Payment Systems Regulator

Policy statement

APP scams: Measure 1

Collection and publication of performance data

March 2023

PS23/1

Contents

1 Executive summary

1.1 We are directing 14 payment service provider (PSP) groups to collect and report on data on three metrics of performance of their management of authorised push payment (APP) scams. These three metrics are:

- **Metric A:** The proportion of APP scammed customers who are left out of pocket.
- **Metric B:** Sending PSPs' APP scam rates, as a measure of fraud incidence at the PSP.
- **Metric C:** Receiving PSPs' APP scam rates (not including any money that has been returned to the victims)

1.2 We will be publishing the results of the 14 PSP groups on the PSR website on a six-monthly basis.

1.3 We are collecting and publishing Measure 1 data to provide greater transparency about PSPs' APP scam levels, fraud prevention and reimbursement levels. This will make PSPs more accountable for their own performance, improve the level of reimbursement for victims of APP scams, and encourage further fraud prevention measures by placing reputational incentives on both sending and receiving PSPs.

1.4 The causes of scams are complex and as fraudsters continue to evolve their methods, we recognise that there is no simple solution. This is why our work on Measure 1 is part of a package of measures to improve the prevention of APP scams and improve outcomes for victims. Under our Measure 3 proposals we are considering requiring PSPs to reimburse victims of APP scams in all but exceptional circumstances. Our proposals are considering splitting reimbursement costs 50:50 between the receiving and sending PSPs. Ahead of the implementation of Measure 3, we consider that Measure 1 will provide the necessary incentives for PSPs to take steps and improve their fraud prevention measures. It will also allow help us to monitor the implementation of our reimbursement proposals.

1.5 In addition, our work on Measure 2 seeks to improve intelligence sharing between PSPs about the riskiness of payments. We expect that once this measure is in place it will further aid in the prevention of APP scams.

1.6 Under Measure 1, the scope of the data that we collect will be payments from UK consumer accounts only and over Faster Payments. The 14 directed PSPs groups that we will collect and publish data from are:

- AIB
- Barclays
- HSBC
- Lloyds
- Metro Bank plc
- Monzo Bank Limited
- NatWest Group

- Nationwide Building Society
- Northern Bank Limited
- Santander UK plc
- Starling Bank Limited
- The Co-operative Bank
- TSB Bank plc
- Virgin Money UK plc

1.7 This will cover over 95% of consumer payments, by both volume and value, sent via Faster Payments.

1.8 The data that we collect from the 14 PSP groups will provide important information on the level of APP fraud reported by the customers of these PSPs and their levels of reimbursement. We will also publish data of PSPs who are the largest recipients of APP scam payments from the directed PSPs.

1.9 Over time, the way PSPs report their data is likely to change. Once Measure 3 is implemented the Metric C validation process may be replaced by a fuller process for checking information between sending and receiving parties to support the liability split between sending and receiving PSPs. In addition, Metric A and B data may be collected by Pay.UK in the future.

1.10 For future data collection cycles, we are also considering the collection and publication of APP scams origination data, such as from social media platforms, telecoms companies and internet-related services. We will work with other stakeholders within industry, government, and other regulators to consider the channels available to collect this data and how it might best be utilised to prevent APP scams.

2 Introduction

2.1 In November 2021, we published a consultation on a package of measures to combat APP scams. We invited feedback on a proposal to publish three metrics of APP scams data, which we referred to as Measure 1.

2.2 We consulted on requiring the 12 largest PSP groups in the UK, and the two largest PSPs in Northern Ireland outside those groups, to publish a balanced scorecard of data on APP scams performance on a six-monthly basis. We proposed publishing the data in the form of a comparison of performance across PSPs.

2.3 This will provide greater transparency about PSPs' APP scam levels, and fraud prevention and reimbursement levels. We expect that this will improve the rate of reimbursement for victims of APP scams, and encourage further fraud prevention measures by placing reputational incentives on both sending and receiving PSPs.

2.4 We consulted on three metrics:

- **Metric A**: The proportion of APP scammed customers who are left – fully or partially – out of pocket.
- **Metric B**: Sending PSPs' APP scam rates.
- **Metric C:** Receiving PSPs' APP scam rates (not including any money that has been returned to the victims).

2.5 PSPs have taken steps to tackle APP scams, including measures to increase customer awareness and new warning messages in the payment process. PSPs have analysed data to identify unusual account behaviours and prevent fraudulent activity. However, industry can and should do more.

2.6 Respondents to our consultations generally supported the collection of scam data but had concerns about publication and potential difficulties with implementing Metric C, issues around timing, and some asked whether the resource and costs needed were proportionate to the benefits of reporting the data.

2.7 We engaged with stakeholders extensively throughout 2022, and we have considered all of the views and representations put forward.

2.8 We consider that Metrics, A, B, and C are the right metrics to collect and that publishing the results is the most effective way to fulfil our aims. This combination of metrics will create reputational incentives for PSPs to improve their fraud prevention controls and reimbursement rates. These metrics also offer the best combination of simplicity and information to give consumers greater transparency of the comparative performance of PSPs, so that they can make informed decisions about who they bank with.

2.9 We have made a number of adjustments to the process and the guidance provided.

2.10 We recognise that the industry has taken some steps to tackle APP scams, including measures to increase customer awareness, such as the widespread adoption of Confirmation of Payee (CoP) to give consumers greater assurance that they are sending money to the right people when setting up a new payment. PSPs have also analysed data to identify unusual account behaviours and prevent fraudulent activity. However, we think the industry can and should do more. We think that Measure 1 will create the right incentives for this to happen.

