



Electronic Money Association

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Rachel Reeves
Chancellor of the Exchequer
HM Treasury
1 Horse Guards Road
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31 July 2024

Dear Chancellor

Re: Impact of the Authorised Push Payment mandatory reimbursement scheme and request for deadline extension

Firstly, please accept our congratulations on your recent appointment to this important post.

The EMA is the EU trade body representing electronic money issuers and alternative payment service providers. We have just under 100 members, who are all regulated payments firms. They include leading global payments and e-commerce businesses, providing online payments, card-based products, electronic vouchers, mobile payment instruments and many more to UK and EU consumers and businesses. Most members operate in the UK and the EU, and many operate globally. A list of current EMA members is provided at the end of this document.

We welcome Labour's commitment to economic growth and the crucial focus on combating fraud. Your government's stance on making tech companies liable for reimbursing online fraud victims is a significant step forward. However, we have several concerns regarding the implementation of the Authorised Push Payment (APP) mandatory reimbursement scheme, and we were heartened to read your comments in the recent article in the FT, and that HM Treasury is considering whether the current deadline of 7 October is sensible.

You will have received a separate joint industry letter we have signed along with Innovate Finance, the Open Finance Association, and the Association of Foreign Exchange Providers. We also support the sentiments expressed in the letter sent by the Payments Association.

EMA Member concerns regarding the APP Scam Reimbursement Scheme Implementation

With less than two months until the implementation of the APP mandatory reimbursement scheme, our members are increasingly anxious about their preparedness. Critical issues remain unresolved, and the Pay.UK system (RCMS), which smaller PSPs are expected to use, will be delivered late and only partially functional.

Overview of the main issues:

Financial Burden of 'Pay then Dispute': The current draft Scheme Rules require the PSP receiving a Reimbursement Contribution Claim to pay it before disputing its validity. This places a potentially intolerable financial burden on smaller PSPs, particularly if there is a high volume of invalid claims. Under the forerunner Claims Reimbursement Model (CRM) Scheme, one large PSP reported that 35% of the claims they received were deemed out-of-scope, as they were disputes between retail buyers and sellers or civil disputes rather than scams. Worse still, there are no defined system processes, procedures, or timelines for refunding incorrect claims.

Delayed Delivery of the RCMS: Firms typically have existing customer handling systems for service issues and assistance requests, into which the Reimbursement Claims Management System ("RCMS") must be integrated. However, PSPs are only now being introduced to the RCMS design, with the first demo taking place only last week, and the API documentation, scheduled for release in June, has not been provided. This delay makes it impossible for firms to integrate, test and train staff on the RCMS by the 7 October launch deadline.

Competitive Disadvantage for Smaller PSPs: The largest PSPs will continue using the original UK Finance procured BPS system for handling and reporting reimbursement claims. This system, used for the CRM Scheme, is being enhanced to support the new Scheme but will not be available to smaller PSPs. Smaller PSPs are required to pay all claims, presumably received by email, with no automated means to validate or challenge a Reimbursement Contribution Claim. Consequently, the APP Scam Reimbursement Scheme will disproportionately impact smaller firms, potentially hindering their ability to compete. EMA member firms have indicated they will have no choice but to pass this burden onto consumers through increased prices and wider margins.

The Maximum Claims Threshold: Additionally, our Members believe the compensation threshold of £415,000 is far too high and poses a significant financial risk. Our members advocate for lowering this cap to £30,000 to better reflect the typical scale of losses and to encourage prudent consumer behaviour.

Lack of RCMS Functionality: The RCMS does not support critical aspects of the claims reimbursement process, such as managing and resolving disputes.

Market Impact: We are concerned that the PSR's approach may lead to increased de-risking within the banking and payments sector. This could result in banks and PSPs introducing additional friction in consumer transactions, thereby making open banking payments less convenient and affordable. Such outcomes could undermine the PSR's strategy of enhancing competition in retail payments. Furthermore, the rising costs associated with implementing these changes may make it more challenging for challenger banks to compete with established incumbents, potentially raising barriers to market entry or scaling. These outcomes would be counterproductive to efforts aimed at fostering higher economic growth.

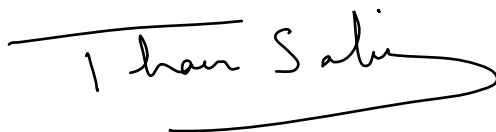
In summary

The operational and financial challenges outlined above are daunting. Even at this late stage, consideration should be given to delaying the implementation. The largest PSPs are already reimbursing a high proportion of customers, and a measured roll-out to the next cohort of larger PSPs could substantially cover the market without impacting the long tail of smaller firms.

It is important to note that this is not an exhaustive list of the issues faced by PSPs. The challenges are numerous and complex, requiring thoughtful and measured solutions. We urge the government to align the implementation of the APP Scam Reimbursement Scheme with Labour's manifesto commitments to economic stability and fostering business growth. Your party's commitment to supporting innovation and ensuring fair competition in the financial sector must be reflected in the approach to this scheme.

By addressing these concerns and adopting a phased implementation strategy, we can work towards a solution that safeguards consumers while maintaining a competitive and innovative payments market. I would be grateful for your consideration of our concerns and would very much welcome a meeting with you at your earliest convenience.

Yours sincerely,



Dr Thaer Sabri
Chief Executive Officer
Electronic Money Association

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