

Cost benefit analysis

# CHAPS APP scam reimbursement requirement

Supporting the Bank of  
England in enhancing  
fraud prevention in CHAPS

September 2024

# 1 Cost benefit analysis

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We consider that the reimbursement requirement for CHAPS is likely to provide substantial benefits overall to both consumers and payment service providers (PSPs).

PSPs will be incentivised to improve their fraud prevention capabilities, customers will enjoy greater protections and, with limited exceptions, fraud victims will have their money reimbursed. Reimbursements will be consistent with the Faster Payments reimbursement requirement, delivering consistent consumer outcomes regardless of which payment system the consumer is using.

Our policy statement, which set the final reimbursement requirements for Faster Payments transactions, included a cost benefit analysis (CBA) that 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 the relevant impacts are broadly comparable. However, there are some important differences – the main ones being:

- The current scale of authorised push payment (APP) fraud losses on CHAPS is much lower.
- 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 CHAPS reimbursement requirement 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 given the inclusion of a consumer standard of caution set by the Payment Systems Regulator (PSR) and an excess and a maximum claim limit set by the Bank of England (the Bank). This will place some limits on the costs of reimbursement and maintain an appropriate role for customer caution, aligned with the parameters of the Faster Payments APP scams reimbursement requirement.

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# How will the policy improve outcomes?

## Causal chain

- 1.1** Our overarching objective is to significantly reduce APP fraud. Adopting an approach for CHAPS that is consistent with the reimbursement requirement for Faster Payments will give customers greater protection, ensuring that most victims will be reimbursed.<sup>1</sup> We expect the CHAPS reimbursement requirement to benefit customers because a greater proportion of customers' APP fraud losses over CHAPS will be reimbursed by PSPs. The current level of reimbursement is around 77% under the voluntary Contingent Reimbursement Model (CRM) Code.<sup>2</sup> We expect to see increased efforts by PSPs to prevent APP fraud on CHAPS and reduce the number of customers who fall victim in the first place, incentivised by the potential costs to them of mandatory reimbursement. The policy will incentivise PSPs to improve their fraud prevention capabilities for both incoming and outgoing payments on CHAPS, deliver consistent outcomes and protections for customers across payment systems and prevent fraud migrating from Faster Payments to CHAPS to evade detection. We set out this logic in the form of a causal chain for requiring reimbursement of APP fraud losses in our June 2023 cost benefit analysis, which was published alongside our June 2023 policy statement.<sup>3</sup>
- 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 2023 indicates that there were 449 reported APP scams over CHAPS, totalling £23.1 million in losses.<sup>4</sup> These figures are approximately 1% and 6% of APP fraud losses over Faster Payments by volume and value, respectively. While the current scale of APP fraud over CHAPS is relatively low, it is important for the Bank and the PSR to work together to deliver comparable consumer protection outcomes for CHAPS, without placing unnecessary, additional or duplicative regulatory burdens on CHAPS participants.
- 1.3** The policy will incentivise both sending and receiving PSPs to:
- improve their detection and prevention of APP fraud
  - cooperate more effectively to preventing APP fraud
  - more effectively pursue and recover lost funds to reduce PSPs' own costs in reimbursing victims

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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 77% of APP fraud losses over CHAPS were refunded in 2023. This figure is based on data from UK Finance's [Annual Fraud Report 2024](#). Higher value (>£10,000) invoice and mandate scams were used as a proxy for APP scams sent over CHAPS.

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

4 UK Finance, [Annual Fraud report 2024](#) (May 2024), page 61.

- 1.4** As with the required reimbursement over Faster Payments, we would expect these changed incentives on both sending and receiving PSPs to lead to a fall in APP fraud over time. By including a consumer standard of caution set by the PSR and an excess and a maximum level of reimbursement limit set by the Bank in its CHAPS reimbursement rules, the policy also recognises the role and importance of customer caution.
- 1.5** As stated in Chapter 2 of the policy statement, the Bank has indicated that, on balance, it considers that it would be appropriate to adjust the CHAPS maximum level of reimbursement if this is the position we adopt following our consultation on changing the limit to the FSCS limit (currently £85,000).

## Baseline scenario

- 1.6** We have analysed the impacts of the policy against a baseline, or counterfactual scenario where we have not introduced a reimbursement requirement for CHAPS. Here PSPs are not under any obligation to reimburse customers who have been victims of an APP scam over CHAPS. In this scenario, the reimbursement policy applies to Faster Payments only and 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). Some PSPs may already be taking additional steps to prevent APP scams over CHAPS and might voluntarily reimburse some victims. Our main assumptions are detailed in paragraphs 1.46 to 1.53, but, in summary, we have assumed that:
- PSPs 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 line with the policy requirements<sup>5</sup>
  - our other measures against APP fraud, such as the publication of APP fraud data and fraud enabler data – currently being implemented – will take effect over the course of 2024
  - the extension of Confirmation of Payee (CoP) checks 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 PSR's reimbursement requirement for CHAPS coming into effect
  - 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
  - current volumes of APP scams sent over CHAPS would likely increase in response to better detection and prevention of APP scams on Faster Payments.

