

Draft cost benefit analysis

CHAPS APP scam reimbursement requirement

Supporting the Bank of
England in enhancing
fraud prevention in CHAPS

May 2024

1 Draft cost benefit analysis

We consider that the proposed reimbursement requirement for CHAPS will likely provide substantial benefits overall, with payment service providers (PSPs) incentivised to improve their fraud prevention capabilities, customers enjoying greater protections, and fraud victims having their money reimbursed with very limited exceptions and in a manner that is consistent with the Faster Payments reimbursement requirement.

Our policy statement on requiring reimbursement for Faster Payments transactions included a cost benefit analysis, which pointed to material net benefits from that policy. In assessing the costs and benefits of extending similar protections to users of CHAPS, we have drawn on that assessment, as, in many cases, the relevant impacts are comparable in nature. Having said that, there are important differences, the main ones being: the current scale of authorised push payment (APP) fraud losses on CHAPS is much lower and there are likely to be lower incremental costs of fraud prevention and detection, as well as administrative costs as a consequence of PSPs already investing in these systems for the Faster Payments reimbursement requirements. An important benefit is that the policy reduces the likelihood of APP fraud migrating from Faster Payments to CHAPS.

We conclude that the benefits of our policy are likely to substantially outweigh the costs, particularly considering the inclusion of an excess and a maximum claim limit, which will place some limits on the costs of reimbursement and maintain an appropriate role for customer caution.

How will the policy improve outcomes?

Causal chain

- 1.1** As set out in more detail in our policy statement covering mandatory reimbursement for losses on Faster Payments, our overarching objective is to significantly reduce APP fraud. Adopting an approach towards the reimbursement requirement for CHAPS that is consistent with Faster Payments will give customers greater protection, ensuring that most victims will be reimbursed.¹ We expect the policy to benefit customers by increasing the proportion of customers' APP fraud losses over CHAPS that are reimbursed by PSPs, from the current level of around 60% under the voluntary CRM Code.² We expect to see increased efforts by PSPs to prevent APP fraud on CHAPS, incentivised by the costs of this greater reimbursement, with the potential to reduce the number of customers who fall victim in the first place. The policy will incentivise PSPs to improve their fraud prevention

1 The proposed CHAPS reimbursement requirement applies to consumers, micro-enterprises and charities (defined in the policy statement glossary). This cost benefit analysis refers to payers within the scope of the requirement collectively as 'customers'.

2 Among the ten signatories of the CRM Code, we estimate that approximately 63% of APP fraud losses over CHAPS were refunded in 2021. This figure is based on PSR calculations of UK Finance data about CRM Code outcomes, 2021. Higher value (>£10,000) invoice and mandate scams were used as a proxy for APP scams sent over CHAPS.

capabilities for both incoming and outgoing payments and prevent the migration of fraud from Faster Payments to CHAPS. We set out this logic in the form of a causal chain for requiring reimbursement of APP fraud losses in the June 2023 cost benefit analysis.³

1.2 The current scale of APP fraud losses over CHAPS is much lower than the corresponding losses over Faster Payments. Industry data on APP fraud losses in 2022 indicate that there were 550 reported APP scams over CHAPS, totalling £13.9 million in losses.⁴ These estimates are less than 1% and 4% of APP fraud losses over Faster Payments by volume and value, respectively. While the current scale of APP fraud over CHAPS is quite low, it is important for the Bank and the PSR to ensure comparable outcomes of consumer protections for CHAPS without unnecessary additional or duplicative regulatory burdens on CHAPS participants. Ensuring consistent outcomes and protections for customers across payment systems, preventing the migration of fraud from Faster Payments to CHAPS to evade detection, and incentivising PSPs to make payments safer on CHAPS are all important drivers of this policy.

1.3 We expect the policy to work principally by providing incentives for both sending and receiving PSPs to:

- improve their detection and prevention of APP fraud
- cooperate more effectively in preventing APP fraud
- more effectively pursue and recover lost funds to reduce PSPs' own costs in reimbursing victims

1.4 As with the required reimbursement over Faster Payments, we would expect these changed incentives on PSPs to lead to a fall in APP fraud over time. The policy proposal places greater emphasis on sending and receiving PSPs' ability to detect and prevent APP fraud, strengthening their incentives to do so. By including a claim excess and a maximum level of reimbursement, it also recognises the role of customer caution.

Baseline

1.5 We have analysed the impacts of the policy against a baseline, or counterfactual scenario, where there is no extension of the reimbursement requirements to CHAPS – that is, PSPs are not under any obligation to reimburse consumers where they have been victims of an APP scam over CHAPS. The starting point for our baseline is that the reimbursement policy applies to Faster Payments only and that PSPs in scope of the Faster Payments reimbursement rules will continue to take action to prevent APP fraud on Faster Payments and reimburse victims as required under Specific Direction 20 (SD20). For APP scams over CHAPS, some PSPs may choose also to exert effort to prevent APP scams over CHAPS and voluntarily reimburse some victims who have exercised sufficient caution, as some PSPs do already. We set out the main assumptions we have made in more detail below, but, in summary, we have assumed that:

3 PS23/3, [Fighting authorised push payment fraud: A new reimbursement requirement](#) (June 2023), Annex 4, page 3, Figure 1.

