

Cost benefit analysis

Faster Payments APP scams
reimbursement requirement:
changing the maximum level
of reimbursement

October 2024

1 Cost benefit analysis

We've assessed the impacts of our proposal to change the maximum claim level 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.

Based on quantitative and qualitative factors available at this time, it is uncertain whether setting the maximum reimbursement level to £85,000 will result in our APP scams reimbursement policy delivering higher or lower net benefits relative to the baseline counterfactual, where the maximum level is £415,000. This is largely because the impact of prudential risk on competition and innovation is uncertain. But the vast majority of claims (over 99%) will continue to be reimbursed under the policy, enabling the delivery of critical consumer protections.¹ The level will ensure that payment service providers (PSPs) can deliver the policy while effectively managing their own risks and those for consumers.

Despite the uncertainty of the overall costs and benefits of moving from a £415,000 reimbursement level to a £85,000 reimbursement level, we consider it likely that a maximum reimbursement level of £85,000 will result in our APP scams reimbursement policy delivering higher net benefits than if there was no maximum reimbursement level.

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 Our calculations indicate that a maximum limit of £85,000 would cover over 99% of APP scam claims and protect consumers from around 90% of APP fraud losses. The share of APP fraud claim values not covered by this limit is about 10%. We analysed 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.

- 1.3** 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. We have now completed this review (the findings of which we set out in more detail in chapter 3 of CP24/11.³
- 1.4** As part of this, we worked closely with the FCA. It has been considering and monitoring the potential impact of the maximum level of reimbursement on firms, which has supplemented our evidence base. We have also heard feedback from some stakeholders about the risks and impacts of the current maximum level of reimbursement. This includes: prudential risk, firms' ability to maintain their capital requirements, the cost of capital and availability of investment, and the competitiveness of UK firms. However, we did not receive any new evidence to demonstrate the existence of these risks.
- 1.5** Having considered the responses received as part of our consultation and existing evidence, we are changing the maximum level of reimbursement to £85,000, set to the current FSCS limit.⁴ 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 level in chapter 4 of the accompanying policy statement.
- 1.6** 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 the data and information available to us to assess whether to change the maximum level of reimbursement or our approach to setting it.

Baseline

- 1.7** We have analysed the impact of changing the maximum claim level, and setting it to the current FSCS limit of £85,000, compared to the current level of £415,000 as set out in our December 2023 policy statement.⁵ 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.
- 1.8** Our assessment is based on both qualitative and quantitative evidence. We have used data on high-value APP scam cases⁶ as the basis for our analysis. The analysis is supplemented by data on all APP scams received in 2023.⁷
- 1.9** While we have not been able to quantify the likely impacts of all of the relevant costs and benefits of our decision, we have been able to indicate the likely scale of any impact.

3 [CP24/11 Faster Payments APP scams: Changing the maximum level of reimbursement](#), (September 2024)

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

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

6 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.

7 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.

- 1.10** As we did not consult on any other specific values for the initial maximum claim level, we assessed the impact of setting the level to the current FSCS limit (£85,000) against keeping it at £415,000 (the baseline).
- 1.11** 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 any reimbursements resulting from 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.
- 1.12** Consistent with the approach taken in previous CBAs on the maximum reimbursement level, we have chosen to be neutral about any distributional issues of the reimbursement itself. One of our statutory objectives is to ensure that payment systems are operated and developed in a way that considers and promotes the interests of all the businesses and consumers that use them. Therefore, for the purpose of our CBA, we do not weigh PSPs or consumers differently or take account of specific vulnerability characteristics.

Respondents' views on the CBA

- 1.13** In [CP24/11 Faster Payments APP scams: Changing the maximum level of reimbursement](#), we sought views on the draft CBA. We received 31 responses from PSPs, industry bodies, consumer organisations and individuals.
- 1.14** Several respondents, including some PSPs, agreed with our position that the lower maximum reimbursement level is proportionate. However, many disagreed, stating that the level will still place excessive burden on firms, especially sending firms who would incur higher costs than under the FPS reimbursement rules if the case was taken to the FOS.
- 1.15** While many respondents to the consultation did not comment on the CBA, three respondents explicitly supported the CBA, 16 disagreed with it, ten both agreed and disagreed with elements of the CBA and two expressed the view that the analysis was insufficient or lacking necessary details. We summarise the key issues raised in the responses below.