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<sup>5</sup> 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](#)).

## Our other policy interventions

**1.7** In our baseline scenario for this analysis, we have assumed that our four APP scam policy measures that are either currently in place or we are preparing to deliver have had the intended impact:

- **Publishing a balanced scorecard of APP fraud data ('Measure 1')**: We published the second cycle of data in August 2024, 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.<sup>6</sup>
- **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 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.
- **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 significant number of small PSPs, is expected to be complete by the end of October 2024.<sup>7</sup> For this analysis, we have assumed that this expansion will take effect on schedule, noting that relatively larger PSPs have completed onboarding for CoP checks by the end of October 2023.<sup>8</sup>

## Voluntary reimbursement

**1.8** Some PSPs currently reimburse APP fraud victims. Since we do not have data on voluntary reimbursement of APP scams sent over CHAPS only, we have used data on cases that have occurred across six payment types (including CHAPS) and been assessed using the CRM Code.<sup>9</sup>

**1.9** Since CHAPS is used to send higher-value payments, and anecdotal evidence suggests that CHAPS payments relate to invoice and mandate scams, for this analysis we are using high-value invoice and mandate scams as a proxy for CHAPS scams. This estimate indicates that around 77% of customer APP fraud losses sent over CHAPS in 2023 were reimbursed by signatories under the CRM Code.<sup>10</sup>

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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).

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 Six payment types include Faster Payments, CHAPS, Bacs (payment), Bacs (standing order), intrabank ('on-us') and international. The CRM is a voluntary code that sets guidelines on how firms reimburse victims of APP scams. Ten payment service providers (PSPs), representing 19 consumer brands and over 90% of authorised push payments, were a part of the Code in 2023.

10 See footnote 2.

**1.10** The new Faster Payments reimbursement rules will increase rates of reimbursement by PSPs for APP scams over Faster Payments. Additionally, 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 materially improve the reimbursement rate of APP scams sent over CHAPS. Therefore, compared with the counterfactual, the 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**

**1.11** In 2023, funds recovered from fraudsters' accounts (from receiving PSPs) represented 6% of funds reimbursed to APP fraud victims (under the CRM Code).<sup>11</sup> This low level of recoveries persists, despite the current incentives for sending PSPs to pursue receiving PSPs to attempt to recover lost funds.

**1.12** We expect that the upcoming Faster Payments reimbursement requirements will give PSPs further incentives to pursue recoveries from fraudsters' accounts to offset their costs of reimbursement, 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 would remain low for CHAPS.

#### **Reimbursement from receiving PSPs**

**1.13** Reimbursement from receiving PSPs to victims of APP fraud is very low. 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. Without any change in receiving PSPs' incentives to provide greater reimbursement to victims of APP scams over CHAPS, we would not expect this rate to increase (without this new requirement).

## **Differences between the reimbursement rules in CHAPS, compared with Faster Payments**

**1.14** A central aim of introducing a reimbursement requirement within CHAPS is to ensure comparable outcomes of consumer protection for CHAPS (as compared with those for consumers using Faster Payments), incentivise PSPs to detect and prevent fraud, and prevent the migration of fraud from Faster Payments to CHAPS. The policy will boost consumer confidence in the UK payments ecosystem by extending reimbursement protections to CHAPS while not overburdening CHAPS participants, who currently have low levels of APP fraud, with reimbursement and reporting requirements.

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11 UK Finance, [Annual Fraud report 2024](#) (May 2024), page 45. Repatriation from beneficiaries' accounts to victims accounted for £15.9 million out of total reimbursement of £256.5 million under the CRM Code in 2023 – that is, around 6.2% 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.