2.11 We consider that our response is proportionate, as[1]:

- Making comparative data available will incentivise industry to act quickly and take steps to increase reimbursement and prevent APP scams in advance of other policy measures having an impact, including the proposed system of mandatory reimbursement and the further extension of CoP checks in 2024.
- Even if these other policies are implemented in 2024, there is still an incremental benefit to having publicly-available data, for example with assisting consumers in making informed decision about where to bank.
- Given our focus in data gathering is on the largest PSPs (the 14 directed sending PSP groups and those PSPs that receive the largest amount of APP scams), our approach covers the vast majority of APP scams, of Faster Payments transactions and of consumers, while placing minimal or no burden on smaller PSPs and those with low levels of fraud.
- The incremental costs on those PSPs that do need to provide data – or engage in data validation – are not likely to be substantial, as these PSPs already collect similar data and submit it to regulators (including the PSR) and industry bodies.

Stakeholder engagement

2.12 We consulted extensively with stakeholders in the following ways:

- **November 2021:** We consulted on Measure 1 proposals.
- **February 2022:** We circulated draft trial data-collection materials for comment.
- **March 2022:** A stakeholder meeting to discuss the comments we received.
- **June 2022:** A voluntary data-collection trial with seven participants.
- **July 2022:** A stakeholder meeting to discuss the results of the data-collection trial.
- **August 2022:** We circulated draft reporting guidance and an updated data-collection template on recoveries and reimbursements.
- **November 2022:** A stakeholder meeting to discuss a short consultation on a new process for Metric C.
- **November 2022:** We circulated a new working draft of the reporting guidance and the template to stakeholders.
- **December 2022:** We reconsulted on a new approach to the Metric C process.
- **February 2023:** We published a consultation on the reporting guidance and template.

1 These points are set out in more detail in section 5, where they are also relevant to our cost benefit analysis.

2.13 We would like to thank all stakeholders who took the time to respond to our consultations and other stakeholder activities. We look forward to your continued engagement as we take forward this important work.

3 Stakeholder views

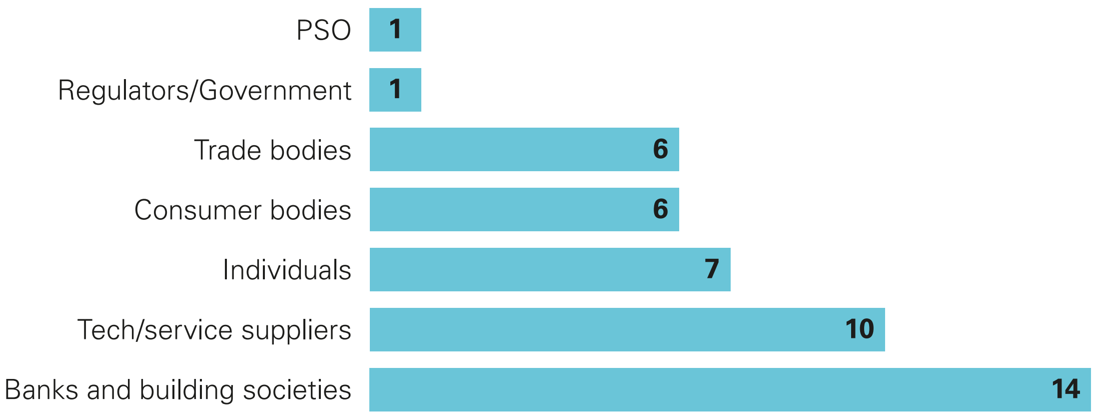
We consulted extensively with stakeholders, who raised these key issues:

- Concerns regarding the collection and publication of Metric C, including how this data would be validated.
- Concerns that publication of data would be informing fraudsters where to target their activities.
- Difficulties in the attribution of scams to indirect PSPs and the responsibilities of sponsor PSPs in Measure 1 reporting.
- Differences between PSPs in approaching the reporting of recoveries, reimbursements and refunds.
- Questions on our proposal for resolution of disputes arising from the publication of Metric C data.

November consultation

3.1 In November 2021, we requested views on our initial proposals and received 45 responses to our consultation. Most were from PSPs, financial technology firms and third-party service providers. We also received responses from consumer bodies, industry trade bodies, private individuals, regulatory/governmental bodies, and a payment system operator (see Figure 1).

Figure 1: Responses to our November consultation



Views on the overall policy

3.2 We asked respondents to give their views on our policy proposals. In summary:

- Nine respondents agreed with the proposals as set out, they noted that Metric C represented the missing link for fraud reporting and that the three metrics together should provide a clear picture of performance.

- 16 respondents agreed but had specific concerns which they felt should be resolved.
- Six respondents did not agree with the proposal as set out.

Views on the proposed metrics

3.3 We received 32 views on our proposed metrics. Not all respondents gave views on all three metrics. We set out the views below.

Metric A

3.4 Twenty-eight respondents supported the publication of Metric A.

3.5 Four respondents did not agree. Some were concerned that for APP scams where a PSP was not to blame, there was no recognition of this in the calculation of Metric A. Others noted that the metric implied that 100% reimbursement was the target level, which may not be the case (for example, because of no-blame cases).

Metric B

3.6 In relation to Metric B, 28 respondents supported the publication while only three respondents were opposed to it.

3.7 Some of the concerns focused on the data being of limited value, as it would reflect the scams that had been reported rather than the total scams taking place.

3.8 Other respondents stated that this information would be difficult for consumers to interpret, given the different amounts of transactions received by different sized PSPs and the potentially increased volatility of small PSPs.

Metric C

3.9 24 respondents agreed with the publication of Metric C and seven were opposed. While the majority of respondents agreed with its publication, a number of respondents qualified their view by stating that additional features would need to be in place to support the publication.

3.10 This included greater clarity around definitions and guidance being available to ensure a consistent approach by PSPs. Other respondents also suggested that there should be recognition of the different types of scams that take place and their relative values and frequency. Five respondents suggested that our reporting should acknowledge the point of origin of APP scams, such as social media or telecoms firms.

3.11 Of the respondents that did not agree with the publication of Metric C, respondents were particularly concerned that this data would indicate to fraudsters which PSPs had the lightest fraud protections.

3.12 Respondents also commented that Metric C would likely require significant industry input and that the timescales were unrealistic. Five PSPs commented that the proposed 20 days for validation of the data was not sufficient and that there would need to be a greater amount of time allowed to review and feedback data.

