Webinar Summary

APP fraud – Understanding PSR/Pay.UK registration obligations and getting contract terms and conditions up to date

Event date: 27th March 2025
Host: Catherine Dixon, TPIA
Guest speaker: Richard Creed, Creed Solicitors

APP Fraud Reimbursement: Why Operating Model Clarity Matters More Than Labels

The UK's evolving Authorised Push Payment (APP) fraud reimbursement regime is forcing payment firms to confront a deeper strategic issue than fraud liability alone: whether their legal structure, operational model, customer communications and regulatory permissions accurately reflect the services they provide.

In a recent webinar hosted by the Payments Institutions Association (TPIA), Richard Creed of Creed Solicitors outlined how APP fraud obligations under the Payment Systems Regulator (PSR) and Pay.UK frameworks should be interpreted in practice by payment institutions, electronic money institutions (EMIs) and money remittance firms.

The core takeaway was clear: firms should avoid treating APP reimbursement as a universal fraud-refund obligation. Whether a firm falls within scope depends heavily on the underlying payment flow, the nature of the customer relationship, and — most importantly — whether the firm is providing what the regulations define as a "relevant account".

The Central Question: Does the Firm Provide a Relevant Account?

Under the APP reimbursement framework, several threshold conditions must be satisfied before reimbursement obligations arise. These include payments made in GBP via Faster Payments or CHAPS between UK-based relevant accounts, involving eligible customers such as consumers, charities or micro-enterprises.

However, the defining issue is whether the payment service provider offers the customer a "relevant account".

According to Creed's analysis, a pure money remittance model — where customers do not hold payment accounts with the remittance provider — is likely to fall outside the reimbursement regime entirely. In these scenarios, the remittance firm is facilitating a transaction rather than maintaining a customer account structure.

The distinction is not determined by terminology alone. Regulators and counterparties will assess the operational reality of the model rather than the labels used in customer documentation.

Indicators that may suggest a firm is in fact providing a payment account include:

- Customer-specific balances held by the firm
- Individual account identifiers
- Virtual IBANs
- Sort codes and account numbers linked to customers
- Funds held for periods in the customer's name before onward transmission

A business may describe these mechanisms internally as "ledgers" or "references", but if the structure functions like a payment account in practice, regulators may view it accordingly.

Why This Matters for Money Remitters

The webinar focused heavily on how APP reimbursement rules interact with traditional money remittance models.

Creed described a common two-stage remittance flow:

1. A customer sends funds from their bank account to the remittance provider.
2. The remittance provider then transfers funds onward to the beneficiary, often involving FX conversion or international settlement.

In a genuine remittance structure where the provider does not operate customer payment accounts, both stages may sit outside the APP reimbursement regime.

In the first stage, the receiving account belongs to the remittance provider itself — not to the end customer. In the second stage, the onward payment is typically made from the remitter's own account rather than from a customer-held relevant account. International transfers, non-GBP payments and non-CHAPS/Faster Payments rails may further reinforce the out-of-scope position.

Under this interpretation, many remittance firms would not be required to register with Pay.UK for APP reimbursement purposes.

However, the position changes materially if the firm's operating model resembles account provision. Once customer-held relevant accounts exist, the provider may become exposed both as a sending PSP and as a receiving PSP under the reimbursement framework.

That can create obligations including:

- Potential 50/50 reimbursement liability sharing
- Pay.UK registration requirements
- Additional scrutiny around FCA permissions
- Greater exposure to disputes and ombudsman complaints

Commercial Exposure Extends Beyond the Rules

One of the webinar's recurring themes was that formal regulatory scope and real-world commercial exposure are not always aligned.

Even where a payment firm believes it falls outside the APP reimbursement regime, its banking partners or sponsor EMIs may still choose to reimburse customers for commercial, reputational or operational reasons. Those institutions may subsequently seek recovery from the remittance provider through contractual indemnities, reserve deductions or dispute processes.

As a result, firms cannot assess APP fraud risk purely through regulatory interpretation. Banking-partner agreements and operational dependencies may create practical exposure regardless of the firm's technical legal position.

Creed therefore advised firms to review:

- Banking and sponsor contracts
- Indemnity provisions
- Chargeback and deduction rights
- APP fraud allocation clauses
- Internal dispute escalation procedures

For some firms, obtaining external legal analysis may also support discussions with banking partners where reimbursement liability is contested.

Customer Communications Are Now a Regulatory Risk Area

Another major theme was the increasing importance of consistency between legal terms and customer expectations.

Public awareness of APP fraud reimbursement has grown substantially, meaning customers may assume compensation rights exist even where the formal rules do not apply.

This creates risk under both the Financial Ombudsman Service (FOS) framework and the FCA's Consumer Duty requirements.

Creed stressed that firms should ensure their position on APP fraud reimbursement is explicitly and consistently reflected across:

- Terms and conditions
- Website wording
- FAQs
- Customer support materials
- Internal operational policies

Ambiguity creates exposure. A firm that publicly implies reimbursement protection while privately relying on technical exclusions may struggle to defend complaints later. Importantly, the FOS is not restricted to a narrow technical interpretation of PSR rules. Decisions may instead be based on what is considered “fair and reasonable” in the circumstances.

Confirmation of Payee Remains a Separate Issue

The webinar also clarified that Confirmation of Payee (CoP) obligations should not be conflated with APP reimbursement requirements.

Whether a PSP falls within CoP participation requirements depends on separate operational and infrastructure considerations, including whether the institution controls its own sort code listed on the Extended Industry Sort Code Database.

Many indirect PSPs operating through sponsor banks may not currently sit directly within mandatory CoP participation requirements, although participation may still be possible voluntarily through third-party arrangements.

APP Fraud as an Operating Model Test

Perhaps the most important strategic insight from the discussion was that APP reimbursement rules are increasingly functioning as a broader test of institutional clarity.

The issue is no longer simply whether a firm reimburses fraud victims. Regulators, counterparties and ombudsman processes are examining whether a payment provider’s legal documentation, permissions, account structures, operational flows and customer communications all describe the same underlying reality.

The greatest risk lies in the middle ground: firms whose operational behaviour resembles account provision while their contractual language continues to describe pure remittance services.

In practice, APP fraud obligations are becoming a lens through which regulators and counterparties evaluate whether a payment institution is structurally coherent, permissioned appropriately and operationally transparent enough to participate reliably in increasingly interconnected payment ecosystems.

Caveat

This summary reflects an automated transcript of a webinar and should not be construed as legal advice. The speaker repeatedly notes that each firm's business model is different and that firms should take bespoke advice before relying on a particular position.

The Payments Institutions Association is an industry body representing organisations involved in the payments industry in the United Kingdom. This summary paper is derived from an edition of the TPIA webinar series. We are pleased to be contributing summaries from this series on MAC's Directory.

– Catherine Dixon, Chair, TPIA

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