- 1.15** As with SD20, the policy is being implemented by the PSR giving 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 are out of scope. However, for CHAPS, financial market infrastructures are also out of scope.<sup>12</sup>
- 1.16** The Bank is responsible for the CHAPS reimbursement rules, which are being implemented as an appendix to the *CHAPS Reference Manual*. We have previously set out the legal basis on which the CHAPS reimbursement policy was being proposed in Chapter 3 of CP24/8.<sup>13</sup> This approach differs from the Faster Payments reimbursement requirement as the Bank is the operator of CHAPS but is not a ‘participant’ under the Financial Services (Banking Reform) Act 2013, which means we cannot use our powers to direct the Bank to take specified actions in relation to the system (as we did with Pay.UK for Faster Payments).
- 1.17** 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 (set by the PSR) and the application of a maximum excess and maximum level of reimbursement (set by the Bank in its CHAPS reimbursement rules). The level the Bank has set for these reflects the maximum level set by the PSR in our Faster Payments reimbursement requirement.
- 1.18** The policy statement and SD21 published alongside this CBA, confirms the start date for the CHAPS reimbursement requirement of 7 October 2024.<sup>14</sup> This is the same date that the Bank’s CHAPS reimbursement rules come into effect, as well as the start date for the Faster Payments reimbursement requirement.
- 1.19** This alignment will support the Bank’s and the PSR’s shared aims of ensuring consistent outcomes for customers across both payment systems. CHAPS participants will also have access to Pay.UK’s Faster Payments reimbursement directory – a contact directory which will help PSPs contact each other for claim management.
- 1.20** The Bank has developed its compliance monitoring regime to be consistent with Pay.UK’s compliance monitoring regime for Faster Payments. This means that PSPs will need to collate and report the same data and metrics for CHAPS APP scam reporting as those they must collate and report for Faster Payments. CHAPS participants, as required by the Bank and the PSR, must adhere to the same data reporting standards as Faster Payments. This means that under Reporting Standard A of the CHAPS Compliance Data Reporting Standard (CCDRS), PSPs participating in CHAPS must provide monthly manual data reports to the Bank. Reporting Standard B has also been confirmed and may come into effect at a later date following a further PSR consultation that is planned for late 2024.

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

13 [CP24/8 CHAPS APP scam reimbursement requirement](#) (May 2024), paragraphs 3.2 to 3.10.

14 [PS24/5 CHAPS APP scams reimbursement requirement](#) (September 2024)  
[Specific Direction 21 \(CHAPS APP scam reimbursement requirement\)](#) (September 2024)

## Respondents' views on the CBA

- 1.21** In CP24/8 [CHAPS APP scam reimbursement requirement](#) we sought views on the draft CBA. We received seven responses from PSPs and industry organisations.
- 1.22** Six respondents supported the expansion of the reimbursement requirement to include CHAPS and agreed with the CBA, but had comments on certain areas of the analysis. One respondent noted that they agreed with the overall conclusion of the CBA – which points to extending protections to CHAPS as leading to both incremental costs and benefits relative to the policy that applies to Faster Payments.
- 1.23** One respondent disagreed with some details of our assessment of the costs and benefits of the policy. We summarise the key issues raised in the responses below.

### Costs will fall disproportionately on smaller PSPs

- 1.24** One industry body noted that the costs of the CHAPS reimbursement policy will disproportionately impact smaller PSPs who are unlikely to be able to absorb these additional costs without increasing fees for consumers to reflect this new expense. This will negatively impact their competitive positioning.
- 1.25** The same respondent also said that since smaller firms will not have access to Pay.UK's reimbursement claim management system (RCMS) or Best Practice Standards (BPS), the manual handling of cases and reporting will be much more onerous for smaller PSPs, and that the impact of this is underestimated in the draft CBA.
- 1.26** We respond to these points in paragraphs 1.33 to 1.37 below.

### Moral hazard

- 1.27** Several respondents questioned whether the excess of £100 and the maximum reimbursement limit of £415,000 would have the intended effect of avoiding a material impact from moral hazard, noting their belief that moral hazard would increase with the introduction of the reimbursement policy for CHAPS.
- 1.28** Several respondents noted that given the higher sums of money that are sent over CHAPS, a £100 excess is unlikely to change a consumer's thought process and mitigate the impact of moral hazard. One respondent raised the question of whether there is a need to increase the maximum excess that can be applied to CHAPS APP scams.
- 1.29** Some PSP respondents also argued that the maximum limit of £415,000 had been set too high for CHAPS to act as a deterrent to moral hazard, noting that the risk of moral hazard affecting behaviour is highest when customers are fully reimbursed against fraud.
- 1.30** We respond to these points in paragraphs 1.38 to 1.40 below, and assess this cost in paragraph 1.94 to 1.97 of the Costs section below.



## Prevention – fraud originators and enablers

- 1.31** Some PSPs and a trade body respondent noted that while the reimbursement policy will increase the level of protection for consumers, the goal of preventing scams altogether cannot be the responsibility of PSPs alone. These respondents asked us to make clear references to other enablers of fraud, such as online platforms and services, and telecommunication providers, and recognise the need for them to engage and contribute towards reducing scams. We respond to these points in paragraph 1.41 below.