Admin costs

- 1.16** Several respondents disagreed with our view that the admin costs associated with the change in policy would be negligible. One respondent noted that the costs for some PSPs would likely stretch into the millions of pounds, while another respondent noted that some smaller firms will have to manually handle claims and collate data, which can be operationally expensive.
- 1.17** Some respondents also noted that the PSR failed to include the additional costs borne by PSPs as a result of cases over £85,000 being referred to the FOS. This would likely include an extra 8% interest payment calculated from the date of the payments to the date of settlement, as well as additional administration costs. The FOS also noted the potential resource impacts on it as a result of an anticipated increased caseload when compared to a £415,000 maximum level.

Psychological costs to consumers

- 1.18** Two respondents commented on the issue of psychological costs to consumers. One respondent stated that the PSR's policy does not work as an effective consumer protection as the consumer will still have gone through the psychological harm of falling victim to a scam, beyond the financial loss. It was also highlighted that the psychological and emotional harm is heightened with the lower reimbursement level, as victims would be reimbursed only up to a lower maximum claim level of £85,000.

Prudential risk and reduction in competition and innovation

- 1.19** One respondent stated that our analysis does not detail what the specific additional costs to industry were considered and how this would actually impact competition in the sector.

Other issues raised

- 1.20** Many stakeholders also raised concerns regarding the impact on consumers and in particular the distribution of the impact. It was noted that there was no assessment of the type of consumers who will be impacted. One stakeholder also stated that the lower maximum reimbursement level will reintroduce an imbalance for a greater number of customers, whereby they may receive a different outcome depending on which PSP they bank with. The lack of data on vulnerable consumers was also noted by one respondent.
- 1.21** Some respondents commented that the CBA excludes the significant cost of reimbursement borne by PSPs. In addition, it was noted that the data does not include data from small firms.
- 1.22** Several stakeholders also stated that while they believed that the lower level will not limit PSPs' investment in fraud prevention, it risks exacerbating the imbalance of investment currently seen across the industry, with firms that send more payments having greater incentives to invest in anti-fraud measures. One respondent stated that a level of £85,000 was still disproportionately high and means that PSPs with otherwise low levels of fraud would have to incur significant investment costs due to the prospect of having to pay out to the maximum level.

Our assessment of the responses

Admin costs

- 1.23** We have updated our assessment of the administrative costs of moving to a £85,000 level in paragraphs 1.43 to 1.48. In this assessment, we consider PSPs' own operational costs, the per claim FOS administration fee, and any interest owed to consumers on the final reimbursement amount. One respondent noted that the admin costs associated with a late change to the maximum claim level could be in the millions for some PSPs. We have not received any evidence from PSPs to understand how significant these costs are but have done our own analysis using data submitted to us on high-value scams. We have also considered the potential increased administration costs to FOS of managing high-value scams that are not covered by the £85,000 reimbursement level.

Psychological costs to consumers

- 1.24** Lowering the maximum reimbursement level to £85,000 will reduce the amount that consumers are assured to receive as mandatory reimbursement. However, a maximum reimbursement level of £85,000 still covers the majority of APP scam cases that take place over Faster Payments – less than 0.2% of APP scam cases in 2023 exceeded a total claim value of £85,000. While reimbursement cannot remove all the psychological harm associated with being the victim of an APP scam, the reimbursement policy mitigates the impact of this cost for a majority of victims by assuring reimbursement of up to £85,000 and providing firms with the right incentives to make fraud less likely to happen in the first place. Additionally, consumers could go to the FOS to seek full reimbursement, thereby further mitigating some of the psychological strain associated with the direct loss of funds.

