

Draft cost benefit analysis

Faster Payments APP scams:
changing the maximum level
of reimbursement

September 2024

1 Draft cost benefit analysis

We've assessed the impacts of our proposal to change the maximum claim limit applicable to the Faster Payments APP scams reimbursement requirement on the overall benefits and costs of the APP scams reimbursement policy. We have been working – and continue to work – with the FCA to understand the potential impact of the current maximum level of reimbursement on the prudential capabilities of firms.

We consider that, overall, this policy change will deliver net benefits. PSPs will continue to have incentives to invest in APP fraud prevention and the lower limit will ease implementation challenges. The overall costs of our policy – including the risks of moral hazard and the prudential risk to PSPs – is likely reduced. The vast majority of consumers (around 90% by value) will continue to be reimbursed under the policy, enabling the delivery of critical consumer protections.¹ The limit will ensure that payment service providers (PSPs) can deliver the policy while effectively managing its own risks and those for consumers.

Our assessment indicates that the proposed approach to set the maximum reimbursement limit to the Financial Services Compensation Scheme (FSCS) limit (currently £85,000) will still result in our APP scams reimbursement policy delivering net benefits overall.

Policy context

- 1.1** Reducing APP fraud and the resulting consumer harm is a strategic priority for the PSR. Protecting consumers and driving fraud out of payments is essential to ensuring that the UK's payment systems continue to be trusted, safe and secure.
- 1.2** Our requirements, which come into effect on 7 October 2024, will:
- provide greater protections to consumers using Faster Payments, driving increased trust and confidence²
 - make sure payment firms have the right incentives in place to drive fraud out of their systems
 - promote effective competition and support growth and innovation in the UK payments industry through increased trust and confidence.
- 1.3** Recognising the difficult trade-offs involved in setting the maximum level, and the feedback we received on this issue, we committed to supplementing our evidence base by monitoring the incidence and impact of high-value APP scams through a pre-implementation review.

1 Our calculations indicate that a maximum limit of £85,000 would protect consumers from around 90% of APP fraud. The share of APP fraud claim values not covered by this limit is about 10%. PSR calculations of data provided by 15 PSPs as part of our pre-implementation review on the incidence and impact of high-value scams.

2 We are also working with the Bank of England to support the implementation of a reimbursement requirement for CHAPS. This CBA does not consider the impact of any change in the maximum level of reimbursement for CHAPS which is a decision for the Bank of England.

- 1.4** We have now completed this review (the findings of which are set out in more detail in chapter 3 of our [consultation document](#)). As part of this, we have worked closely with the FCA which has been considering and monitoring the potential impact of the maximum level of reimbursement on firms.
- 1.5** We have also heard feedback from some stakeholders about the risks and impacts of the current maximum level of reimbursement. This includes in respect of prudential risk, firms' ability to maintain their capital requirements, the cost of capital and availability of investment and the competitiveness of UK firms.
- 1.6** We are proposing to change the maximum level of reimbursement to £85,000, set to the current FSCS limit.³ This will aid effective delivery of the policy for 7 October 2024. We have set out in more detail the reasons why we consider this is an appropriate initial limit in chapter 4 of the consultation paper.
- 1.7** As part of the evaluation we have already committed to undertake after the policy has been in place for at least 12 months, we will use all of the data and information available to us to assess whether to change the maximum level of reimbursement or our approach to setting it.

Baseline

- 1.8** We have analysed the impact of changing the maximum claim limit, and setting it to the current FSCS limit of £85,000, compared to the current limit of £415,000 as set out in our December 2023 policy statement.⁴ In assessing the impact, we assume that all other existing provisions of SD20 on directed PSPs and SD19 on Pay.UK still apply as we are not proposing any changes to these requirements at this time.
- 1.9** Our assessment is based on both qualitative and quantitative evidence. We have used data on high-value APP scam cases (defined for the purpose of this analysis as closed Faster Payments APP scam cases with a total value over £85,000 – aligned with the definition we used in our pre-implementation work to monitor the value and incidence of high-value scams) as the basis for our analysis. The analysis is supplemented by data on all APP scams received in 2023.⁵ This data covers a wider set of firms than the data used for the August 2023 consultation on the excess and maximum reimbursement level and is therefore a more representative dataset.⁶
- 1.10** While we have not been able to quantify the likely impacts of all of the relevant costs and benefits of our proposal to implement the maximum level of reimbursement with an initial limit of £85,000, we have been able to estimate the impact of the change on overall reimbursement levels. While these numbers do not translate directly into specific values for the relevant costs and benefits, they give an indication of the likely scale of any impact.