## Other miscellaneous issues raised

### **Risks or costs associated with the policy are understated**

- 1.32** One respondent argued that the risk associated with a CHAPS payment is not low. They said that while the risk is reduced relative to Faster Payments, there is still a high risk associated with making CHAPS payments.
- 1.33** Another respondent believed that the operational costs of reporting due to the lower volumes of CHAPS APP scams – as opposed to Faster Payments APP scams – were understated in the CBA, as fraud prevention measures will be made across the whole CHAPS estate. Even so, the respondent supported extending the mandatory reimbursement to CHAPS to ensure that customers are better protected in the future. We respond to these points in paragraphs 1.42 to 1.44 below.

### **Benefit of increased recovery of APP fraud is overstated**

- 1.34** One industry body set out its view that the assumed recovery rate of APP scams that would be required to off-set the greater costs of reimbursement over CHAPS is optimistic in light of the 6% recovery rate in 2022. We respond to these points in paragraph 1.45 below.

## Our assessment of the responses

### Costs will fall disproportionately on smaller PSPs

- 1.35** We don't believe there is evidence to show that the costs of reimbursement will disproportionately impact smaller PSPs. The number of APP scams over CHAPS is comparatively low compared with Faster Payments: in 2023 there were 449 CHAPS transactions reported as APP scams, amounting to £23.1 million in value.<sup>15</sup> CHAPS was the least common payment method for sending an APP scam payment in 2023, and it is much less likely that smaller PSPs will be faced with APP scam reimbursement costs so high that it will materially affect their competitive position.
- 1.36** The CHAPS reimbursement policy will give all PSPs greater incentives to review and prevent APP scams being sent over CHAPS and prevent fraud migrating from Faster Payments to CHAPS. Additionally, as we stated in our analysis of prudential risk and its impact on competition for the Faster Payments reimbursement requirement, we assessed these

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15 UK Finance, [Annual Fraud report 2024](#) (May 2024), page 61.

risks to PSPs from rare high-value claims as being low for several reasons.<sup>16</sup> We expect this to also hold true for any incremental impact from reimbursing CHAPS APP scams.

- 1.37** We estimate – using high-value invoice and mandate scams as a proxy for CHAPS scams – that firms that were signed up to the CRM code voluntarily reimbursed 77% of CHAPS APP scams by value.<sup>17</sup> Given that these firms are currently reimbursing their customers even where the fraud vulnerability is on the side of the receiving firm, mandatory reimbursement and the 50/50 split will create a more level playing field.
- 1.38** While one respondent argued that manually reporting APP scams over CHAPS will be more onerous for small PSPs that will not have access to RCMS or BPS, we expect that the cost of doing so for these PSPs will be quite low. As mentioned above, not only are the volumes of APP scam cases on CHAPS relatively low when compared with Faster Payments, but not requiring nil reporting for CHAPS APP scams effectively reduces the disproportionate burden of manual reporting that would be placed on firms that have no scams.
- 1.39** Additionally, given that we anticipate that all the firms using CHAPS also operate on Faster Payments, the costs of implementing the policy will be incremental to the costs already being incurred for the Faster Payments reimbursement policy – such as the costs of staff training and ongoing resourcing.

## Moral hazard

- 1.40** Several banks raised the question of whether an excess of £100 would be an effective way of mitigating the impact of moral hazard for CHAPS payments. As we stated in the draft CBA, as well as in the final CBA for the Faster Payments reimbursement requirement, we believe that levying an excess will encourage customers to exercise caution. However, since APP scams sent over CHAPS tend to be higher in value than scams sent over Faster Payments, the application of an excess by itself is likely to be less effective in managing the risk of moral hazard on CHAPS APP scams. We also note that the level of excess is set by the Bank.
- 1.41** The Bank has set the maximum reimbursement amount for CHAPS at £415,000. We do not expect that setting the maximum limit at this level will make customers less cautious as we expect customers to already exercise significant caution when making such high-value payments. Customers lose access to the funds and interest owed during the period before it is refunded, which poses an additional financial cost to the victim. In addition to this monetary loss, customers who are victims of such APP scams experience significant psychological distress even when they can reasonably expect to be refunded, in line with the policy.
- 1.42** Additionally, we believe that having consistency in the level of excess and maximum level of reimbursement applicable to APP scams taking place over both CHAPS and Faster Payments is important to reduce complexity for both firms and customers. Clear and direct communication with consumers about APP scams and their rights under the reimbursement rules for both payment systems can help prevent fraud and also ensure that customers are treated consistently across whichever payment channel they use.

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16 PS23/4, [Fighting authorised push payment scams: final decision](#) (December 2023), Annex 1, paragraph 1.30 to 1.31.

