of challenging aspects to the Scheme.

3.1 Uncertainty

There are several facets of the regime that are inherently uncertain, such as the gross negligence customer standard of caution and the definition of vulnerable consumers, the extent to which PSPs can "stop the clock" in a "proportionate" and "reasonable" manner, and the line between fraud and civil disputes. These issues are likely to lead to an escalation of referrals to the FOS and litigation to ascertain how these facets of the Scheme should apply in practice.

3.1.1 Customer standard of caution

The PSR has published additional guidance on the customer standard of caution but there remains further areas of uncertainty. In summary, the guidance provides that the standard has four aspects:

- A requirement for consumers to have regard to specific, directed warnings.
- A prompt reporting requirement.
- An information sharing requirement necessitating that consumers respond to "reasonable and proportionate requests".
- Reporting to the police where requested.

If it can be demonstrated that the consumer has been grossly negligent in not meeting one of more of these requirements, then they may not be reimbursed. The PSR has explained that "gross negligence is a very high bar which will critically depend on the individual circumstances of each case". It is unclear how these four points should apply in practice. For example, the extent to which warnings may be considered in assessing the customer's fault.

A further area of difficulty is ascertaining vulnerable consumers that are not subject to the customer standard of caution and the claims excess. The problems identifying and managing vulnerable consumers are evident from a recent FCA review that has presented a mixed picture of outcomes by firms.

Based on the high standard of negligence and the vulnerable consumer carveout, consumers only have to exercise limited care in processing payments and the primary burden is on PSPs to expand warnings to tackle fraud and request and respond to information provided by the consumers in a proactive manner. This is evident from the PSR figures showing that firms have been reluctant to rely on the gross negligence/consumer standard, with only a 2% rejection rate on this ground. The high standard is in marked contrast to the more limited grounds for a claim that has evolved under the common law. In this respect, we may see an awkward tension arise where claims above £85,000 result in reimbursement under the Scheme up to £85,000, with the remainder of the sums dissipated subject to litigation in the courts on potential breaches of bank's duties when executing payment. In turn, the Scheme may send misleading messages to consumers on the extent to which they can claim compensation for losses flowing from fraudulently induced transactions.

3.1.2 Stop the clock

Although the "stop the clock" provisions allow Sending PSPs to conduct further investigations, consumers only need to respond to "reasonable and proportionate requests for information" [PSR (2023a)]. Receiving PSPs are also not permitted to engage with the defrauded customer but are still liable for 50% of the costs. This may place an unfair burden on Receiving PSPs, particularly where a Sending PSP has not exercised adequate skill and care in identifying and preventing fraud. There are currently limited ways to deal with failing PSPs to ensure a fair distribution of liability based on the steps taken by the relevant PSPs to tackle fraud (see, section 3.3 below). The PSR has confirmed that they have no plans to provide any additional guidance on the meaning of "proportionate" use of stop the clock provisions, which leaves scope for differing interpretations of the provisions.

3.1.3 Civil disputes

Victims of APP fraud may not rely on the Scheme where the claim relates to a civil dispute. This may be an important defense to many APP fraud claims that are more appropriately addressed via civil dispute mechanisms and not mandatory reimbursement. There has been recent guidance on this issue, which focuses on assessing the nature of the relationship with the purported scammer to ascertain whether the case is more akin to a business dispute on the provision of goods/services than to a fabricated business transaction that has duped

the consumer.[7] However, the line between civil disputes and fraud claims remains unclear and is likely to lead to disputes. This is supported by the PSR figures indicating a third of recent cases fell outside of the Scheme mainly due to the matter being a civil dispute and the FOS concerns with managing claims with other agencies due to this issue (see Section 2.1 above).

3.1.4 The consequences of uncertainty

Due to the vagueness around these and other features of the Scheme, the PSR accepted that there may be a degree of uncertainty during the implementation stages that could lead to increases in disputes referred to the FOS [PSR (2022a)]. We may, therefore, see FOS complaints driven significantly higher as customers and PSPs attempt to navigate the interpretation of the Scheme.

Unfortunately, the nature and structure of the FOS system results in limited scope for regulatory or judicial authority to provide for consistency or guidance in future cases and there is a lack of alignment between FOS and FCA expectations. There are expected reforms to the FOS to address the way it manages cases to address these and other shortcomings. It will be important to monitor how these proposals are implemented to assess whether it will result in meaningful changes.