3.13 Other respondents queried whether consumers would be able to interpret this information and whether it would help them make decisions. They told us that Metric C data will be indicative of the prevalence of fraudsters' accounts hidden within the receiving PSP's customer base. (These are the vehicle by which fraudsters can collect the funds from their scam). However, a customer's decision as to where to open or hold their account or to switch to another provider is unlikely to be influenced by what is happening at receiving PSPs, since customer's funds are held at the sending bank. Respondents also thought that, if a customer were a victim of an APP scam, the bank that the fraudster used would be irrelevant to a customer. In other words, a customer is unlikely to abandon (or be more cautious about engaging in) a potential scam payment if they know that the destination PSP may have a higher level of fraudster accounts.

3.14 Respondents also told us that there could be issues identifying smaller receiving PSPs and being able to attribute transactions to them.

3.15 Two respondents also told us that the requirements could have serious financial costs for smaller PSPs. In turn, these costs might impact competition by raising barriers to entry, which could place smaller and new entrant PSPs at a significant competitive disadvantage. Other respondents were also concerned that there was no formal dispute or adjudication process in place to resolve disputes between PSPs when they had exposed potential inaccuracies in the data.

Reporting period and implementation timetable

3.16 Respondents were split on our proposals for directed PSPs to report their data on the six-month reporting period. Eight respondents agreed with the proposed reporting period and considered that the proposed six-month lag in reporting was also appropriate.

3.17 However, six respondents suggested that the six-month time lag was too long and would lead to data being considerably out of date. Respondents suggested that over time the reporting frequency could increase as respondents became more familiar with the process. For example, the data could be reported on a quarterly basis or even as often as monthly.

3.18 Five respondents told us that the timetable was reasonable except for the additional work to support the publication of Metric C. These respondents did not consider the validation of Metric C data would be feasible in the proposed timeline.

Proposed quality assurance

3.19 Fourteen respondents provided views on the proposals regarding the quality assurance process of Metric C. Suggestions included that the CFO could attest to the accuracy of the data before submitting to us.

3.20 Other suggestions included UK Finance collecting, collating, and cross-checking the reported data. Another respondent suggested that sending and receiving PSPs could submit their data directly to us. We could then complete the reconciliation and review process.

Issues raised from other engagement

3.21 In 2022, we continued to engage with stakeholders through various forums. Stakeholders repeated many of the issues raised previously. We will not repeat these. Below we set out the additional issues raised.

3.22 Respondents provided alternative proposals for Measure 1, including:

- using UK Finance reporting instead of a new reporting schedule and simply calculating the metrics based on existing outputs
- lengthening the proposed timescales for the implementation of Measure 1 by six months
- not publishing data relating to Metric C, but instead contacting poorly performing PSPs privately to address concerns

3.23 Respondents noted potential complexities around the treatment of banking groups versus brands and indirect participants and asked for clarity on the level of reporting and whether sponsor banks should report data on all their agency banks, or whether these agency banks would be responsible for their own reporting.

3.24 On Metric B, respondents noted that there should be recognition for prevented scams and that it would be difficult to separate the reporting of on-us transactions. On Metric C, respondents had concerns about the lack of any communication channel between sending and receiving banks to support Metric C.

3.25 Respondents also asked for clarity around the definitions of recoveries, reimbursements, refunds, and repatriations and how these would be treated in reporting. These discussions indicated that the proposed reporting treatment was not in line with some participants' existing approaches. Industry participants used at least three different reporting treatments, which would provide inconsistent results.

3.26 We decided that it was not feasible to align with the current UK Finance reporting. Instead, we will need to propose our own reporting approach and treatment.

Revised Metric C process consultation

3.27 While stakeholders generally supported the collection of APP scams data, there was concern around the publication of Metric C data. These concerns were focused on Metric C requiring better communication channels and data-verification processes between sending and receiving PSPs. Stakeholders also highlighted potential issues around timing, and some asked whether the level of resource and costs needed were proportionate to the benefits of reporting data.

3.28 Some respondents suggested that there would likely be a need for a secure communication channel and a central system to collect data relating to Metric C. Participants might also need further support for validation and dispute-resolution processes.

3.29 Consequently, we consulted on a revised Metric C process in December 2022. Our proposals were:

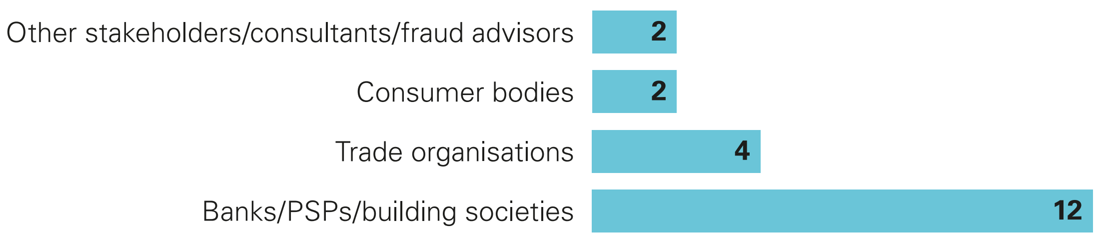
- We would no longer require sending and receiving PSPs to carry out validation of Metric C data. However, where receiving PSPs wish to do so, they should have the option to check their data.
- We would direct sending PSPs to assist receiving PSPs with checking the data.
- We proposed to publish Metric C alongside Metrics A and B in October 2023.[2]
- The publication of Metric C data would relate to the 20 most significant firms, by volume and by value, and those rankings would be based on absolute values or rates of fraud.

3.30 Our proposals intended to minimise the additional work and investment that PSPs might need to make, while still giving receiving PSPs an opportunity to challenge data where there are genuine concerns with the data's accuracy.

Consultation responses

3.31 This consultation received 20 responses from the following stakeholders:

Figure 2: Responses to Metric C consultation (CP22/5, December 2022)



3.32 Below is a summary of the views and issues raised:

- 13 respondents were broadly supportive of our approach but provided specific comments on the implementation of the proposal.
- Six respondents disagreed with our approach or the proposal.
- One respondent had no comments to provide on the proposal.