17 See footnote 2.

## Prevention – fraud originators/enablers

- 1.43** As respondents have noted, PSPs can take steps to detect and prevent fraudulent payments from being sent. In our role as the regulator of payment systems, we acknowledge that APP scam prevention requires action from a broader set of sectors and entities than just payments, particularly from large tech, e-commerce and social media platforms, and the telecommunications industry, which are the most common industries used by fraudsters to contact victims and persuade them to make payments. We are working with firms to understand which entities outside the payments sector are enabling the most fraud against UK payment users and plan to publish data on the most common enablers of fraud later in 2024.

## Other miscellaneous issues raised

### **Risks or costs associated with the policy are being understated**

- 1.44** We note that the draft CBA did not state that CHAPS payments are lower-risk payments, but rather that the friction in the payment journey that is already built-in for CHAPS reduces the risk of APP scams due to the increased interaction between PSPs and their customers.
- 1.45** This regular interaction already gives firms the opportunity to intervene and prevent scams from being sent over CHAPS.
- 1.46** In general, without equivalent protections for CHAPS payments that are consistent with Faster Payments, as firms respond to the incentives to improve their fraud controls on Faster Payments, fraud would likely migrate to CHAPS.

### **Benefit of increased recovery of APP fraud is overstated**

- 1.47** We expect that the low recovery rate of 6% seen in 2022 reflects the lack of incentives on firms that are receiving PSPs to recover funds from fraudsters' accounts, as they were not liable for reimbursing victims of APP scams. We do not expect the increase in the recovery rate to be high enough to offset all APP scam losses. However, as we explain in paragraphs 1.58 to 1.59, we expect the shared liability between sending and receiving firms to align incentives and increase the rate of recovery of APP scam losses above the current level of approximately 6%.

## Our assessment of the impacts

- 1.48** We have analysed the impacts of the new reimbursement requirement for CHAPS against a baseline scenario with no requirement (see paragraphs 1.5 to 1.9).
- 1.49** It is outside the scope of this CBA 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 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.

- There is a degree of complementarity between our different measures against Faster Payments APP fraud. For example, while requiring reimbursement will give PSPs financial incentives to reduce APP fraud, publishing data (under Measure 1) will give PSPs reputational incentives to improve their performance. However, these do not directly affect PSPs' financial or reputational incentives to improve their performance and reduce APP fraud taking place over CHAPS.

**1.50** We have focused on the net societal benefit of the policy in terms of the change in incentives for PSPs and the effect that that will have on tackling APP fraud. For this CBA, we have chosen to be neutral about any distributional issues of the reimbursement itself, which is a conservative assumption for this analysis. We have not included the direct costs and benefits of reimbursement as we have treated them as a transfer of monetary costs from PSPs to an equivalent monetary benefit for victims.

**1.51** Our approach focuses on the benefits and costs that the CHAPS reimbursement requirement is likely to generate. This could include creating incentives for firms to prevent fraud migrating over to CHAPS, increased recoveries, reduced incidence of fraud on CHAPS and increased investment in fraud prevention by PSPs.

**1.52** The following sections set out our assessment of the likely costs and benefits of the policy relative to the baseline. While the CBA has been written with the current maximum limit of £415,000 in mind, we have updated the analysis to consider the potential impact of setting the maximum limit at £85,000 on relevant affected costs and benefits.

**1.53** Our assessment is based largely on qualitative evidence. In some cases, it is either not possible or not proportionate to precisely estimate the likely impacts of all the relevant benefits and costs, as there is limited data available on losses and reimbursement of APP fraud over CHAPS.

**1.54** 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 volume of APP scams taking place over CHAPS. As Table 1 shows, 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.

**1.55** Overall, given the conservative assumptions used in this analysis, we consider the cost categories to be all 'low' and therefore expect that the benefits of the CHAPS reimbursement requirement are likely to outweigh its costs under any reasonable assumption.

**Table 1: Summary of main benefits and costs**

<b>Benefits</b>	<b>Relative magnitude</b>	<b>Costs</b>	<b>Relative magnitude</b>
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 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	Medium to 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

- 1.56** As concluded in paragraphs 1.40 to 1.58 of the CBA 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 where both sending and receiving PSPs have to reimburse their customers.<sup>18</sup> In 2023, around 77% of customer APP fraud losses over CHAPS were reimbursed by signatories under the CRM Code, which includes reimbursements made for payments sent over CHAPS.<sup>19</sup> Data received by us on reimbursement covering a wider set of PSPs indicates a slightly lower share of voluntary reimbursement of APP fraud over Faster Payments in 2023.<sup>20</sup> Requiring PSPs to reimburse their customers under the 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.
- 1.57** However, since the value of APP scams sent over CHAPS in 2023 was about 6% 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.<sup>21</sup> In paragraphs 1.37 to 1.45 of the December policy statement, we 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.<sup>22</sup> 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.<sup>23</sup>

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

19 See footnote 2.

20 [Authorised push payment \(APP\) scams performance report](#) (August 2024), page 5. Data we have collected from the 14 major banking groups in the UK covering the vast majority of Faster Payments transactions shows a reimbursement rate of 67%.