3 We propose that this limit tracks any changes to the FSCS limit.

4 [PS23/4 Fighting authorised push payment scams: final decision, \(December 2023\)](#)

5 We used data collected from the 14 major banking groups in the UK covering the vast majority of Faster Payments transactions. We received aggregated data on APP scams under Specific Direction 18 (SD18) and as per PS23/1, [APP scams: Measure 1: Collection and publication of performance data](#) (March 2023). We received data on high-value scams over Faster Payments from 15 major banking groups through section 81 requests.

6 Figure 2 – Data provided by UK Finance on behalf of eight PSPs for H2 2022. The cases include personal accounts, microbusinesses and charities.

- 1.11** As we are not consulting on any other specific values for the initial maximum claim limit, we are assessing the impact of setting the limit to the current FSCS limit (currently £85,000) against keeping the limit at £415,000 (the baseline).
- 1.12** Additionally, as set out in our previous CBAs on APP scams, 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. We have also not included in the costs and benefits any additional costs that may arise to sending PSPs as a result of consumers taking these high-value cases to the Financial Ombudsman Service (FOS). As with the direct costs of reimbursement, we treat this as a transfer – the cost for PSPs is received as a benefit to consumers.
- 1.13** We have chosen to be neutral about any distributional issues of the reimbursement itself, which is a conservative assumption for this CBA. Our analysis focuses on how changing the maximum claim limit on reimbursement impacts the relevant costs and benefits through changes to consumer and PSP incentives and behaviour.

Overall assessment of the costs and benefits

- 1.14** When deciding on our implementation approach for the initial maximum claim limit, we considered four key factors:
- the level of PSP liability
 - the ability of the cap to cover the majority of claims
 - appropriate coverage of all fraud types to incentivise PSP anti-fraud measures
 - impact on PSP solvency and competition in payments

Impact on coverage of claims

- 1.15** Using APP scams data for 2023 collected as part of our pre-implementation review of high-value APP scams, we estimate that claims that exceed £415,000 account for around 4% of total APP scams sent by value, while claims that exceed £85,000 account for around 19% of total APP scams sent by value. Table 1 below presents a summary of how setting the maximum limit at £415,000 and £85,000 would impact the level of reimbursement covered by the Faster Payments APP scams reimbursement rules.
- 1.16** Overall, a maximum claim limit of £85,000 would reduce the level of APP scam reimbursement by about eight percentage points (or c. £30m million per annum) relative to a limit of £415,000. In our analysis we consider the financial component of the reduced coverage to be a transfer – the lower level of reimbursement (benefit) is balanced out by the reduced cost to PSPs. However, we reflect on the effect of this reduced level of reimbursement through changed PSP and consumer behaviours and incentives.
- 1.17** In the sections below we examine how the level of PSP liability and the level of reimbursement covered impacts PSP solvency, incentives to invest in fraud prevention, administrative costs, costs to consumers, and moral hazard.

Table 1: Coverage of high-value APP scams by the maximum claim limit⁷

	Maximum claim limit	
	£415,000	£85,000
Total value APP scam claims that exceed the limit as a share of all APP scams losses in 2023	4%	19%
Number of APP scam claims that exceed the limit as a share of all APP scams claims in 2023	0.01%	0.2%
Share of APP scam claims not covered by reimbursement due to the max limit	2%	10%
Total amount not covered by the maximum claim limit	£7.5m	£37m
Total number of claims not fully covered by the maximum claim limit	18	411

1.18 Below is a summary of the effects of the proposed maximum level of reimbursement on our identified costs and benefits.