Timetables/timing

3.33 14 respondents commented on the proposed timetable. Most of these concerns related to the one-month window for firms to prepare and provide us with the data from sending banks.

3.34 A large proportion of these concerns also related to the one week allocated for checking data between the sending and receiving banks. Respondents noted that the review process would likely be intensive for the data teams within PSPs, especially if there were multiple requests made to sending PSPs to support receiving PSPs.

2 Following consultation and stakeholder engagement, we considered delaying publication of Metric C until a reconciliation process had been developed.

3.35 Respondents also said that smaller receiving PSP respondents had less resources to deal with checking data, and that enough time had not been allocated for smaller firms to contact agents and address concerns.

3.36 Other respondents highlighted that the timeline had not considered that providers of indirect access to Faster Payments would have additional processes with disaggregating their data.

3.37 One consumer body echoed earlier views that the six-month reporting cycles were too long and that PSPs could report data on a quarterly basis, which would be in line with other similar publications for consumers.

Indirect participants

3.38 We received views from nine respondents on our proposal for dealing with indirect participants, with the majority agreeing with our approach in principle.

3.39 Most PSP sponsor bank respondents noted that the proposal to use the Extended Industry Sort Code Directory (EISCD) data meant that their indirect PSPs could be separated. However, a small number did note that this still required some disaggregation of indirect PSP data.

3.40 One respondent noted that publishing data on indirect PSPs as well as sponsor PSPs risked distorting Metric C data and making the data difficult to understand. Another respondent was uncertain if we intended to contact indirect participants directly regarding their ranking in the publication. Another respondent noted there would not be enough time in the process for an indirect participant to challenge whether transactions had been falsely attributed to them by their sponsor bank.

3.41 Some indirect access providers noted that this disaggregation would require them to develop new processes which would incur additional costs.

Dispute resolution process

3.42 Nine respondents suggested that there should be some form of disputes resolution process. It was highlighted that it was unlikely that PSPs would be able to agree on the appropriate amendments to data after one week. Several respondents suggested the inclusion of a minimum threshold of impact for receiving PSPs to request a review of the data, to avoid a significant burden of reviewing processes. One respondent suggested that this should be set at 5%.

3.43 Several respondents mentioned the need for clear guidance and standards on how the process will work, to avoid disputes between firms. Respondents also said that it would aid the process if we could provide a template for data submissions for the purpose of reviews, to ensure a consistent approach from all PSPs in the review process.

Publication formats

3.44 13 respondents discussed the publication formats. This included requesting more details on the proposed publication formats and raising concerns with the proposed 'learn as you go approach'. They noted that, 'given the materiality of this data' it would be important for us to be transparent about our approach.

3.45 Respondents also suggested that we should work with the industry to agree the content and format of the data before the first publication date. It was also suggested that a further trial could take place to help inform the format and the content of the publication.

3.46 Respondents had differing views on whether the data should be presented based on absolute amount or rates of fraud. Some larger PSPs highlighted that rate of fraud should be used to control for the number of transactions taking place, while smaller PSPs suggested that absolute values should be published to better demonstrate where fraud was occurring.

3.47 It was also suggested that the PSR could use a central portal or an API, which would ensure consistency in data submissions across PSPs and allow extraction by the PSR and other journalists or consumer groups for publication.

3.48 One respondent highlighted the need for us to consult on the specific details of any publication formats, due to the complexity of the data and blurring of entities in our approach.

Publication shortlist

3.49 Five respondents commented on the proposal for shortlisting of PSPs for the publication of fraud data. One respondent expressed that we should present the data as a comprehensive list of PSPs and that there should be no shortlist.

3.50 There were also concerns about identifying the most significant 20 PSPs, for Metric C, as this could result in misinterpretation by consumers. It could be interpreted that a PSP not appearing in the data has effective controls, when it might just be that they did not meet the size threshold to appear in the data.

3.51 It was also suggested that we should base the shortlist solely on the incidence of fraud as a proportion of the number of transactions sent to that PSP.

Assurance

3.52 Three respondents considered that a CFO did not necessarily need to provide assurance of the data and that a senior individual could be appointed to carry out this role. Respondents considered that it was more practical to nominate an individual who was closer to the data to assure the data.

3.53 Another respondent considered that CFO assurance was the right level of sign-off to ensure the accuracy of the data.

Definitions in the direction and the reporting guidance

3.54 Three respondents provided suggestions for definitions used in the draft direction:

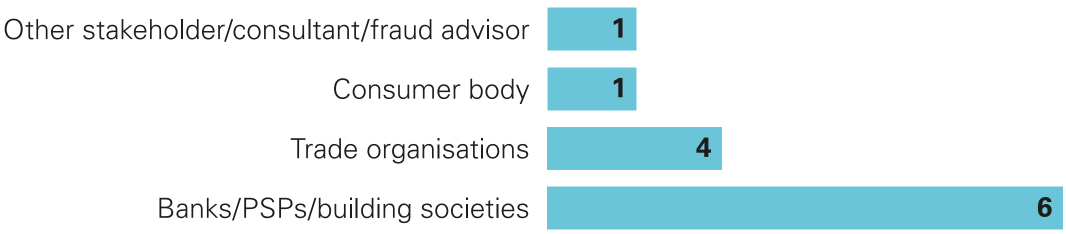
- **Payment Service Provider:** The definition in the direction appeared to contradict our objective of identifying the end recipient PSP. It was recommended that we use the definition of Account Servicing Payment Service Provider (ASPSP) under the Payment Services Regulation (2017). It was also noted that this definition does not align to the definition under the existing CRM code.
- **APP scam:** We should not use a different definition of APP scam from that used in the FCA Handbook as this would confuse the regulatory perimeter.

- **Case Closed:** Clarity was requested on what was meant by a scam being closed, as this determines whether the case and the scam payments fall within the reporting period.