21 UK Finance, [Annual Fraud Report 2024](#) (May 2024), page 61. 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 2023, the corresponding figure is approximately 6%.

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

23 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 2023 (6.1%) to get the outer bounds of this range as between £2.3 million and £7.7 million.

**1.58** 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 current median rates of fraud sent and received over Faster Payments in the December 2023 cost benefit analysis.<sup>24</sup> 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 APP fraud.
- This quantitative estimate for CHAPS is based on data taken from UK Finance's *Annual Fraud Report 2024* (May 2024). This covers data on APP scams sent via CHAPS from a subset of UK Finance members only, which were recorded into the BPS platform.<sup>25</sup> 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 figure in paragraph 1.54 might underestimate the magnitude of APP fraud prevented.

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

- Mandatory reimbursement could lead some customers to exercise 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 by customers for making high-value payments, we expect that they 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 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 set by the Bank for CHAPS, of £415,000.<sup>26</sup> While the exact number is not known for CHAPS, the average value of an APP scam sent over CHAPS in 2023 was around £51,000, which is far below the maximum limit for reimbursement.<sup>27</sup>
- Potentially changing the maximum limit per claim to £85,000 could weaken PSPs' incentives to increase their investment in APP fraud prevention for higher-value scams. However, given that banks are still liable to reimburse victims the full amount up to £85,000 (subject to levying an excess), we do not expect this reduction in incentives to be significant.

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

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

26 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.

27 UK Finance, [Annual Fraud Report 2024](#) (May 2024), page 61. The average fraud value lost to APP scams over CHAPS is quite variable. Half-year averages for 2022 and 2023 range between £22,000 and £67,000.

## Increased recovery of APP fraud funds by receiving PSPs

- 1.60** Approximately 6% of APP scam losses that were reimbursed to victims in 2023 under the CRM Code came from recovered funds.<sup>28</sup> 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 should substantially strengthen the incentives on firms to successfully recover funds from a fraudster's account, due to the shared liability under the Faster Payments reimbursement requirement.
- 1.61** We expect that the Faster Payments reimbursement requirement will increase the rate of recoveries from receiving PSPs and act as a deterrent 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.

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

- 1.62** With the Faster Payments reimbursement rules set to come into force on 7 October 2024, the policy could lead to parties switching away from Faster Payments for some payments. These were set out in the December 2023 CBA, and could include, in principle:
- a. fraudsters 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<sup>29</sup>
- 1.63** We expect that the Bank's CHAPS reimbursement rules, supported by the PSR's specific direction, will substantially reduce the risk of scammers migrating to CHAPS. Sharing 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 seek to recover funds from fraudsters' accounts.
- 1.64** The risk that customers will switch to CHAPS to avoid friction, or that PSPs will nudge customers away from Faster Payments to CHAPS is expected to be low. However, because of the higher transaction fees in CHAPS payments, any risk in this regard is nevertheless also reduced.

## More consistency and certainty for victims

- 1.65** At present, there is a wide variation in (voluntary) reimbursement rates across individual PSPs. Annual data for 14 PSPs in 2023 shows a range of 9% to approximately 88% in the share of losses reimbursed by value for APP scams occurring over Faster Payments.<sup>30</sup> Mandatory reimbursement will ensure consistency in how victims of APP scams and APP scam losses are treated by PSPs.

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28 See footnote 11.

29 PS23/4, [Fighting authorised push payment scams: final decision](#) (December 2023), Annex 1, paragraph 1.74.

30 [Authorised push payment \(APP\) scams performance report](#) (July 2024), page 9.



- 1.66** We expect the CHAPS reimbursement requirement to bring about similar benefits to the Faster Payments reimbursement requirement, ensuring consistent outcomes and certainty for victims of APP scams across different PSPs. This will increase trust in CHAPS as customers can be confident that they will be reimbursed where they have exercised appropriate caution and in line with the policy. This will improve choice and competition for payments users.
- 1.67** Having the option to apply a £100 excess, and setting the maximum level of reimbursement at £415,000, as the Bank has set in its CHAPS reimbursement rules, means there is consistency with the Faster Payments reimbursement rules. This will help ensure that customers experience consistent outcomes across different payment firms and methods. Many customers may not know the difference between the payment systems they could use to make a bank transfer and so keeping the reimbursement rules the same for both systems will bring greater certainty and consistency for victims of APP scams.
- 1.68** 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 improve in the welfare of all customers who are victims of APP scams over CHAPS.<sup>31</sup>

### Level playing field across PSPs

- 1.69** As set out in the June 2023 CBA, 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 apply across all PSPs would create a level playing field. 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

- 1.70** The expected improved reimbursement rates as a result of the Bank's CHAPS reimbursement rules would have a significant positive impact for victims. As stated in the CBA in the December 2023 policy statement, victims may face psychological and other costs as a result of being an APP scam victim, in addition to money lost as a result of the scam. As CHAPS is used by customers mainly for sending higher-value payments, the impact of the loss and psychological cost on customers could be significant.