4 UK Finance, [Half year fraud update](#) (October 2023), page 43.

- PSPs that are in scope of the reimbursement requirements for Faster Payments APP scams under SD20 will comply with the Faster Payments reimbursement requirement and the Faster Payments reimbursement rules and reimburse their customers in full⁵
- our other measures against APP fraud, currently being implemented, will take effect over the course of 2024
- the extension of Confirmation of Payee (CoP) checks, also being implemented, will have fully taken effect as planned by November 2024
- PSPs that currently voluntarily reimburse some of their customers' APP fraud losses incurred over CHAPS (under the CRM Code or otherwise) would continue to do so, without the new reimbursement requirement for CHAPS
- current rates of recovery of funds from fraudsters' accounts would remain low for APP scams over CHAPS (but would likely still increase for APP scams that occurred over Faster Payments), without the new reimbursement requirement for CHAPS
- current shares of reimbursement costs coming from receiving PSPs (as opposed to sending PSPs) for APP scams over CHAPS would also remain low without us supporting the CHAPS reimbursement rules and directing CHAPS participants to comply with the new requirements in the CHAPS scheme rules

Our other policy interventions

1.6 In our baseline scenario for this analysis, we have assumed the four APP fraud policy measures that we have been working on will be in place:

- **Publishing a balanced scorecard of APP fraud data ('Measure 1')**: We published the first cycle of data in October 2023, so have assumed, for the purposes of this analysis, that this measure and its subsequent cycles will be in place and having an impact on APP fraud prevention in 2024.⁶
- **Increasing intelligence sharing ('Measure 2')**: We expect PSPs to start preparing to implement aspects of the new Enhanced Fraud Data (EFD) system in 2025, so have assumed, for the purposes of this analysis, that this measure is likely to be in place and having an impact on APP fraud prevention in late 2025.
- **Requiring reimbursement for APP fraud losses on Faster Payments ('Measure 3')**: From 7 October 2024, all PSPs participating in Faster Payments that provide relevant accounts must comply with the Faster Payments reimbursement requirement and the Faster Payments reimbursement rules, as set out in SD20.

5 The Faster Payments reimbursement requirement applies in line with the exceptions and additional provisions set out at paragraphs 4.2 to 5.19 of Specific Requirement 1 ([Faster Payments APP scam reimbursement rules](#)).

6 [Authorised push payment \(APP\) fraud performance report](#) (October 2023). Data submitted under Specific Direction 18 and as per PS23/1, [APP scams: Measure 1: Collection and publication of performance data](#) (March 2023).

- **Our policy on the extension of CoP checks:** In October 2022, we published a policy statement and gave a specific direction requiring more than 300 PSPs to begin providing CoP checks. The first tranche of onboarding of PSPs is already largely complete. The second tranche, which involves a large number of small PSPs is expected to be complete by the end of October 2024.⁷ For the purposes of this analysis, we have assumed that this expansion will take effect on schedule, noting that relatively larger PSPs have already completed onboarding for CoP checks by the end of October 2023.⁸

Voluntary reimbursement

- 1.7** Some PSPs currently reimburse APP fraud victims. We estimate that around 60% of customer APP fraud losses sent over CHAPS in 2021 were reimbursed by signatories under the CRM Code.⁹ The new Faster Payments reimbursement rules will result in increased rates of reimbursement by PSPs for APP scams over Faster Payments, and the incentives for PSPs to increase their reimbursement rates voluntarily in response to the publication of APP fraud data may also lead to higher levels of reimbursement of Faster Payments APP scams among sending PSPs. However, these policy interventions (see paragraph 1.6, above) are focused on APP scams over Faster Payments and are less likely to have a material impact on improving the reimbursement rate of APP scams sent over CHAPS. Therefore, as compared to the counterfactual, the proposed CHAPS reimbursement rules would, by definition, lead to a greater increase in reimbursement rates for CHAPS than the Faster Payments-targeted policy interventions would be likely to achieve.

Recovery of funds from fraudsters

- 1.8** In 2022, funds recovered from fraudsters' accounts at receiving PSPs provided 6% of funds reimbursed to APP fraud victims (under the CRM Code).¹⁰ This low level of recoveries prevails despite the incentives that currently exist for sending PSPs to pursue receiving PSPs in attempting to recover these lost funds. We expect that the upcoming Faster Payments reimbursement requirements will provide PSPs with the right incentives to pursue recoveries from fraudsters' accounts to offset their greater costs, as both sending and receiving firms will be equally liable for reimbursing victims of APP scams sent over Faster Payments. However, without similar reimbursement requirements for APP scams sent over CHAPS, the incentive to recover these funds from fraudsters' accounts remains low.

7 PS22/3, [Extending Confirmation of Payee coverage: Response to consultation CP22/2](#) (October 2022).

8 Some PSPs that fall under group 1 are yet to go live with the Pay.UK CoP application. The extension and exemption process is currently live and we are taking compliance action against these PSPs.

9 See note 2.

10 UK Finance, [Annual fraud report](#) (May 2023), page 51. Repatriation from beneficiaries' accounts to victims accounted for £14.7 million out of total reimbursement of £247.6 million under the CRM Code in 2022 – that is, around 5.9% of the value reimbursed came from funds recovered from fraudsters' accounts at receiving PSPs. These figures include APP scam cases, reimbursements and recoveries made over Faster Payments, CHAPS, Bacs (payment), Bacs (standing order), intrabank ('on-us') and international payments.