Reporting guidance consultation

3.55 In February 2023 we consulted on our proposed reporting guidance to help PSPs provide us with the correct data. We received 10 responses from different categories of stakeholders (see Figure 3).

Figure 3: Responses to reporting guidance consultation (CP23/1, February 2023)



3.56 We have summarised the key issues raised by respondents (which differ to those already raised above):

- Respondents requested clarification around the definition of an APP Scam. They provided examples of scam types that would not be included within the definition of APP scams, including, Ponzi schemes, civil disputes, failed investments, me to me payments, and second-generation payment movements.
- Three respondents were concerned that ongoing updates to the guidance would lead to significant resource costs with updating their systems and procedures, and requested we provide sufficient notice for this.
- Three respondents noted that the proposed requirement to identify business customers that fall within the definition of microbusinesses was overly onerous and unfeasible for larger PSPs.

4 Our decision

We have taken stakeholders' views into consideration and have decided to issue Specific Direction 18, requiring the 14 largest PSP groups to collect and report on APP scams data for the following metrics:

- **Metric A:** The proportion of APP scammed customers who are left out of pocket.
- **Metric B:** Sending PSPs' APP scam rates, as a measure of outgoing fraud payments from the sending PSP.
- **Metric C:** Receiving PSPs' APP scam rates (not including any money that has been returned to the victims)

Summary of our decision

4.1 PSPs will be required to report on their APP scams data over a period of six months. This will allow trends to be identified and give directed PSPs, receiving PSPs and us, sufficient time to collect and review this data before it is published. In relation to the Metric C process, we have amended the timeline to ensure that sending and receiving PSPs have sufficient time to check data between themselves. We have set out the process for data collection, validation and publication at Figure 4**.**

4.2 The Metric C process gives receiving PSPs the opportunity to check and challenge the accuracy of the data provided by sending PSPs, where this would have a material impact, without the need to implement a full reconciliation process.

4.3 Sending PSPs will be required to assist receiving PSPs with checking the relevant data. Sending PSPs must also provide transparency to both receiving PSPs and to us following any adjustments to the data. If we consider that the information provided is materially inaccurate, we may require the sending PSP to alter its submission.

4.4 We have placed a 5% threshold to limit immaterial challenges. The threshold is based on a 5% change in a data field (for a given PSP pairing). This will reduce the burden of immaterial challenges – saving time without materially affecting the receiving PSP's position.

4.5 Sending PSPs should report receiving bank data to the PSR at the 'Short Bank Name' level, via the EISCD. However, they should be able to identify receiving PSPs and their data at a more granular level, such as sort code or 'Short Branch Title' level, upon request from receiving PSPs. For indirect PSPs, where the level of received APP scams cannot be separated out from the sponsor bank's results, we will publish aggregate results. Where sponsor banks can provide us with an accurate disaggregation of the data of their indirect PSPs, we will publish this.

4.6 The Metric C process requires CFO sign-off from the sending PSP before they submit the data to us. Sign-off at this level is appropriate, given the importance of this data to both consumers and receiving PSPs.

4.7 For Metrics A and B, we will publish the reimbursement rates and APP scam rates of the 14 largest PSP groups. By publishing results for the directed PSPs, we will cover over 95% of payments sent and of reported APP scam frauds.

4.8 For Metric C, we will shortlist the 20 PSPs accounting for the largest amount of fraud funds received.

4.9 We will finalise publication formats ahead of publication. This is to ensure that the data accurately portrays patterns as they emerge when the data is collected.

Figure 4: The revised Metric C process

1	**Initial data submission**	The 14 directed sending PSPs to submit Metric C data on receiving PSPs to the PSR.	Week 1-4	Month 1
2	**Aggregation and shortlist of 25 firms**	The PSR aggregates total results for each receiving PSP. And identifies shortlist of 25 most significant firms, that are likely to appear in the Metric C publication. These 25 firms are notified and provided with their Metric C data.	Week 5	Month 2
3	**Receiving PSPs optionally challenge data with sending PSPs**	Receiving PSPs can request from sending PSPs: • a full transaction file/detailed supporting data • evidence/breakdowns, in particular regarding frauds	Week 6-7	
4	**Sending PSPs provide requested data**	Sending PSPs to provide requested data to receiving PSPs.	Week 8-9	
5	**Receiving PSPs request changes**	Request to be supported by reasons and where possible evidence.	Week 10-13	Month 3
6a	**Sending PSPs resubmit data to the PSR**	Sending PSPs evaluate the evidence provided and amend data where appropriate. They then resubmit the data, accompanied with explanations and supporting evidence of any changes, with a Chief Financial Officer statement of assurance.	Week 14-17	Month 4
6b	**Indirect PSPs**	Receiving PSPs who receive funds on behalf of indirect PSPs may voluntarily provide a breakdown of their results; by each indirect PSP itself. Accompanied with explanations and supporting evidence.		
7	**PSR publishes Metric C data**	Published information will be drawn from the data of the final 20 most significant PSPs, by both value and volume.	Week 18-25	Months 5-6

This table is indicative only. Exact dates will be stipulated in the guidance.

Metrics to be published

4.10 We consider that Metrics, A, B, and C are the right metrics to collect and that publishing the results is the most effective way to fulfil our aims. This combination of metrics will create reputational incentives for PSPs to improve their fraud prevention controls and reimbursement rates. These metrics also offer the best combination of simplicity and information to give consumers greater transparency of the comparative performance of PSPs, so that they can make informed decisions about who they bank with.

4.11 The vast majority of respondents agreed with our proposed metrics, and while respondents raised some concerns around Metrics A and B, the biggest concerns were focused on Metric C.

Metric A

4.12 Some stakeholders were concerned that it would not properly allow for 'no blame' cases, where the PSP was not to blame and therefore had no obligation to reimburse the victim under the Contingent Reimbursement Model (CRM) code. In other words, a target rate of 100% reimbursement might not be realistic. For example, if 20% of scams were 'no blame', then the upper limit for the target might be 80%. (See paragraph 3.5.)