As well as concerns with the ability of the FOS to oversee the Scheme, similar fears have arisen on the extent to which Pay.UK and the PSR can effectively oversee the implementation of the measures. The PSR will be absorbed into the FCA later this year. The Government plans to consult on the details of the proposals and will legislate to formalize the changes shortly thereafter.[8] The consolidation of the PSR into the FCA is part of the government's broader Plan for Change and Industrial Strategy, which aims to create a regulatory environment that supports economic growth and increases living standards by reducing unnecessary regulatory burdens on businesses.

The concerns around the operation of the Scheme were reflected in an April 2025 report by the All-Party Parliamentary Group on Fair Banking. The report concluded that complaints relating to APP fraud and scams have "rocketed" during recent years and names and shames specific banks that are purported to be failing to address complaints correctly; noting "[a]necdotal evidence suggest that some firms are either not responding to fraud reports and compensation requests, or taking far, far longer than the five days now mandated by the MRR" [APPG (2025)]. This illustrates how scrutiny of Scheme will likely be placing increasing public pressure on banks to ensure they react appropriately to claims. A further report was published in July 2025 indicating further concerns with the Scheme. Consequentially, the reports recommend several changes to the Scheme, including:

- Extend the Scheme to international payments and crypto-asset fraud.
- Increase the £85,000 cap on claims.
- Introduce a levy on other businesses outside the finance sector that may contribute to the underlying fraud.
- Greater disclosure of the specifics of fraud (including number of complaints relating to non-payment of reimbursements referred to the FOS).
- Clearer pathways for reporting and claiming.
- Improved compliance with the five-day target for compensation under the Scheme.
- Improved warnings.

We are awaiting the Government's response to these proposals.[9]

It will be important to monitor the outcome of these expected policy developments to assess whether we will see changes to the regulatory oversight of the Scheme (including on how the FOS, PSR, and Pay.UK operate), as well as the operation of the Scheme. It seems likely that we will at least see an increase in the type of data that PSPs will need to provide. Pending reforms, there will remain difficulties for financial institutions assessing the appropriate response to the more difficult cases potentially falling outside the Scheme. Ultimately, this may cause a continued steady stream of cases reaching the FOS and court for resolution, which does not align with the objective of the reforms.

7. On 23 September 2024, the PSR published its policy statement [PSR (2024a)] and final guidance [PSR (2024b)] to help PSPs assess whether an APP fraud claim raised by a customer relates solely to a civil dispute and is, therefore, excluded from the reimbursement requirement.
8. https://tinyurl.com/4fdy76cx
9. The second report confirmed there will be an independent review into the Scheme during the next year and has urged the Government to introduce reforms as part of an updated Fraud Charter that will be published in late 2026.

3.2 Balancing payment friction and protecting consumers

An overarching practical difficulty with the regime is how PSPs can balance the importance of protecting consumers from fraud and not causing excessive friction when processing payments. Although the PSR has indicated it expects additional payment friction, this may be at odds with FCA requirements in relation to the Consumer Duty to ensure customers are satisfied with services offered, including speed and compliance with instructions. For example, the FCA has warned firms that they should not be creating excessive friction in processing payments when looking to act in compliance with the new Duty. In a "Dear CEO" letter to Payment Firms, the FCA criticized "poor financial crime controls," adding that some firms were failing to combat fraud and choosing to "freeze a disproportionate number of accounts, for too long, and without adequate explanation" in response to potential threats [FCA (2023)]. The letter urges firms to take better care of their customers by freezing accounts less frequently, investigating possible fraud faster, communicating better with affected customers, and supporting those "put in acute financial difficulty" after having their accounts frozen. Similar sentiments were expressed in the FCA's multi-firm review of anti-fraud controls and complaint handling in firms with a focus on APP fraud; which reiterated concerns over firms' account freezing practices.

Despite FCA statements warning against excessive frictions, recent amendments to the Payment Services Regulations allow PSPs to adopt a risk-based approach to processing payments to provide more time to assess potentially fraudulent payments where needed. In November 2024, the FCA published its final guidance for payment services and electronic money to explain how PSPs should apply the legislative changes to minimize the impact on legitimate payments [FCA (2024)]. The final guidance provides further details on how PSPs can use the payment delay window to investigate fraud where there are reasonable grounds to suspect fraud. It indicates that PSPs have a wide degree of discretion to freeze customer accounts in the case of fraud even where this may result in friction in payment processing.

The conflicting messages on how to manage fraud prevention and customer expectations creates challenges for PSPs acting consistently with regulatory expectations. The complexities are illustrated by the U.K. Finance statistic that 31% of financial institutions are having difficulty measuring and understanding effective ways of combatting scams [U.K. Finance (2023)]. As to the former, the PSR reimbursement framework aims to protect consumers by encouraging PSPs to implement fraud prevention measures, including expanding the use of warnings to allow customers to exercise adequate caution. However, measures are not watertight because of the widespread nature of APP fraud in circumstances where PSPs cannot readily identify victims. Low value purchase scam payments are extremely problematic for PSPs to detect and prevent because they are not easily differentiated from other low-value payments. Even when established, it is often problematic to determine if they fall within the scope of a scam or a dispute, as there is often very limited evidence available.