Reimbursement from receiving PSPs

- 1.9** Reimbursement from receiving PSPs to victims of APP fraud is at very low levels. With the new Faster Payments reimbursement rules, we expect the share of reimbursement from receiving PSPs to increase to 50% for APP scams sent over Faster Payments. However, in the absence of any material change in receiving PSPs' incentives to provide greater reimbursement to victims of APP scams over CHAPS, we do not expect this rate to increase, absent this new requirement.

Differences between the reimbursement rules in CHAPS compared to Faster Payments

- 1.10** The aim in imposing a reimbursement requirement within the CHAPS payment system has been to ensure comparable outcomes of consumer protection for CHAPS, incentivise PSPs to detect and prevent fraud, and prevent the migration of fraud from Faster Payments to CHAPS. By ensuring consistency with the Faster Payments reimbursement rules, the CHAPS reimbursement rules have been proposed with the intention of striking a balance between boosting consumer confidence in the UK payments ecosystem by extending reimbursement protections to CHAPS and burdening CHAPS participants who currently have low levels of APP fraud with reimbursement and reporting requirements.
- 1.11** As with SD20, the proposal will be a specific direction that applies to all CHAPS participants that provide CHAPS-relevant accounts to service users in the UK that can send or receive payments through CHAPS. As with our Faster Payments requirement, credit unions, municipal banks and national savings banks would be out of scope. However, in the specific instance of CHAPS, financial market infrastructures (FMIs) would also be out of scope.¹¹
- 1.12** The Bank will be responsible for the CHAPS reimbursement rules, which it will be implementing as an appendix to the CHAPS Reference Manual. We set out the legal basis on which the CHAPS reimbursement policy is being proposed in Chapter 3 of the consultation document.¹² This differs from the Faster Payments reimbursement policy since the Bank is the operator of CHAPS but is not a 'participant', and we cannot direct it to take specified actions in relation to the system as we did with Pay.UK.
- 1.13** The limitations of reimbursement in CHAPS are intended to mirror those in Faster Payments. This includes the limitations arising from the consumer standard of caution exception, the application of a maximum excess and level of reimbursement, and a time limit to claim. Both the maximum excess and level of reimbursement are set by the Bank and included in the CHAPS reimbursement rules drafted by the Bank. The level is set to reflect the maximum level set in our Faster Payments reimbursement policy. The maximum level of reimbursement and excess will apply on a claim level in situations where an APP scam claim contains payments made across both Faster Payments and CHAPS.

¹¹ Monetary institutions that do not offer relevant CHAPS accounts to consumers.

¹² See paragraphs 3.2 to 3.10 of the CP24/8 consultation paper.

- 1.14** The proposal also sets a go-live date for the CHAPS reimbursement requirement that is contemporaneous to that in Faster Payments as the Bank is keen to ensure consistent outcomes for customers across both payment systems. CHAPS participants would have access to Pay.UK's reimbursement claims management system (RCMS) directory – a single contact directory for Day 1 so that PSPs can contact each other for claim management.
- 1.15** The Bank is developing its compliance monitoring regime to be consistent with that being developed by Pay.UK. for Faster Payments. This approach will help ensure that PSPs will not need to collect and retain separate data metrics for CHAPS APP scam reporting. The Bank proposes that CHAPS participants adopt the same data reporting standard as Faster Payments (Reporting Standard A of the CHAPS Compliance Data Reporting Standard (CCDRS)) for manual reporting to the Bank on 7 October 2024. The Bank is in discussions with Pay.UK to adopt the RCMS for automatic reporting of CHAPS data under Reporting Standard B six months from the policy start date of 7 October 2024.

What is our assessment of the impacts?

- 1.16** We have analysed the impacts of the new reimbursement requirement for CHAPS against a baseline scenario with no such requirement (see paragraphs 1.5 to 1.9).
- 1.17** It is outside the scope of this cost benefit analysis to assess the relative likely impacts of our various APP fraud policies on the levels of APP fraud and voluntary reimbursement, but we note the following:
- The Faster Payments reimbursement requirement is likely to have the most significant impact on how PSPs tackle APP fraud, and this will also considerably impact the costs and benefits of the CHAPS reimbursement requirement. We have noted in the assessment of costs and benefits, below, where this policy affects specific expected outcomes.
 - Different elements of our measures against APP fraud affect outcomes differently. For example, CoP checks are likely to have an impact on some types of APP fraud (for example, impersonation scams) but less impact on others (for example, purchase scams).
 - There is a degree of complementarity between our different measures against APP fraud taking place over Faster Payments. For example, while requiring reimbursement will give PSPs financial incentives to reduce APP fraud, the publication of data (under Measure 1) will give PSPs reputational incentives to improve their performance. However, these incentives do not directly impact PSPs' financial or reputational incentives to improve their performance and reduce APP fraud taking place over CHAPS.
- 1.18** We have focused on the net societal benefit of the proposed policy in terms of the change in incentives for PSPs and the effect that that will have on tackling APP fraud. For the purposes of this cost benefit analysis, we have not included the direct costs and benefits of reimbursement as we consider them to be a transfer of monetary costs from PSPs to an equivalent monetary benefit for victims.