4.13 We do not agree with this view. The rates of reimbursement will be of wider interest to consumer and other stakeholders, while adding in an adjustment regarding 'no blame' may confuse readers.

4.14 In addition, under Measure 3, the expected level of reimbursement may increase. In that case, it would be helpful still to measure against a simple, theoretical maximum of 100%.

4.15 Under Measure 3, we will require PSPs to reimburse victims of APP scams in almost all circumstances. The liability for doing so will be shared 50:50 between the receiving and sending PSPs. Some stakeholders believed that following the implementation of the reimbursement policy, Metric A would become obsolete. We do not share this view. Metric A will also allow us to monitor the implementation of our reimbursement proposals; in particular, it will provide insight upon how PSPs are applying any exceptions to reimbursement. In the future, we may review the metrics to ensure they continue to provide the reputational incentives to improve performance.

4.16 In advance of the reimbursement policy being decided upon and in place, we think that Metric A will provide incentives for PSPs to invest in their fraud controls and increase their level of (voluntary) reimbursement.

Metric B

4.17 Some respondents argued that the Metric B data would be of limited value, as it would reflect the scams that victims had reported to PSPs, rather than the total scams taking place (see paragraph 3.7).

4.18 It is likely that the actual level of scams is significantly higher than that reported. Many scams may go undetected by victims, and in other cases, victims may be too embarrassed to report a scam. Nevertheless, we still think that it is important to collect and disseminate data on the scams that PSPs are aware of through Metric B.

This provides a measure of the level of relevant fraud and is also the basis of UK Finance's existing APP scam reporting, in its six-monthly report *Fraud – the Facts*[3].

4.19 We have also considered that different PSPs have different customer bases. Some operate almost exclusively on a consumer basis, whereas others have a large volume or value of business customers.[4] PSPs with large volumes of business customers may have higher volumes and values of payment transactions. Therefore, this could dilute Metric B and lead to an apparently lower rate of fraud and mean that comparative statistics based on Metric B become less useful.

4.20 As we are restricting data to 'consumer only' frauds and payments, this should reduce or eliminate this effect. We will keep this under review and as we collect more data we will consider whether any further action needs to be taken to address this potential issue.

Metric C

4.21 We think that publication of Metric C data is key to reputational incentives for receiving PSPs.[5] This will happen via consumer, media and other stakeholders (such as investors, government, regulators etc.) taking an interest.

4.22 We considered stakeholders' views about gathering Metric C data privately and using it to take compliance action against poorly performing firms. It is our view that reputational incentives will be more effective than compliance action alone. This will have immediate effect and limit further harm to consumers.

4.23 We have also considered stakeholders views that the publication of APP scams data could act as a 'shopping list' for fraudsters by informing which PSPs to target. We acknowledge these concerns. However, as the data will highlight which PSPs already have higher levels of frauds, this could indicate that fraudsters are already aware of which PSPs have the weakest fraud control mechanisms and are targeting them. We do not consider that publishing this data will provide fraudsters with any new insight or have a significant impact on the behaviour of those committing fraud.

4.24 We will also publish data with a six-month time lag. This means that PSPs can start to address any weaknesses identified before publication.

General points about the metrics

4.25 Some respondents suggested that the metrics might be of little benefit to consumers and that they may have difficulty understanding this data and in helping to make decisions. These comments were made with reference to all three metrics but applied particularly to Metric C.

4.26 We will consider carefully how to present the data to ensure that it can be used and understood by stakeholders.

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3 www.ukfinance.org.uk/policy-and-guidance/reports-publications/fraud-facts-2021

4 In this context, we are referring to business customers who are nevertheless within the scope of our definition of 'consumer' for our reporting here. Such business customers arise because 'consumer' includes some small businesses.

5 Any payment fraud requires both a sending and receiving PSP.

4.27 In relation to competition concerns, in Chapter 5 we have assessed the potential impact of the publication of comparative performance data on PSPs. Please see Chapter 5.

4.28 Some respondents argued for using UK Finance's existing APP scam reporting, instead of a new reporting schedule. And they suggested that we should calculate the metrics based on the existing UK Finance outputs (see paragraph 3.22).

4.29 We have used the existing UK Finance reporting and we have built upon that incrementally, only introducing extra requirements where needed. The following differences and additional requirements have arisen:

- The UK Finance data is published in aggregate, across the industry, whereas our reporting will be more granular, identifying the performance of individual PSPs.
- UK Finance does not collect any data on receiving PSPs and their fraud receipts. Therefore, we have introduced a new requirement for this (Metric C).
- In a few areas, most notably regarding the treatment of reimbursements and recoveries, we have had to introduce new guidance for our purposes.
- Except for Metric C receiving data, our template uses most of the same data elements as the UK Finance reporting.

Reporting periods and timings

4.30 Respondents were split on the length of the reporting period (the time span over which we collect data for each publication). Some would prefer a shorter, more frequent reporting period of three months, while others asked for a longer period.

4.31 We are directing PSPs to report on their APP scams data over a period of six months. This will strike the right balance between providing up-to-date information, allowing a long enough period to identify genuine trends (rather than short term attacks and fluctuations) and the effort required by directed parties, receiving PSPs and us, to collect and review this data.

4.32 We also consider that six months is a suitable time lag between the end of the reporting period and when we publish the final data. This will allow PSPs to close cases and be sure of the data (we are requiring reporting to be on a basis of cases that have been closed, where any investigation has been completely or substantially closed). A longer delay in publishing will mean the data will be less up-to-date and relevant. This will also allow enough time for the data collection process, in particular for checking data under the Metric C process. PSPs will have time to rectify any weaknesses identified in fraud defences before publication.

4.33 The first data collection will cover two reporting periods (allowing us to collect a comparative period). Directed PSPs will be required to provide the first set of data by 2 May 2023. We intend to publish this data in October 2023. For future data collections, we will collect only one period at a time. The periods for the first data collection are:

- 1 January to 30 June 2022 (H1 22)
- 1 July to 31 December 2022 (H2 22)

4.34 Some respondents were particularly concerned that we had not allowed enough time for the reconciliation process relating to Metric C. We have also considered stakeholders views about conducting a further trial to pilot the end-to-end process of Measure 1, and without the commitment of publication at the end of it.