Prudential risk and reduction in competition and innovation

- 1.25** The data and analysis we have seen so far does not indicate that a lower level will impact the prudential risk of smaller PSPs. However, in theory, a lower reimbursement level could be expected to reduce the number of high-value scams smaller PSPs will be liable for, and therefore – at the margin – their prudential risk. We acknowledge the inherent uncertainty of our policy on the prudential risk of individual PSPs.
- 1.26** At this time, we have not seen evidence or analysis to indicate how changes in prudential risk will determine competition and innovation in the payments sector. We considered two main ways a reduction in prudential risk resulting from the lower reimbursement level could have an impact:
- a. Directly, by avoiding the exit of a sufficient number of smaller PSPs to reduce the degree to which the payments market is considered competitive or innovative.
 - b. Indirectly, by avoiding weaker investor confidence under the higher level, which could reduce investment in the sector and therefore the ability of existing PSPs to compete and innovate or for new PSPs to enter the market.
- 1.27** We have provided details of our the qualitative and quantitative assessment of prudential risk and any direct or indirect impacts on competition and innovation in paragraphs 1.51 to 1.55 of the costs section and updated our assessment of these costs.

Other issues raised

- 1.28** In our draft CBA framework, we note that we will consider whether to assess first-order transfers case-by-case as impact-neutral in terms of welfare, because their immediate impacts cancel each other out in aggregate.⁸ As stated in paragraphs 1.11 and 1.12, for the purpose of this CBA, we do not include the direct costs and benefits of reimbursement in our assessment and have chosen to be neutral about the distribution of reimbursement between sending PSPs, receiving PSPs and consumers.

⁸ [CP24/12 Draft statement of policy on our cost benefit analysis framework](#), (September 2024), paragraph 5.33

- 1.29** Lowering the maximum claim level to £85,000 could result in some victims of APP scams facing inconsistent outcomes for reimbursement if some banks choose to voluntarily reimburse their customers for claims over the level, based on their own risk tolerance. However, even with the lower level, the policy protections would continue to provide consistency in outcomes for victims of APP fraud in 99.8% of cases.
- 1.30** We examined the available data to estimate the coverage offered by the maximum claim level. This data was collected from the 15 largest UK firms as part of our pre-implementation review on the incidence and impact of high-value scams. These firms represent above 95% of Faster Payments transactions sent. Our initial survey of smaller PSPs revealed that these firms did not collect this data at the level of granularity needed for our analysis and could therefore not feed into our pre-implementation review.
- 1.31** Regarding some respondents' comments on the impact of the lower level of £85,000 on PSP investment in APP fraud prevention, we recognise the importance of strong incentives for both sending and receiving PSPs to detect and prevent fraud. Even with the lower level, the policy will continue to deliver strong incentives on PSPs to invest in fraud prevention, given that less than 0.2% of APP scam case, by volume, and 10% of APP scam claims, by value, would not be covered by the £85,000 level.

Overall assessment of the costs and benefits

Impact on coverage of claims

- 1.32** We have assessed the impact of moving to a £85,000 level on the value and volume of APP scams that would be covered by this reimbursement level. This also helped us assess the magnitude of the costs and benefits relative to a £415,000 level.
- 1.33** 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 level at £415,000 and £85,000 would impact the level of reimbursement covered by the Faster Payments APP scams reimbursement rules.
- 1.34** Overall, a maximum claim level of £85,000 would protect consumers from around 90% of APP fraud losses, but reduce the level of APP scam reimbursement by about eight percentage points (or c. £30m million per annum) relative to a level of £415,000. In our analysis we consider the direct 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 have considered the effect of this reduced level of reimbursement on PSP and consumer behaviours and incentives.

Table 1: Coverage of high-value APP scams by the maximum claim level⁹

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

1.35 In the sections below we examine how the level of reimbursement covered impacts the different benefits and costs experienced by consumers, PSPs and other users of payment systems.

1.36 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 level:	£85,000
Benefits	
PSP incentives to prevent APP fraud	Negligible change
Implementation benefits	Small increase
Costs	
Investment in fraud prevention	Negligible change
Admin costs	Small increase (£3.3-£5.1m per year)
Friction	No effect
Psychological costs to consumers	Increase

9 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

Moral hazard	Uncertain but negligible change
Prudential risk and reduction in competition and innovation	Unable to conclude
Overall impact	Unable to conclude

Benefits

PSPs' incentives to prevent APP scams

- 1.37** Relative to the current maximum claim level of £415,000, a lower level 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 and consumers' ability to seek reimbursement through the FOS, 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 level.