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31 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. Firm level reimbursement rates for CHAPS payments are not known for later periods, however, we note a similar trend of inconsistent reimbursement rates for APP scams sent over FPS. See paragraph 1.62 above for the range of reimbursement rates over Faster Payments.

- 1.71** Potentially changing the maximum reimbursement limit on CHAPS from the current limit of £415,000 to £85,000 could reduce this benefit to consumers. However, given the low volume of APP scams sent over CHAPS – there were 449 reported APP scams over CHAPS in 2023 – the volume of scams that would not be fully reimbursed with a lower limit would likely be lower. This impact, while significant for victims, affects a very small proportion of APP scam victims.
- 1.72** As stated above in paragraphs 1.54 to 1.57, the CHAPS reimbursement rules will give PSPs the right incentives to prevent APP scams across CHAPS, which will mitigate these negative outcomes for customers.

## Costs

### Increased investment in fraud prevention by PSPs

- 1.73** The 50:50 split of reimbursement costs of APP scams sent over CHAPS between sending and receiving PSPs would increase the costs of reimbursing APP fraud for almost all PSPs. However, as with the CBA 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 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, which will be caused by the new reimbursement requirement.
- 1.74** 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 currently account for a negligible share of reimbursement and so will face substantially increased reimbursement costs under the policy for CHAPS.
- 1.75** 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 CBA.
- 1.76** 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.
- 1.77** Additionally, as a payment system best suited for high-value payments with no maximum limit and higher per-transaction fees, CHAPS already has 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, indicate that the incremental cost of investment in fraud prevention for CHAPS participants would be low.

- 1.78** While we have not been able to quantify the likely costs with precision – or separate the costs specific to CHAPS from costs already incurred on account of the Faster Payments reimbursement requirement – we note the following points in assessing their likely overall magnitude:
- 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 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.
- 1.79** As noted in paragraph 1.57 above, we would not expect PSPs' incentives to invest in fraud prevention to be significantly affected if the maximum reimbursement limit were to change to £85,000 (from the current limit set at £415,000). Therefore, the incremental impact on their costs of fraud prevention will be negligible.
- 1.80** Mandatory reimbursement places effective incentives on PSPs to invest in the prevention of APP scams and take action where it is within their control. However, we recognise that there is a need for the entities outside of the payments sector that are enabling the most fraud to prevent scams at the source.

### Administrative costs to PSPs

- 1.81** As set out in the CBA published alongside our June and December 2023 policy statements, the Faster Payments reimbursement policy will likely lead to PSPs incurring administrative costs that they do not have at present. We expect that the CHAPS reimbursement requirement 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.
- 1.82** As noted above, PSPs may face some new costs in implementing the CHAPS reimbursement policy. This would include, for example, the cost of hiring and training staff at fraud centres, managing claims, and coordinating the reimbursement of customers, 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.
- 1.83** In principle, the reimbursement policy over Faster Payments and CHAPS should lead to overall 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 impact on costs for CHAPS is likely to be marginal given the friction already present in the system to query payments sent over CHAPS.

**1.84** PSPs are also required to report and retain data to enable the Bank to monitor compliance with the CHAPS reimbursement rules. This data must be reported to the Bank using the method specified by the Bank in its CHAPS reimbursement rules (via email). The data that must be reported to the Bank is set out in the PSR's CCDRS and mirrors the reporting standards as required in SD20 and set out in the PSR's Compliance Data Reporting Standard (CDRS) which applies to Faster Payments.<sup>32</sup> This is to ensure consistency, avoid creating complexity for PSPs, and make sure that the Bank and the PSR have the necessary information from PSPs to identify potential non-compliance. As with the Faster Payments reimbursement rules, SD21 will require PSPs to comply with the CHAPS CCDRS and provides for data-reporting as per reporting standard A:

- **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 during the period that Reporting Standard A is in force.
- Reporting CHAPS APP scams under Reporting Standard A would likely increase administrative and resource costs for PSPs, as data will need to be reported each month 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, manual reporting will have a minor impact on administrative costs in this short period as PSPs will not be obliged to submit a nil return if it has not logged any APP scam claims over CHAPS.

**1.85** 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 Pay.UK's RCMS directory to correctly identify and contact the receiving PSP would significantly reduce the burden of reporting CHAPS APP scams to the Bank. The CCDRS also sets out Reporting Standard B, which may come into effect in the future and will be subject to a consultation by the PSR.