4.35 Our data collection trial in June 2022 was successful and uncovered that we needed to provide further guidance on reporting reimbursements and recoveries. In addition, we decided to review the process for Metric C and make this more streamlined, simplified and less burdensome.

4.36 As such, we consider that a further trial is not necessary and would create additional delays to the implementation of Measure 1. Since APP scam frauds continue to increase, a delay could risk further harm to consumers.

Metric C process and reconciliation of data

November 2021 consultation

4.37 When we consulted in November 2021, we proposed a full reconciliation process between sending and receiving PSPs.

4.38 However, respondents to our November 2021 consultation had concerns that a full reconciliation process would require a lot of resources and more time than we had allowed. Respondents also considered that the benefits from such a reconciliation might be limited.

December 2022 consultation

4.39 After further engagement with PSPs during 2022, we concluded that receiving PSPs should have a right of reply on the data being submitted about them. We also considered that any validation process under Metric C would be transitional until Measure 3 was in place. Therefore, we did not consider that it was necessary or proportionate to require a bespoke system for validating Metric C data.

4.40 Instead, we proposed that where receiving PSPs wished to do so, they should have the option to check the relevant data or a subset of it. They could raise any concerns with the sending PSP, in relation to the accuracy of the data, where this would have a material impact.

4.41 In addition to this lighter-touch validation process, we also allowed significantly more time for PSPs to check data amongst themselves. Our original proposal was to allow 20 days and we subsequently proposed to allow two and half months to check data.

4.42 In support of this decision, we noted that:

- Receiving PSPs are, in general, unlikely to have the information that they need to check APP scams data. This is because they are not necessarily aware of all the frauds that they receive.
- A validation process would require significant investment and significant time to put suitable systems in place. These systems would need to share the relevant data between all PSPs and automate the validation process, given the large volume of transactions concerned.

- The reimbursement proposals would require a liability split between sending and receiving PSPs, which would necessitate information exchange between sending PSPs and receiving PSPs when an APP fraud happens. It may be necessary to build systems to achieve this.
- There would likely be a continued need for Measure 1 after the reimbursement policy had come into effect. Measure 1 places reputational incentives on PSPs to improve their fraud detection and prevention, as well as recovery, even in the presence of mandatory reimbursement. In addition, we think publishing this data will serve as a way of monitoring the outcomes of the reimbursement policy.
- Any validation process under Metric C would be transitional until Measure 3 was in place. It was therefore not a good use of time or resources to require a bespoke system for validating Metric C data.

4.43 While stakeholders have raised specific issues in relation to the implementation of Metric C following our December 2022 consultation (which we set out below), it is our view that the streamlined process for checking Metric C data between sending and receiving PSPs remains appropriate.

Time allowed for the Metric C process

4.44 Several respondents raised concerns about the proposed timetable for the Metric C process. They were concerned that the time permitted for checking data between sending and receiving PSPs might not be long enough. This could be particularly burdensome for sending PSPs if they received multiple requests from receiving PSPs at the same time to assist them with checking the data (see paragraphs 3.34 to 3.35).

4.45 We were persuaded by these arguments and have therefore adjusted the timelines in the plan. We have allocated a further week, at Step 4, to the process for sending PSPs to provide data to receiving banks – meaning 2 weeks in total for this step. Similarly, we have allowed a further week, at Step 3, for receiving PSPs to request data prior to this – meaning two weeks in total also for this step. The total length of the process has remained unchanged, at six months.

Dispute-resolution process

4.46 We considered respondents' view that, without a formal dispute or appeals process, receiving PSPs would not be able to adequately challenge sending PSPs submission (see paragraph 3.42).

4.47 It is our view that the direction contains sufficient provisions already for sending and receiving PSPs to resolve issues. And there are requirements on directed PSPs to provide transparency over such decisions, to both the receiving PSP and the PSR, allowing us to review them afterwards.

4.48 The direction requires sending PSPs to assist receiving PSPs with checking the data. It also requires them to inform the receiving PSP of any adjustments they have made following a challenge. If the sending PSP has not chosen to make an adjustment, they must explain the rationale for this to both the receiving PSP and to us. We will review this alongside the requests made by the receiving PSP, at Step 7, prior to publication of the final data. If we consider that the information provided is materially inaccurate, we will adjust the data prior to publication. However, we would only expect the PSR to intervene in this way on an exceptional basis.

4.49 We have also placed a 5% threshold to limit immaterial challenges. The threshold is based on a 5% change in a data field (for a given PSP pairing). This will reduce the burden of immaterial challenges – saving time, without materially affecting the receiving PSP's position. One respondent suggested that 5% would be a suitable level for a threshold but did not explain why. We believe that 5% is a suitable level because this is a generally accepted starting point for judging materiality around reporting and auditing issues. We also believe that it is proportionate, striking a balance between efficiency of the process and accuracy of the result.

The treatment of indirect PSPs and the challenge of disaggregating data

4.50 In relation to PSPs that access the Faster Payments system indirectly, some respondents queried at what level PSPs should be identified – that is, whether this should be at an agency PSP level or at an aggregated sponsor PSP level. Ideally, we would like to be able to identify the ultimate recipient PSP since this would allow us and the users of the published data to identify more closely where issues may lie.

4.51 Depending on the model adopted by sponsor PSPs, some indirect PSPs, where they have their own unique sort code, may be identified directly as receiving parties. However, there will remain some indirect PSPs that do not have a separate unique sort code. In this case, Metric C results will remain aggregated within the overall results for the sponsor PSP, which we will accept.

4.52 Respondents also noted that it could be difficult to identify the ultimate agency PSP of any indirect participant receiving PSP and that the inclusion of an indirect PSP's results (aggregated data) within a sponsor PSP's results may distort the performance presented for that sponsor.