Implementation benefits

- 1.38** Some PSPs have suggested a £415,000 reimbursement level may reduce the funds they are able to allocate for investments in anti-fraud measures. We have not seen evidence to support this but acknowledge that, in theory, reducing the maximum claim level 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. We consider the increase in this benefit would be small.

Costs

Investment in fraud prevention

- 1.39** We have considered whether PSPs' reduced reimbursement costs – due to a lower maximum level – could reduce their investment in fraud detection and prevention, as a means to reduce their overall costs.
- 1.40** As discussed in paragraph 1.37, we do not expect PSPs' incentives to invest in fraud prevention to be significantly affected by a maximum level of £85,000 relative to £415,000, particularly given that claims above £85,000 accounted for less than 0.2% of APP scam cases in 2023 by volume. Therefore, the impact on their costs will be limited.

Admin costs

- 1.41** The decision to align with the current FSCS limit (£85,000) could result in an increase in operational costs for PSPs. This is because PSPs may need to 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 level of £85,000.
- 1.42** 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 a PSP’s own claim management resources is likely to be quite small.

1.43 We have updated our analysis to also consider the potential additional costs – operational costs, FOS administration fees, and interest owed to consumers – that sending PSPs might face as a result of cases above £85,000 being taken to the FOS. We have used the data on high-value scams received in 2023 to estimate fees and interest costs.¹⁰ For the purposes of this analysis we have assumed that:

- All APP scam cases above £85,000 are taken to the FOS where the sending PSP is found to be fully liable up to £430,000. The FOS does not receive a complaint against the receiving PSP.
- The FOS charges the sending PSP a flat charge of £750 per complaint.
- All APP scam cases are refunded up to £85,000 under the reimbursement rules, and this liability is shared equally between sending and receiving PSPs.
- Interest is calculated at the rate of 8% per annum on the full amount owed between £85,000 and £430,000. We have made a conservative assumption that, on average, it would take the FOS a year to make a ruling on these cases.
- The data on high-value scams used for this analysis came from the 15 UK largest firms, representing above 95% of Faster Payments transactions. We extrapolate these costs for the industry as a whole by assuming that the share of high-value scams over £85,000 for the rest of the industry is proportionate to their share of Faster Payments transactions sent.

Table 3: Fees and interest costs for cases over £85,000

	Data for 15 firms	Extrapolation to industry
Fees owed on cases taken to FOS - Flat charge @£750 per case		
Number of cases > £85,000 in 2023	411	433
Total annual cost to industry	£308,250	£324,474
Interest owed on cases taken to FOS - Interest on amount @ 8% SI a year		
Total value of cases above £85,000 in 2023	£72.0m	£75.8m
Total amount not covered with £85k cap but covered by FOS limit of £430k	£29.8m	£31.3m
Interest costs	£2.4m	£2.5m
Total	£2.7m	£2.8m

¹⁰ See footnote 9.

1.44 As presented in Table 3, we estimate that the lower maximum level of £85,000 could cost sending PSPs an additional £2.8m in fees and interest if all victims of high-value APP scams (over £85,000) were reimbursed up to the maximum FOS limit relative to a maximum reimbursement level of £415,000. We accept this estimate assumes interest is owed for one year only and cases may take longer to resolve.

1.45 We have not received evidence from PSPs as to the scale of operational costs they might face to manage the cases sent to the FOS. However, drawing on our illustrative assessment of the potential scale of the incremental administrative costs for PSPs in our previous December 2023 cost benefit analysis, we have estimated the operational costs of cases above £85,000 that are taken to the FOS against the baseline scenario where only cases above £415,000 are taken to the FOS.¹¹ We have assumed that:

- Costs will be (broadly) proportionate to sending PSPs' liabilities, which we assume to be 50% of the claim value up to the maximum reimbursement level (£85,000 as opposed to £415,000 in the baseline), and 100% of the claim value above the maximum reimbursement level.
- Costs are estimated as a 5% share and 1% share of the sending PSPs' liability.