Table 2: Summary of impacts on overall costs and benefits

Maximum claim limit:	£85,000
Benefits	
PSP incentives to prevent APP fraud	Small decrease
Implementation benefits	Small increase
Costs	
Investment in fraud prevention	Negligible
Admin costs	Negligible
Friction	No effect
Psychological costs to consumers	Increase
Moral hazard	Small decrease
Prudential risk and reduction in competition and innovation	Small decrease
Overall impact	Net benefit: decrease in costs

⁷ Data on high-value scams (claim values over £85,000) was submitted to the PSR by 15 PSP groups as part of our pre-implementation review on the incidence and impact of high-value scams. For data on all Faster Payments APP scams, we used data collected on APP scams from the Measure 1 directed firms – 14 major banking groups in the UK under Specific Direction 18 (SD18). Measure 1 data and data from UK Finance’s fraud report were used to estimate total APP scams sent by the PSP not covered by the Measure 1 data. UK Finance, [Annual Fraud report 2024](#) (May 2024), page 61

Benefits

PSPs' incentives to prevent APP scams

- 1.19** Relative to the current maximum claim limit of £415,000, a lower limit of £85,000 could weaken PSPs' incentives to increase their investment in APP fraud prevention for higher-value scams. However, given that claims above £85,000 accounted for less than 0.2% of APP scam cases in 2023, by volume, we do not expect this reduction in incentives to be significant. The impact would likely be even smaller given that we have indicated we will review the policy after 12 months and assess its effectiveness, with the option of potentially increasing the maximum limit.

Implementation benefits

- 1.20** Some PSPs have suggested a £415,000 reimbursement limit may reduce the funds they are able to allocate for investments in anti-fraud measures. While we have not seen evidence to support this, reducing the maximum claim limit to £85,000 could improve the ability of some smaller firms to invest in and operationalise better systems for managing fraud risk sooner. This would help deliver effective implementation of the policy in the interests of consumers from the policy start date.

Costs

Investment in fraud prevention

- 1.21** We have considered whether PSPs' reduced reimbursement costs – due to a lower limit – could reduce their investment in fraud detection and prevention, as a means to reduce their overall costs.
- 1.22** As discussed in paragraph 1.20, we do not expect PSPs' incentives to invest in fraud prevention to be significantly affected by a limit of £85,000 relative to £415,000. Therefore, the impact on their costs will be limited.

Admin costs

- 1.23** The proposal to align with the FSCS limit (currently £85,000) could result in an increase in operational costs for PSPs who may need to initially manually manage and assess the sums liable to the consumer and reimbursable contributions to claim from the receiving PSP(s) for any claim that is over a limit of £85,000.
- 1.24** However, the impact of this is likely to be small given that there were only 411 high-value cases in 2023 (an average of 30 claims per month). These types of claims are also typically the ones that firms would investigate further, so the incremental cost of managing reimbursement of these cases within claim management resources is likely to be small. Overall, we expect the increased operational cost as a result of the increased limit to be negligible.

Prudential risk and reduction in competition and innovation

- 1.25** Our cost benefit analysis accompanying the December 2023 policy statement included an assessment of the prudential risk of setting the maximum claim limit at £415,000.⁸ We considered industry's concerns about the potential impacts of this limit on smaller PSPs, especially payment firms and electronic money institutions, most of whom have capital requirements set at £350,000.⁹ This could create the potential for loss-making or market exits for these firms, deterring entry and expansion of smaller firms thereby reducing competition and innovation in the payments sector. Industry also raised concerns that the proposed reimbursement limit could also disproportionately affect smaller firms, who will have to take greater steps to manage this risk which could impact their competitive positioning (for example through imposing lower transaction limits).
- 1.26** Based on APP fraud data that we analysed at the time, we found that small PSPs do not at present see APP fraud values anywhere near £415,000, on average, and that high-value claims at such levels within the APP fraud identified at those firms were very rare. Therefore we considered that the likelihood of a small PSP exiting the market due to a high-value APP scam is small, and unlikely to happen at a scale that would raise concerns about the competitiveness of the financial services market. We also noted that firms can take a number of steps to mitigate fraud risks.
- 1.27** We have listened to industry concerns about the prudential impact of our proposed policy. We continue to seek to understand this impact and acknowledge the uncertainty about the impact of our initial £415,000 limit on the solvency of firms, particularly smaller PSPs. We are therefore making a conservative assumption that a maximum claim limit of £85,000 may reduce firms' liability (relative to the current £415,000 limit) and mitigate their prudential risk. This will reduce the costs associated with reduced competition and innovation in the provision of payment services, and the overall cost of the proposed APP scams policy.