Given the evolving picture of the Scheme, the safest course for many PSPs will be to err on the side of caution and freeze payments where there are fears of fraud. This would be consistent with the common law position, where it is rare to see a customer successfully claim against a bank for loss caused by freezing an account due to fraud. In light of this context, systems and controls should be designed to slow or freeze transactions in a wide range of cases. Likewise, frontline staff should be vigilant and encouraged to intervene wherever suspicion of fraud arise, although the level of intervention ought to be case-specific. A further tool that can be used is that Sending PSPs can agree to indemnify Receiving PSPs for losses arising from freezing a customer account. This may allow the quick retrieval of funds even after fraudulent transactions are processed. Information sharing to prevent and tackle fraud is also helpful. There have been efforts to facilitate voluntary information sharing by financial services firms under the Criminal Finances Act 2017 and Economic Crime and Corporate Transparency Act 2023 (ECCTA). The ECCTA recently extended the instances when regulated firms can share data to go beyond Anti-Money Laundering to cover preventing economic crimes. It also allows the sharing of data outside the AML regulated sector in certain instances.

3.3 Compliance

Although Pay.UK is responsible for monitoring compliance with the reimbursement rules, enforcement remains the responsibility of the PSR. This division of monitoring and enforcement arises because of the nature of FPS, which operates via

contractual arrangements between Pay.UK and members, i.e., PSPs, as opposed to authorization via regulation. Where Pay.UK considers that further action is necessary to address non-compliance, it will initiate a series of management steps, which may involve implementing a mitigation action plan, enhanced monitoring, and engagement of senior level executives.

Initially, the PSR envisages that Pay.UK should take steps to address failings, which if unresolved should be referred to the PSR. The statutory instruments implementing the Scheme allow the PSR to intervene where necessary. The integration of the PSR into the FCA also suggests that there are efforts to expand the enforcement capabilities of the regulator. A Memorandum of Understanding between the FCA and PSR and other regulators also facilitates the sharing of information with a view to improving enforcement outcomes. Examples where the PSR expects Pay.UK to refer a case include:

- A consistent failure by a PSP to abide by the new reimbursement requirement.
- Data collection failings.
- An extreme compliance failure by a PSP to abide by the new reimbursement requirement [PSR (2023b)].

In the past, the PSR has issued directions for operational resilience failings, such as the direction implementing a fine for 2.4 million as a result of declined customer transactions in a six-hour period due to a system breakdown [PSR (2019)]. We have also seen fines for overcharging customers due to the incorrect application of payment rules to consumer credit card customers [PSR (2022b)]. We may see similar action depending on how the Scheme is managed by PSPs. In the future, the PSR may also look to hold senior managers accountable in line with its legislative Regulatory Principle to ensure "[t]he responsibilities of the senior management" for compliance with PSR requirements, including general directions. It is, therefore, important that those supervising implementation have adequate measures in place to exercise adequate oversight.

4. Preparing for developments

Given the complex and emerging aspects of the Scheme, financial institutions need to employ bespoke approaches for different categories of customers and react to a developing legal framework. In circumstances where firms cannot easily predict which regime applies as part of a multi-tiered and inconsistent legal and regulatory environment, this can result in significant challenges for the sector. Particularly as claims in relation to the Scheme are likely to increase and we may also see greater reporting requirements.

To ensure PSPs adequately implement the new measures, they ought to consider the following steps as appropriate in light of existing safeguards:

- Expand investigations of the threats to customers and align protection accordingly.
- Increase fraud awareness initiatives.
- Identify transactions at higher risks of APP fraud (e.g., large and unusual transaction in light of customer's banking history).
- Identify at-risk accounts to fraud and increase additional safeguards.
- Identify vulnerable consumers and contact this group with further information on how to protect themselves against fraud.
- Train staff on the changes.
- Implement additional methods where possible to freeze and recover fraudulently transferred funds.
- Use risk-based, tailored, and effective warnings to help prevent fraud.
- Continually re-evaluate and return to previous plans to reflect ongoing developments.
- Information sharing to tackle fraud.
- Develop a functioning data collection and filtration system to adhere to new disclosure requirements.

With expected publication of data on the Scheme and anticipated reforms to the financial services regulatory architecture predicted, PSPs should monitor anticipated developments closely and react appropriately as information materializes.



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