## Costs to customers of friction and delayed payments

**1.86** There are likely to be the costs to customers of friction and delayed payments if PSPs' introduction of stronger fraud controls leads to more 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.

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

**1.87** We would not expect a potential reduction in the maximum limit (to £85,000) to have a material impact on reducing friction. As we have noted in our September 2024 draft CBA on changing the maximum level of reimbursement on FPS, almost all APP scams over £85,000 were composed of multiple payments, with payments per transaction ranging between £3,000 and £5,000.<sup>33</sup> This would indicate that potentially lowering the maximum reimbursement limit per claim to £85,000 would not impact payment friction given the low average transaction values and the existing friction built into CHAPS.

## Reduction in competition and innovation

**1.88** We note that the reimbursement requirement for CHAPS impacts the whole industry and will likely not distort competition unless the requirement has a differential impact on some PSPs over others. In fact, mandatory reimbursement moves PSPs to a level playing field, where the costs and risks are proportionate to PSPs' fraud levels.

**1.89** In our June CBA of the Faster Payments reimbursement rules, we noted that several stakeholders had argued that the reimbursement requirement would reduce competition and innovation. The CHAPS reimbursement requirement could raise risks that are similar, but lower in magnitude for PSPs, namely:

- whether the reimbursement liability raises prudential risks and consequently the risk of firms exiting the UK market
- whether the costs of mandatory reimbursement would reduce innovation and competition between PSPs, including deterring entry and expansion

**1.90** 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 449 CHAPS APP scams with an average value of around £51,000 in 2023, so the CHAPS reimbursement requirement is less likely to pose a prudential risk to PSPs from high-value claims.

**1.91** On the risk that the 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.

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<sup>33</sup> [Draft cost benefit analysis, Faster Payments APP scams: changing the maximum level of reimbursement](#), (September 2024), Annex 1, paragraph 1.29

**1.92** In our September 2024 draft CBA on changing the maximum level of reimbursement on FPS, we noted that potentially changing the maximum limit from £415,000 to £85,000 may reduce firms' liability and mitigate their prudential risk from reimbursing high-value APP scams over FPS.<sup>34</sup> However, given the low volume of APP scams sent over CHAPS and our assessment above of prudential risk to PSPs from CHAPS APP scams already being low, we expect the incremental impact of this potential change to be small.

## Other potential consequences of the policy

### Increase in reported APP fraud numbers

**1.93** The reimbursement requirement for CHAPS could lead to a short-term increase in the volume of reported APP fraud.

**1.94** 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. Many customers are unaware that they could be reimbursed, so it is likely that a material quantity of APP fraud is going unreported.

**1.95** 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 increase the level of reported APP fraud. This represents additional costs to PSPs, but is also 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

**1.96** 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.

**1.97** PSPs should put effective protections in place and take 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 and the Bank (in line with our respective roles and responsibilities) are adopting 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 (set by the PSR)
- **a claim excess** that should mitigate the impact of moral hazard, alongside the actions PSPs can take to prevent APP fraud (set by the Bank)
- **a maximum limit on reimbursement** that should increase customer caution in high-value transactions (set by the Bank)

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<sup>34</sup> [CP24/11: Faster Payments APP scams: Changing the maximum level of reimbursement](#), (September 2024), Annex 1, paragraph 1.26

- 1.98** 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 £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. We note that while this is an effective means to curtail moral hazard for lower-value APP scams, the excess could be less effective in preventing moral hazard for higher-value scams sent over CHAPS.
- 1.99** More importantly for CHAPS, which has fees for customers 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 Bank's limit will incentivise customers to exercise appropriate caution when making high-value payments, without weakening PSPs' incentives to increase their investment in APP fraud prevention. The maximum reimbursement limit has been set 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.
- 1.100** A lower maximum reimbursement level should, in theory, reduce the impact of moral hazard and increase customer caution in high-value transactions. However, given that transactions sent over CHAPS tend to be higher value payments where we would expect customers to already exercise significant caution, a potential reduction of the maximum reimbursement limit to £85,000 might lead to only a small reduction in the impact of moral hazard among customers.

### **Migration to other payment methods**

- 1.101** Even with applying the 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.
- 1.102** We found that these alternative channels have some existing customer protections in place and are working with the Financial Conduct Authority to consider what additional protections could be put in place for on-us payments.

## Conclusion

- 1.103** We consider that the benefits of the CHAPS reimbursement requirement are highly likely to outweigh the costs.
- 1.104** In undertaking this analysis, we considered a likely timeframe for when these impacts would materialise. 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. These costs are often one-off costs that may materialise mostly in the early phases 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.
- 1.105** 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 will be more immediate. 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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