- 1.19** Our approach has focused on the benefits and costs that the proposed CHAPS reimbursement requirement is likely to generate in terms of creating incentives for firms to prevent fraud migrating over to CHAPS, increased recoveries and reduced incidence of fraud on CHAPS, and increased investment in fraud prevention by PSPs. The following sections set out our assessment of the likely costs and benefits of the policy relative to the baseline, noting that the assessment is based largely on qualitative evidence. It is, in some cases, not possible – and in others not proportionate – to estimate the likely impacts of all the relevant benefits and costs with precision, as there is limited available data on losses and reimbursement of APP fraud over CHAPS. Even where PSPs may have relevant data on CHAPS reimbursement available at the level of granularity needed for analysis, the collection of this data directly from PSPs could impose a disproportionate burden on PSPs given existing data reporting requirements for Faster Payments (Measure 1) and the relatively low scale of APP scams taking place over CHAPS. As set out in Table 1, there are six main areas where we expect the policy to lead to relevant benefits, and seven areas where we expect it to potentially generate relevant costs.
- 1.20** Overall, we consider the benefits of the new reimbursement requirement are likely to outweigh its costs.

Table 1: Summary of main benefits and costs

Benefits	Relative magnitude	Costs	Relative magnitude
Reduced incidence of APP fraud cases	Medium – £2 million to £8 million per annum	Increased investment in fraud prevention by PSPs	Low – additional cost, given existing CHAPS checks and PSPs’ investment in fraud prevention over Faster Payments
More consistency and certainty in relation to reimbursement for victims	High	Administrative costs of investigating and delaying suspicious payments, pursuing completed payments and resolving disputes	Medium to low – additional cost given PSPs’ investment in fraud claim management and training of staff
Increased recovery of APP fraud funds at receiving PSPs	Medium	Costs to customers of increased friction and delayed payments	Low – given existing friction on CHAPS
Level playing field across different PSPs	Low	Reduction in competition and innovation	Low
Improved reimbursement rates for victims	High	Increase in reported APP fraud	Low
Preventing the migration of fraud from Faster Payments to CHAPS	High	Moral hazard and lack of customer caution	Low
		Migration of fraud and/or customers to other payment methods	Low

Benefits

Better prevention of APP fraud

- 1.21** As concluded in paragraphs 1.40 to 1.58 of the cost benefit analysis that accompanied our June policy statement, we expect both sending and receiving PSPs to be further incentivised to detect and prevent APP fraud due to the Faster Payments reimbursement requirement requiring both sending and receiving PSPs to reimburse their customers.¹³ In 2021, around 60% of customer APP fraud losses over CHAPS were reimbursed by signatories under the CRM Code, which includes reimbursements made for payments sent over CHAPS.¹⁴ Data received by us on reimbursement covering a wider set of PSPs indicates a similar share of voluntary reimbursement of APP fraud over Faster Payments in 2022.¹⁵ Requiring PSPs to reimburse their customers under the proposed CHAPS reimbursement policy that ensures comparable protections to Faster Payments would likely strengthen all PSPs' incentives to reduce the incidence of APP fraud on CHAPS.
- 1.22** However, since the value of APP scams sent over CHAPS in 2022 was less than 5% of the value sent over Faster Payments, the magnitude of APP fraud prevented on CHAPS as a result of the CHAPS reimbursement rules would be a lot lower than the estimate for Faster Payments.¹⁶ Paragraphs 1.37 to 1.45 of the December policy statement presented our analysis on the quantification of the reduction in APP fraud over Faster Payments, taking into consideration the latest available data on APP fraud.¹⁷ In the absence of PSP-level data on APP fraud over CHAPS, we have used the estimated range of APP fraud prevented over Faster Payments to extrapolate the corresponding benefit for CHAPS to be between £2 million and £8 million per year.¹⁸
- 1.23** These estimates of the likely benefits are relevant, but they could well underestimate the scope for improved APP scam prevention, for two reasons:
- These calculations are based on PSPs reducing APP fraud sent over CHAPS by 18% to 30%. This was the estimated reduction in APP fraud as a result of PSPs with high rates of fraud reducing their fraud rates to the level of current median rates of fraud sent and received over Faster Payments in the December 2023 cost benefit analysis.¹⁹ The reimbursement requirement will strengthen the incentives for all PSPs – those whose performance (fraud rate) is good, average and poor at present – to take further steps to prevent fraud.

13 PS23/3, [Fighting authorised push payment fraud: A new reimbursement requirement](#) (June 2023), Annex 4.

14 See note 2.

15 [Authorised push payment \(APP\) fraud performance report](#) (October 2023), page 17. Data we have collected from the 14 major banking groups in the UK covering the vast majority of Faster Payments transactions (95%).

16 UK Finance, [Half year fraud update](#) (October 2023), page 43. The value of payments lost to APP scams over CHAPS in 2022 was £13.9 million, which is approximately 3% of the value lost to APP scams sent via Faster Payments (£421.1 million). For the first half of 2023, the corresponding figure is approximately 7%.

17 PS23/4, [Fighting authorised push payment scams: Final decision](#) (December 2023), Annex 1.

18 PS23/4, [Fighting authorised push payment scams: Final decision](#) (December 2023), Annex 1, page 56. Our analysis in the cost benefit analysis accompanying the December policy statement estimated that the reimbursement policy would reduce the loss to APP fraud by £70 million to £127 million per year. We have multiplied this estimate by the share of APP fraud losses in CHAPS to APP fraud losses in Faster Payments for 2022 (3.3%) and the first half of 2023 (6.6%) to get the outer bounds of this range as between £2.3 million and £8.4 million.