Table 4: Operational admin costs due to cases taken to FOS

Value of total high-value APP fraud sent from each PSP	Number of PSPs in category	Total liability - baseline (cases over £415,000)	Total current liability – (cases over £85,000)	Net admin costs - 5% of sending PSP liability	Net admin costs - 1% of sending PSP liability
£10 million to £20 million	2	£8.7m	£27.3m	£929,148	£185,830
£5 million to £10 million	3	£2.3m	£20.2m	£894,553	£178,911
£1 million to £5 million	3	£0m	£5.1m	£256,508	£51,302
£500,000 to £1 million	3	£0.2m	£1.5m	£66,843	£13,369
£100,000 to £500,000	3	£0m	£0.3m	£15,119	£3,024
Less than £100,000	1	£0m	£0m	£0	£0
Total for 15 firms	15	£11.3m	£54.5m	£2.2m	£432,434
Industry extrapolation	c. 900 PSPs	£11.9m	£57.4m	£2.3m	£455,194

11 [PS23/4 Fighting authorised push payment scams: final decision, \(December 2023\)](#), Annex 1, paragraphs 1.58 and 1.59

- 1.46** On the basis of these assumptions, our estimates produce a wide range of incremental operational costs – between £450,000 and £2.3m a year – for industry as a whole.
- 1.47** Overall, our estimation of total operational costs ranges between £3.3m and £5.1m per year. While these are not precise estimates, they do provide an illustration of the potential overall scale of the administrative costs faced by PSPs.
- 1.48** We also acknowledge that some firms will already have incurred additional costs – related to amending training materials, changes to communication plans etc. – as a result of the timing of our consultation and the decision. However, we expect the costs to PSPs in this respect to be minor. Additionally, the FOS could potentially face higher resource costs than originally envisaged due to a higher caseload owing to the lower maximum level, but we expect these costs to be reflected in the wide range of operational cost estimates in Table 4 above.

Prudential risk and reduction in competition and innovation

- 1.49** Our cost benefit analysis accompanying the December 2023 policy statement included an assessment of the prudential risk of setting the maximum claim level at £415,000.¹² We considered industry’s concerns about the potential impacts of this level on smaller PSPs, especially payment firms and electronic money institutions, most of whom have capital requirements set at €350,000.¹³ This could create the potential for loss-making or market exits for these firms, indirectly deterring entry and expansion of smaller firms, thereby reducing competition and innovation in the payments sector. Industry also raised concerns that the proposed maximum reimbursement level could 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).
- 1.50** Based on APP fraud data that we analysed at the time, we found that small PSPs did not see APP fraud values anywhere near £415,000, on average, and that claims at such levels within the APP fraud identified at those firms were rare. Therefore, we considered that the likelihood of small PSPs having a high degree of prudential risk due to high APP fraud levels was low and consequently that their risk of exiting the market due to a high-value APP scam was 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.
- 1.51** Nonetheless, we have listened to ongoing industry concerns about the prudential impact of our proposed policy. We have done further work, including engaging further with the FCA, to better understand the potential prudential risk of the reimbursement policy. The data we have seen at this stage does not indicate that a lower maximum reimbursement level will have an impact on the prudential risk of PSPs. The analysis we have seen includes that:
- a. High-value claims remain rare, even among the largest PSPs. Based on data collected from the 15 largest firms who comprise 95% of all FPS transactions, there were 411 high-value APP scams in 2023.

¹² PS23/4, [Fighting authorised push payment scams: Final decision](#) (December 2023), Annex 1

¹³ Some payment institutions may have lower initial capital requirements.

- b. The probability of a small PSP being exposed to a high-value APP scam is low.¹⁴ Based on the data we collected, small PSPs account for less than a third (31%) of the recorded high-value APP scams received (by value) and the number of PSPs impacted was 37.¹⁵ There are 900 PSPs operating in Faster Payments. There are steps PSPs can take to mitigate the risks of high-value APP fraud transactions moving through their accounts, although we recognise firms' reduced ability to use transaction limits to prevent high-value scams.
- c. Reducing the maximum reimbursement level to £85,000 would still mean these PSPs would still be liable for a portion of the high-value fraud up to the maximum level. PSPs could also still be liable for awards made by the FOS (up to the statutory limit of £430,000), although the likelihood of the FOS awarding against a receiving PSP is lower.

