

Summary

Should the movement to defer the Payment System Regulator's (PSR) mandated regulations for a year beyond the proposed start date of October 2024 then, at the current rate, a million bank account holders will be scammed out of £480 million. The banks will lose £240 million and so will the victims every year until the situation changes.

Fraud is not just Financial Loss

Fraud is underestimated. It is a serious offence and an unrecognised problem. Everyone with a bank account is an active target for fraudsters, yet The public and public bodies do not always consider the possibility of fraud when conducting their activities. Even when they do, it is difficult to define, measure and articulate the problem. The focus is too often centred on financial loss when, in fact, the impact of fraud goes beyond money. Fraud can cause lasting mental and physical trauma and sometimes cause people to take their own lives.¹

The public expect the banks to be more diligent towards fraud. In the past paper cheques dominated payments and the banks inspected everyone, compared the signatures on file and had days to approve them. Now with instant payments the money moves in milliseconds and customer information needs to be verified in near real time. Fraud has gone from a few times a month to many times a second.

The Fraud problem:

- ❖ 40% of all UK crime is fraud and Authorised Push Payment (APP) scams now account for nearly half of this figure.
- ❖ Scammers can take more than two years to arrive in court and conviction rates are falling.
 - In reality, the chances of getting caught are slim to none. Being digital, the scammer can be invisible to the end user. Technology can generate 10,000 scams in an hour and in one example, just 14 replies count as a success for the scammer.
- ❖ The consumer group **Which?** reckons that 40% of actual scams are unreported as its often it's too painful or shameful for people to admit to having been duped. People who have experienced mental health difficulties are three times more likely to have been online scam victims.²

The reasons for dilution and delay aimed at the new regulations are:

The industry-funded [Payments Association](#) has urged the new UK Economic Secretary to the Treasury, Tulip Siddiq, to reduce the mandatory reimbursement for APP fraud from £415,000 to £30,000. Currently, the average cost of fraud for people is £3,200 and businesses £95,000.

More than 98% of fraud can be covered by a cap of £85,000. This is the same amount as bank deposits are covered should a bank fail.³

In addition, banks are requiring an extension of at least 12 months to prepare for the new regulations. This means at least a million people will experience a scam with half the scammed amount not reimbursed.

The new mandated scheme replaces the voluntary reimbursement program which has shown massively different outcomes – TSB reimbursed over 90% to customers while Monzo, Dansk Bank and AIB fully refunded less than 10%.

- ❖ Under the proposed new rules customers will be reimbursed 100% (less £100 fee) within five days. It's not clear what extra is required by bank to make this payment: it's a refund.
 - The Financial Ombudsman Service, which received 21,918 fraud and scam complaints, up by almost a fifth from 2021/22, will be pleased.
 - The new ruling should dramatically reduce the number of complaints as nearly half are ruled in favour of customers.
 - Since 2015 banks have refunded 50% of reported scammed amounts to customers. Given the new rules, 2023 APP fraud totalled £460 million, banks would have to refund 100% to customers. This is a further £230 million per year extra for banks to credit back to their customers.

The second part of the new reimbursement rules is the Payee Bank reimburses the Payer bank 50% of the amount scammed in a reasonable timeframe, say, for example, 30 days from the time of the scam. These payments can be made bilaterally and fit into the current data sharing model. The need for a fraud hub that allows sharing of scammers information for all banks and law enforcement has been debated since 2015, but client confidentiality has ruled the day. However, it's good to see just recently a group of banks thinking of coming together to offer such a hub.

Digital Age = real time: banks to be near real time for data and payment

New regulations are coming in the form of an EU mandate, starting in October, to grow Instant Payments. The major policy difference is the EU makes the customer responsible for the liable of scammed and mis-directed payments. The EU sees the future as instant payments as do a further 80 countries.

The UK was among the first to implement faster payments, as a regulatory requirement, to speed up payments in 2008. FCA wants to protect vulnerable people and reimbursing those scammed is a call to action. The growth in scammers using multiple bank account mule networks is a clear indication that banks to get near real time payments and data to tackle fraud.

The banking industry has a history of delaying new regulations. Often by extending the deadlines of agreed to regulations. This harms entrepreneurs who see opportunities within the agreed, Parliament and UK time frame and start investing. Only to find dates are slipped, action deferred, and the resources used to solve the issues lost.

Sources:

- 1 https://assets.publishing.service.gov.uk/media/5e4bedb986650c10e5a91d89/2377_The_Impact_of_Fraud_AW_4_.pdf
- 2 <https://www.mentalhealthandmoneyadvice.org/en/managing-money/scams-fraud-and-your-mental-health/how-scams-and-fraud-relate-to-mental-health/>
- 3 <https://www.fscs.org.uk/industry-resources/deposit-protection-banks/>