19 PS23/4, [Fighting authorised push payment scams: Final decision](#) (December 2023), Annex 1, paragraphs 1.40 to 1.42.

- This quantitative estimate for CHAPS is based on data taken from UK Finance's *Half year fraud update* (October 2023). This covers data on APP scams sent via CHAPS from a subset of UK Finance members only that were logged into the Best Practice Standards (BPS) platform.²⁰ There is likely to be additional APP fraud that has taken place over CHAPS where the sending PSPs are not UK Finance members and so they are not represented in the data. Therefore, the estimate in 1.22 might underestimate the magnitude of APP fraud prevented.

1.24 On the other hand, there are also arguments that these estimates may overstate the likely impact on APP fraud:

- There is a risk that mandatory reimbursement could lead to some customers exercising less caution when making payments, offsetting some of the potential gains from enhanced detection and prevention by PSPs. However, given that CHAPS is largely used for making high-value payments, we expect that customers will exercise more caution when making higher-value payments and the customer standard of caution should manage the risk that moral hazard leads to material losses and claims by customers.
- Allowing PSPs to apply a claim excess and to apply a maximum level of reimbursement may reduce the costs of reimbursement to PSPs and so reduce PSPs' incentives to invest in improved APP fraud prevention over CHAPS. However, only a small number of APP fraud claims exceed the maximum limit of £415,000.²¹ While the exact number is not known for CHAPS, the average value of an APP scam sent over CHAPS in 2022 was around £25,000, which is far below the maximum limit for reimbursement.²² Additionally, keeping the maximum level of reimbursement consistent across Faster Payments and CHAPS will ensure consistent outcomes for customers and provide PSPs with equivalent incentives to improve fraud detection and prevention across both channels, preventing fraud migration.

Increased recovery of APP fraud funds by receiving PSPs

1.25 Approximately 6% of APP scam losses that were reimbursed to victims in 2022 under the CRM Code came from recovered funds. Given that reimbursement (under the CRM Code) does not account for all APP scam losses, the level of recoveries is likely to be lower than 6% overall. This current low level of recovery means that there should be a substantial strengthening of the incentives on firms to successfully recover funds from a fraudster's account due to the shared liability under the Faster Payments reimbursement requirement.

1.26 We expect that the Faster Payments reimbursement rules will increase the rate of recoveries from receiving PSPs and act as a disincentive to fraudsters, leading to fewer APP scam cases over Faster Payments and lower costs for PSPs in reimbursing victims. However, these benefits of increased recoveries of APP fraud are not likely to spill over into CHAPS unless PSPs face similar incentives.

20 UK Finance, [Half year fraud update](#) (October 2023), page 44. This listed 33 members who contributed data for the publication of the report.

21 Data provided by UK Finance in relation to eight PSPs for H2 2022 indicates that cases that exceed £410,000 account for around 4.5% of APP fraud losses by value and less than 0.1% of cases by volume over Faster Payments.

22 UK Finance, [Half year fraud update 2023](#) (October 2023), page 43.

Preventing the migration of fraud and payments from Faster Payments to CHAPS

- 1.27** With the Faster Payments reimbursement rules set to come into force on 7 October 2024, there are a number of ways in which the policy could lead to some switching away from Faster Payments for some payments. These were set out in the June cost benefit analysis, and could include, in principle:
- a. scammers migrating to other payment schemes
 - b. customers switching to other payment methods in response to increased friction
 - c. PSPs ‘nudging’ payers away from Faster Payments.²³
- 1.28** The Bank’s proposal to introduce equivalent protections against APP scams for customers as Faster Payments in the form of the CHAPS reimbursement rules would substantially reduce the risk of scammers migrating to CHAPS. The sharing of the liability for reimbursement would ensure that sending PSPs are incentivised to detect and better prevent scams from occurring on CHAPS as well as Faster Payments, and receiving PSPs are incentivised to recover funds from fraudsters’ accounts.
- 1.29** While the risk of customers switching to CHAPS to avoid friction or PSPs nudging payers away from Faster Payments to CHAPS is expected to be low because of the higher transaction fees in CHAPS payments, any risk in this regard is nevertheless also reduced.

More consistency and certainty for victims

- 1.30** At present, there is a wide variation in (voluntary) reimbursement rates across individual PSPs. Annual data for 14 PSPs in 2022 shows a range of 10% to approximately 91% in the share of losses reimbursed by value for APP scams occurring over Faster Payments.²⁴ Mandatory reimbursement will ensure consistency in how victims of APP scams and APP scam losses are treated by PSPs.
- 1.31** We expect the CHAPS reimbursement rules to bring about similar benefits to the Faster Payments reimbursement rules – ensuring consistent outcomes and certainty for victims of APP scams across different PSPs. This, in turn, will increase trust in CHAPS as customers can be confident that they will be reimbursed where they have exercised appropriate caution. This will improve choice and competition for payments users.
- 1.32** Having the option to apply a £100 excess and setting the maximum level of reimbursement at £415,000 in the CHAPS reimbursement rules to be consistent with the Faster Payments reimbursement rules would help ensure that customers face consistent outcomes across different payment firms. Most customers would likely not know the difference between the various payment systems that they could use to make a bank transfer and so keeping the reimbursement rules the same for both systems would bring greater certainty for victims of APP scams across Faster Payments and CHAPS.