1.52 Based on this limited data and analysis, we would not expect a reduction in the maximum reimbursement level to alter the likelihood of a small PSP being at risk of exiting the market. However, we recognise as a general point that a lower maximum reimbursement level could reduce small PSPs' liability as it reduces the likelihood of them being required to reimburse high-value APP scams. This could be a contributory factor to an individual PSP's solvency.

1.53 We have considered the impact of any change in prudential risk on competition and innovation in the sector. This includes any direct impacts on firms exiting the market, thereby reducing the number of competitors and degree to which the remaining firms compete. We have also considered indirect impacts on investor confidence, and how this may affect investment and innovation from existing firms as well as potential new entrants.

1.54 As noted above, our analysis does not indicate that a lower maximum level would necessarily reduce the prudential risk to small PSPs or that a significant number of PSPs would be affected. This would suggest the lower maximum level will not have a direct impact on competition in the sector. However, we recognise that there is inherent uncertainty about the impact of our policy on the market, which cannot necessarily be captured in the historic data we have examined.

1.55 We recognise the logic between prudential risk, investor confidence and competition and innovation in the payments market, and acknowledge that there is strong sentiment from some in the industry on this point. However, we have not seen any evidence to make an assessment of the likely impact, in practice, of the lower maximum reimbursement level and are unable to conclude on this point.

Moral hazard

1.56 A lower maximum reimbursement level could, in theory, reduce moral hazard as it may increase customer caution in high-value transactions. However, the impact of this change on moral hazard is difficult to assess given that both £85,000 and £415,000 could be viewed as significant losses for consumers. Given these factors, we would expect the reduction in moral hazard among customers to be on the lower end but recognise it is uncertain. Either way, we do not expect it to have any impact on the overall result of our CBA.

14 A small PSP is defined in this analysis as any PSP other than the 15 largest firms who submitted data for this analysis that is not a fully licensed UK bank.

15 Table 1 above shows that APP fraud cases over £85,000 account for 19% of total APP fraud by value. Therefore, we estimate that APP fraud over £85,000 sent to small PSPs in our data accounts for just under 6% of APP fraud (by value).

Friction

1.57 A higher maximum reimbursement level – 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.¹⁶ However, we note that the maximum level applies at the claim level, and 98% of high-value claims were composed of multiple payments. Reducing the maximum level 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. Therefore, we consider the impact of lowering the maximum reimbursement level to £85,000 relative to the baseline of £415,000 is likely to be the same.

Psychological costs to consumers

1.58 A maximum level of £85,000 will likely increase the psychological and emotional distress experienced by APP scam victims relative to a £415,000 maximum reimbursement level, as higher-value APP scams will no longer be subject to the requirements of our policy. This impact will be significant for individuals whose loss exceeds the level of protection provided by this policy, particularly where FOS redress is not available. Our assessment takes into account that the number of scams affected is relatively small (less than 0.2% of all APP scams claims).

Current view

1.59 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.

1.60 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 level was proposed.

1.61 Our assessment of the change to the maximum reimbursement level 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 lowering the maximum claim level to £85,000 will likely lead to a small increase in benefits, offset to some degree by higher net admin costs, while the impact on other areas will be negligible. We believe that the reimbursement policy with the lower maximum reimbursement level would continue to deliver strong incentives for PSPs in scope to take steps to prevent fraud and invest in anti-fraud measures.

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

- 1.62** There is inherent uncertainty about the impact of our policy on the market. This cannot necessarily be captured in the historic data we have examined and means we are unable to conclude on the impact of a £85,000 maximum reimbursement level on competition and innovation relative to a £415,000 maximum reimbursement level.
- 1.63** We are therefore, overall, unable to conclude whether the maximum reimbursement level of £85,000 will deliver higher or lower net benefits than the £415,000 level.
- 1.64** The CBA is one of several inputs into decision-making, and we consider it alongside other relevant factors and pieces of evidence. It is our view that the change to the lower maximum reimbursement level effectively balances the need to protect UK consumers, building trust and confidence in UK payment systems, against the potential impacts of the policy on PSPs. We consider that taking a precautionary approach at this stage is appropriate. This was a carefully balanced decision, which has involved the exercise of our regulatory judgement. As we have set out, we intend to review the proposed maximum reimbursement level and approach after the policy has been in place for 12 months as part of wider plans to evaluate it.

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