Moral hazard

- 1.28** A lower maximum reimbursement level should, in theory, reduce the risk of moral hazard and increase customer caution in high-value transactions. However, the share of APP fraud affected is low, and we would expect customers to already exercise significant caution in making such payments. Given these factors, we would expect the reduction in the risk of moral hazard among customers to be small.

Friction

- 1.29** A higher maximum reimbursement limit – as is present in the baseline scenario – could lead firms to create additional friction in payment journeys to limit the risk of significant financial loss. Paragraph 1.61 of our December 2023 CBA quantified the potential impact of the costs to customers from delayed payments as between £2 million and £30 million per year.¹⁰ However, we note that the maximum limit applies at the claim level, and 98% of high-value claims were composed of multiple payments. Reducing the limit from £415,000 to £85,000 would not necessarily reduce payment friction given that on average, the payments per transaction in such high-value claims ranged between £3,000 and £5,000.

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

9 Some payment institutions may have lower initial capital requirements

10 PS23/4, [Fighting authorised push payment scams: Final decision](#) (December 2023), Annex 1, paragraph 1.61

Therefore, we consider the potential impact of lowering the limit to £85,000 relative to the baseline of £415,000 is likely to be the same.

Psychological costs to consumers

- 1.30** Separately, a limit of £85,000 may increase the psychological and emotional distress experienced by APP scam victims relative to a £415,000 limit as higher-value APP scams will no longer be subject to the requirements of our policy. We note, however, that the number of scams affected is relatively small (less than 0.2% of all APP scams claims) and therefore this impact, while significant, affects a small proportion of APP scam victims.

Current view

- 1.31** In the CBA accompanying the [December 2023 policy statement](#), we set out how the Faster Payments reimbursement policy would provide very substantial benefits overall, with PSPs incentivised to improve their fraud prevention capabilities, customers enjoying greater protections, and fraud victims having more certainty and less stress and psychological costs. We concluded that after taking into consideration the costs of investment in fraud prevention and administrative costs to PSPs as well as the potential increase in payment friction, prudential risk and reduced competition and innovation and the impact of moral hazard, the benefits of the policy were likely to outweigh the costs.
- 1.32** We also concluded that a maximum level of reimbursement set at £415,000 would be likely to lead to a small increase in the net benefits overall relative to our June 2023 CBA where no maximum limit was proposed.
- 1.33** Subject to consultation responses, our current assessment of the proposed change to the maximum limit is that it will likely impact some of these costs and benefits mentioned in Table 2 but have no effect on others. We expect that the reduction in costs as a result of the proposed maximum claim limit of £85,000 will likely outweigh the small decrease in benefits and therefore continue to deliver net benefits from the reimbursement policy.
- 1.34** The proposed approach would continue to deliver strong incentives for PSPs in-scope of the policy to take steps to prevent fraud and invest in anti-fraud measures while enabling them to manage the potential risks associated with a higher limit – including prudential risks.
- 1.35** It is our view that the approach we are proposing effectively balances the need to protect UK consumers, building trust and confidence in UK payment systems, against the potential impacts of the policy on firms. As we have set out, we intend to review the proposed limit and approach after the policy has been in place for 12 months as part of wider plans to evaluate the policy.

© The Payment Systems Regulator Limited 2024
12 Endeavour Square
London E20 1JN
Telephone: 0300 456 3677
Website: www.psr.org.uk

All rights reserved