23 PS23/3, [Fighting authorised push payment fraud: A new reimbursement requirement](#) (June 2023), Annex 4 paragraph 1.74.

24 APP fraud performance report (October 2023), page 7.

- 1.33** We have not been able to quantify the scale of the benefits that this increased consistency and customer certainty would bring. However, given the wide variation in reimbursement rates even among PSPs that are CRM Code signatories, we expect that moving towards a consistent level of reimbursement would lead to an improvement in the welfare of all customers who are victims of APP scams over CHAPS.²⁵

Level playing field across PSPs

- 1.34** As set out in the June 2023 cost benefit analysis, competition between PSPs could lead to higher and more consistent levels of reimbursement for APP fraud victims if customers expected this as part of the standard offering of a current account. A reimbursement policy for CHAPS with consistent criteria that applies across all PSPs would provide a level playing field among PSPs. This would benefit both customers and those PSPs that currently already focus on protecting their customers from APP fraud. However, the magnitude of this benefit is likely to be quite small given that the value and volume of APP scams taking place over CHAPS is quite low.

Improved reimbursement rates for APP fraud victims

- 1.35** The expected improved reimbursement rates as a result of the proposed CHAPS reimbursement rules would have a significant positive impact for victims. As stated in the cost benefit analysis in the December 2023 policy statement, victims may face psychological and other costs as a result of APP scams, in addition to money lost in the scam. With customers using CHAPS mainly for sending higher-value payments, the impact of the loss and psychological cost on customers is expected to be quite significant. As stated above in paragraphs 1.21 to 1.24 above, the CHAPS reimbursement rules will provide PSPs with the right incentives to prevent APP scams across CHAPS as well, which will mitigate these negative outcomes for customers.

Costs

Increased investment in fraud prevention by PSPs

- 1.36** The 50:50 split of reimbursement costs of APP scams sent over CHAPS between sending and receiving PSPs would lead to an increase in the costs of reimbursing APP fraud for almost all PSPs. However, as with the cost benefit analysis for the reimbursement policy over Faster Payments, we have not considered the direct costs of PSPs increasing their rates of reimbursement as being a relevant cost for this cost benefit analysis. That approach would simply find a large cost on one side cancelled out by the same scale of benefit on the other. Rather, we have focused on the change in incentives and their effect that will be caused by the new reimbursement requirement

²⁵ CHAPS reimbursements in 2021 show a wide range of reimbursement rates – between 26% and 83% – among CRM code participants. This figure is based off of PSR calculations of UK Finance data on CRM Code outcomes, 2021. Higher value (>£10,000) invoice and mandate scams were used as a proxy for APP scams sent over CHAPS.

1.37 We followed the same approach as we did for Faster Payments reimbursement to assess the likely increase in PSPs' reimbursement costs from three perspectives:

- PSPs that already reimburse a material share of their customers' losses on the sending side may face increased average reimbursement costs as sending PSPs, but the change may not be substantial. However, they will face substantially increased costs on the receiving side.
- PSPs that do not reimburse a material share of their customers' APP fraud losses at present (as the sending PSP in the transaction) will become liable for significant new costs.
- PSPs on the receiving side of transactions currently account for a negligible share of reimbursement, and so will face substantially increased reimbursement costs under the policy for CHAPS.

1.38 From all three perspectives, these increased reimbursed costs will mean that sending and receiving PSPs will now have stronger incentives to invest in their fraud detection and prevention systems over CHAPS and cooperate effectively in recovering funds. These are the relevant costs for the purposes of our cost benefit analysis.

1.39 For most PSPs that are CHAPS participants, these would be small incremental costs given that PSPs are already going to incur the costs of investing in better fraud prevention and detection due to the Faster Payments reimbursement policy.

1.40 Additionally, as a payment system best suited for high-value payments with no maximum limit and higher per-transaction fees, CHAPS has already built-in existing friction and processes to check the legitimacy of payments sent. The lower volumes of payments sent over CHAPS as well as lower volumes of fraud sent in comparison to Faster Payments both indicate that the incremental cost of investment in fraud prevention for CHAPS participants would be low. While we have not been able to quantify the likely costs with precision – and disentangle the costs specific to CHAPS from costs already incurred on account of the Faster Payments reimbursement rules – we note a number of relevant points in assessing the likely overall magnitude of these costs:

- The costs that different PSPs are incentivised to incur will vary widely, depending on the level of APP scams that each PSP sends and/or receives over CHAPS.
- The costs that individual PSPs are incentivised to incur will be proportionate to the scale of their fraud issue. PSPs are already increasing investment in fraud detection and prevention as a result of the Faster Payments reimbursement rules. It is those incremental costs that result from the proposed CHAPS reimbursement policy, which are likely to be smaller, that are relevant to our assessment.
- Costs are likely to be higher in the early years of the policy, as PSPs invest in their fraud detection and prevention systems and set up processes to cooperate with other PSPs more effectively to recover funds.

Administrative costs to PSPs

- 1.41** As set out in the cost benefit analyses in the June and December 2023 policy statements, the Faster Payments reimbursement policy will likely lead to PSPs incurring administrative costs that they do not face at present. We expect that the proposed CHAPS reimbursement rules will lead to some additional administrative costs. However, these costs will be much lower than the equivalent costs for Faster Payments due to the lower volume of APP scams taking place over CHAPS.
- 1.42** As noted above, PSPs may face some new costs in implementing the CHAPS reimbursement policy. This would include the cost of hiring and training staff at fraud centres, managing claims, coordinating the reimbursement of customers etc., especially for PSPs that were not already CRM Code signatories. However, given that almost all PSPs will be undertaking these costs to comply with the Faster Payments reimbursement rules, the additional cost arising from the CHAPS reimbursement rules is likely to be significantly lower.
- 1.43** In principle, the reimbursement policy over Faster Payments and CHAPS should lead to increased fraud prevention and detection measures by sending PSPs. While this might result in increased costs to PSPs of interacting with customers to query payments on Faster Payments, the incremental impact on costs for CHAPS is likely to be marginal given the existing friction already present in the system to query payments sent over CHAPS.
- 1.44** PSPs would also be required to report and retain data for monitoring compliance with the CHAPS reimbursement rules. The data reporting to the Bank will mirror the proposed reporting guidance under the Faster Payments rules.²⁶ This is to ensure consistency with what PSPs are required to submit under Faster Payments, avoid confusion for PSPs, and make sure that the Bank and the PSR have the necessary information from PSPs to identify potential non-compliance with the direction. As with the Faster Payments reimbursement rules, SD[x] will require PSP compliance with the CHAPS Compliance Data Reporting Standard (CCDRS) and provides for two data-reporting standards:
- **Reporting Standard A:** This will require all in-scope PSPs to collate and retain core compliance data and information. PSPs will provide this data manually to the Bank until the full RCMS is in place.
 - **Reporting Standard B:** This is a fuller set of data and information that all in-scope PSPs will have to collate and retain for the Bank. As stated in paragraphs 1.10 to 1.15 above, the Bank is in discussions with Pay.UK on PSPs using the Pay.UK-provided RCMS to report data under this reporting standard for CHAPS. In this case, reporting will be automated through the RCMS and is proposed to come into effect six months from the policy start date of 7 October 2024. If the RCMS is not available by 1 May 2025, an option to submit to the Bank via email will remain in place.
 - Reporting CHAPS APP scams under Reporting Standard A would likely increase administrative and resource costs for PSPs, as data will need to be reported on a monthly basis to the Bank. However, the Bank is reducing this cost by only requiring PSPs to report a subset of data points to generate a core set of metrics for compliance monitoring in this period that is consistent with reporting under Faster Payments rules. Furthermore, given the current volumes of CHAPS APP scams,

²⁶ PSR CP24/3, [APP scams reimbursement compliance and monitoring](#), (April 2023)

manual reporting of these scams will have a minor impact on administrative costs in this short period as PSPs will not be obliged to submit a null return if no APP scam claims have been logged over CHAPS.

- Once the single RCMS is in place, the additional reporting cost to PSPs will likely be almost fully avoided due to automatic reporting of data and information under Reporting Standard B.

1.45 Therefore, we estimate that the incremental cost of the CHAPS reimbursement policy would be relatively low due to a large overlap in administrative costs already being incurred as a result of the Faster Payments reimbursement policy. The consistency between the reporting requirements under the two systems and the potential usage of the RCMS reporting tool to also cover CHAPS would significantly reduce the burden of reporting CHAPS APP scams to the Bank.

Costs to customers of friction and delayed payments

1.46 As set out in our June and December 2023 assessments of the Faster Payments reimbursement policy, there are likely to be the costs to customers of friction and delayed payments if PSPs' introduction of stronger fraud controls leads to a higher number of payments being queried, delayed or even declined. However, since CHAPS is largely used for sending high-value payments, there is already friction built into the system to perform checks and validate the payments. Therefore, we expect that CHAPS reimbursement would add negligible additional friction to the system.

Reduction in competition and innovation

1.47 In our June cost benefit analysis of the Faster Payments reimbursement rules, we noted that a large number of stakeholders had argued that the reimbursement requirement would reduce competition and innovation. The proposed CHAPS reimbursement rules could raise risks that are similar, but lower in magnitude for PSPs, namely:

- Whether the reimbursement liability raises prudential risks and the risk of firms exiting the UK market as a consequence
- Whether the costs of mandatory reimbursement would be likely to reduce innovation and competition between PSPs, including deterring entry and expansion

1.48 We have considered that a reimbursement requirement over CHAPS for smaller PSPs who are not currently liable for APP fraud conducted through CHAPS would not be proportionate to the size and scale of most of these firms. This could also have the effect of many small PSPs ceasing to offer CHAPS payments or face the risk of going insolvent. However, APP scams over CHAPS are rare – there were 550 CHAPS APP scams with an average value of around £25,000 in 2022 – so the CHAPS reimbursement requirement is less likely to pose a prudential risk to PSPs from high-value claims.

1.49 On the risk that the proposed CHAPS reimbursement policy will reduce competition and innovation, we note that while Faster Payments is a general-purpose system that attracts smaller fintechs who provide innovative payments solutions to customers with little or no cost to the customer, the CHAPS scheme is used for very different purposes and does not provide the same environment for smaller fintechs that are bound by lower solvency regulations. CHAPS is largely used for mission- and time-critical payments that tend to be high-value transactions such as asset purchases, securities transactions, and buying and

selling property. The transaction costs of using the system are high because the underlying reliability of the payment is high. A lot of the factors that lead to innovation are less relevant because of the high cost of the system. Therefore, the risk of reduced competition is less of a concern in the assessment of the costs of the CHAPS reimbursement rules.

- 1.50** Following feedback from industry, the PSR has committed to monitoring the incidence and impact of high-value scams over Faster Payments and may review the reimbursement level ahead of October 2024 (the implementation date) if there is convincing evidence to do so. If the PSR makes a change to this limit, the Bank could choose to review the maximum limit set in the CHAPS reimbursement rules to remain consistent with the Faster Payments reimbursement rules.

Other potential consequences of the policy

Increase in reported APP fraud numbers

- 1.51** The reimbursement requirement for CHAPS could lead to a short-term increase in the volume of reported APP fraud.
- 1.52** At present, there is very little publicly available information on reimbursement of APP scams over CHAPS. While some reimbursement figures are published for CHAPS, Faster Payments, BACS, on-us/intra-bank payments and international payments as a whole, reimbursement levels vary widely across PSPs. With many customers not being aware of the likelihood of their being reimbursed, it is probable that there is a material quantity of APP fraud going unreported. However, this under-reporting is expected to be lower for CHAPS as payments made over CHAPS are usually higher in value and therefore losses are more likely to be reported. Even so, greater clarity and consistency for customers is likely to lead to an increase in the level of reported APP fraud. This represents additional costs to PSPs, but it also represents a benefit to those victims who were previously left out of pocket having decided not to report their loss. As such, the net costs, if any (for example, increased administrative costs to PSPs), are likely to be negligible.

Customer caution and moral hazard

- 1.53** As set out in the December policy statement on Faster Payments reimbursement, moving to a system of consistent reimbursement could lead to an increase in payments where customers have not exercised sufficient caution, in the knowledge that any losses will be fully reimbursed. We recognise that that is a relevant risk for the CHAPS reimbursement policy as well, and one that should be managed with both customers and PSPs sharing the risk.
- 1.54** PSPs should put effective protections in place and can take many actions to prevent APP fraud, such as introducing more effective warnings when customers are making payments. Recognising that many victims are socially engineered into being scammed, we will adopt policies for CHAPS reimbursement that are consistent with the Faster Payments reimbursement rules to encourage consumer caution, where appropriate, including:
- **a consumer standard of caution exception** that does not mean automatic reimbursement and provides an appropriate incentive for customers to take care
 - **a claim excess** that should mitigate the impact of moral hazard alongside the actions PSPs can take to prevent APP fraud

- **a maximum limit on reimbursement** that should increase customer caution in relation to high-value transactions

1.55 The option for PSPs to apply an excess will help manage the risk of moral hazard and incentivise customers to exercise caution, helping to minimise any increase in APP fraud as a result of the CHAPS reimbursement requirement. A fixed £100 excess is easy to understand, consistent with the excess applicable for claims over Faster Payments, and, if communicated well, will encourage consumers to exercise appropriate caution and reduce relevant costs for PSPs.

1.56 More importantly for CHAPS, which has high fees for customers to use and is mainly used for high-value payments, setting a maximum reimbursement limit at the right level is important to ensure the right incentives for both customers and PSPs. The limit should incentivise customers to exercise appropriate caution when making high-value payments, without weakening PSPs' incentives to increase their investment in APP fraud prevention. We have set the maximum reimbursement limit at £415,000, taking into consideration the level of PSP liability for reimbursement, while also ensuring that the limit covers all fraud types and the majority of APP fraud cases to incentivise anti-fraud measures. As noted in paragraph 1.50 above, we have committed to reviewing the maximum reimbursement level set for Faster Payments and the Bank could choose to review the maximum limit set in the CHAPS reimbursement rules to remain consistent with the Faster Payments reimbursement rules.

Migration to other payment methods

1.57 Even with applying the proposed reimbursement requirement to CHAPS APP scams, there is still the possibility that fraud could switch away from Faster Payments and CHAPS to other payment schemes, including credit or debit cards and on-us payments, or for customers to switch to these other payment methods in response to increased friction on Faster Payments and CHAPS.

1.58 We found that these alternative channels have some existing customer protections in place and are working with the FCA to consider what additional protections could be put in place for on-us payments.

Conclusion

1.59 We consider that the benefits of the CHAPS reimbursement requirement are likely to outweigh the costs of the policy.

1.60 In undertaking this analysis, we have sought to account for the likely timeframe in which these impacts will be realised. We recognise that many of these impacts are small and incremental to the costs that PSPs will already incur as part of the Faster Payments reimbursement requirement and may materialise mostly in the beginning of the policy, particularly the costs to PSPs of increased investment in fraud prevention and in enhanced cooperation with other PSPs in tackling fraud and pursuing defrauded funds.

1.61 On the other hand, while some benefits may take time to fully materialise, the improved reimbursement rates for CHAPS payments, prevention of fraud migration to CHAPS, and more consistency and certainty for victims are likely to have more immediate effects. Other benefits such as reduced incidence of APP fraud, due to better prevention and increased recoveries of funds from fraudsters, will likely generate substantial benefits for PSPs and customers over time.

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