4.53 Most sponsor PSPs also told us that identifying PSPs at the EISCD level would allow them to successfully separate out their indirect participants. However, a few sponsor PSPs were concerned that this would require them to invest in systems to disaggregate the data of their indirect PSPs.

4.54 Our view is that, in order to ensure a consistent approach across the industry, sending PSPs should be able to identify and report receiving bank data at the sort code level, via the EISCD. This will require sponsor PSPs to ensure that, for indirect sort code access clients, their EISCD listing is up to date and that the indirect PSP is properly identifiable. We have provided a list of the unique names that appear in the EISCD dataset at Annex 3 within our Reporting Guidance.

4.55 In instances where indirect PSPs cannot be identified separately, we think that it is right to publish them within the sponsor bank's overall aggregate performance. While we encourage sponsor banks to disaggregate data, to separate their own performance from that of their indirect PSPs, and to monitor the fraud performance of their indirect PSPs, this is not a requirement of the direction.

4.56 Where a sponsor PSP can provide us with an accurate disaggregation of the data of its indirect PSPs, with supporting evidence, we will publish a disaggregated figure for that sponsor. We will also publish the disaggregated indirect PSP performance provided by the sponsor disaggregating, unless there has been insufficient opportunity for those indirect PSPs to check and verify their data prior to publication. We would expect sponsor PSPs to work with indirect PSPs during Steps 3 and 5 of the process, to validate their data. Following the first reporting cycle, we will consider whether we need to refine the process in this respect.

Assurance

4.57 Our revised Metric C process requires CFO sign-off from the sending PSP, before they submit the data to us. Respondents told us that this could increase the time taken to finalise submissions. They suggested that it might be more appropriate to nominate an individual who is closer to the detail of the fraud data.

4.58 It is our view that this data should be reviewed and signed off by the CFO, given the importance of this data to both consumer audiences and receiving PSPs. It is a matter for each CFO to decide how to discharge their responsibility most efficiently and effectively. At an operational level, they may choose to delegate the checking of this data. However, should issues arise with the data submitted, we will consider use of our regulatory powers. We expect directed PSPs to have appropriate mechanisms and sign-off processes to ensure the accuracy of this data.

Publication formats and shortlisting

4.59 In our December 2022 consultation, we indicated to stakeholders the factors that we were considering regarding the choice of publication formats. While we did not seek views on these, respondents did provide comments, which were mainly focused on how best to represent the performance of individual PSPs.

4.60 We recognise concerns from stakeholders that representation of this data has the potential to disadvantage one party or another, based on its relative size or business model. While we understand the suggestion that data on PSPs should not be shortlisted or filtered, we consider that it would be more beneficial to consumers to provide the data on the largest PSPs (for Metrics A and B) and those receiving the largest amount of fraud (for Metric C).

4.61 There is a balance to be struck between the list provided to consumers and the ease for consumers to review and use the data. A shorter list will be more easily digested by consumers and will give good prominence to the performance of key PSPs. For Metrics A and B, by publishing results for the directed PSPs, we will cover over 95% of both the volume or value of payments and the APP scams reported.

4.62 For Metric C, by shortlisting the 20 PSPs that account for the largest amount of fraud funds received, we will address the most significant portion of the problem. This would also represent a proportionate approach, without increasing the burden on all PSPs. We would expect to publish rates and we will also consider whether we might publish absolute amounts.

4.63 We also intend to report Metric A and B data by banking group, rather than by brand. We have taken this approach because this is consistent with the existing UK Finance reporting. We have considered requiring PSPs to report by brand but consider the steps that PSPs would need to take will risk delaying the publication of this data. However, we do recognise that consumers may find data by brand more accessible.

4.64 We have weighed up the need to publish this data quickly and the benefits that will result by ensuring that incentives on PSPs take effect at the earliest opportunity. For future reporting cycles, we will consider requiring firms to report by brand.

4.65 We recognise that sending and receiving PSPs would like greater visibility of the formats that we intend to use for publication. We think that it is important to retain flexibility on the detail of the publication formats, even up to the point of publication. This is because, there may be unexpected issues and patterns that become apparent when we analyse the data received. We want to be able to present and highlight such patterns suitably. Once we have analysed the data from the first collection round, we will engage with stakeholders as necessary, to share our thinking on the publication formats. In the longer term, we are also considering publishing underlying datasets. As we develop this further and as issues arise in the future, the publication formats are likely to evolve over time and may need to change from one reporting period to the next.

4.66 For future reporting periods, we will work with stakeholders and keep them informed about any changes that we make regarding the publication of APP scams data.

Information sharing other than publication

4.67 Other than publication as outlined here, there may be circumstances where we may wish to share information with others. We will be in receipt of this information from PSPs, as a result of our data collection and reporting process, under the policy outlined here in this document and in the Specific Direction. We explain our approach more below.

4.68 Providers of information should note that the PSR will treat information received in accordance with our statutory framework (sections 91-93 FSBRA) and Powers and Procedures Guidance (paragraphs 2.48 - 2.69). Therefore, we will not disclose confidential information that relates to the business or affairs of any person, which we receive for the purposes of our functions under FSBRA, unless:

- there is a 'gateway' permitting this disclosure; or
- we have the consent of the person who provided the information and, if different,
- the person to whom it relates.

4.69 Among the gateways available to the PSR is a 'self-help' gateway whereby the PSR may disclose confidential information to any person to enable or help it to perform its statutory functions. There is also a gateway which allows disclosure to other public authorities to facilitate the carrying out of their public functions.

Recoveries, reimbursements, and refunds

4.70 Our initial approach to Measure 1 reporting was to start from the existing APP scam reporting that has been developed by UK Finance and is currently in use by many of the largest PSPs. By doing so, we hoped we could minimise any additional burden for PSPs.

4.71 With the UK Finance approach in mind, we issued draft reporting guidance prior to starting the trial in summer 2022. However, one of the main things we learned from the trial was that there was an inconsistent approach to the treatment of the reporting of recoveries and refunds among PSPs. We identified at least three different treatments of recoveries and refunds while discussing this with trial participants. Such inconsistency risks confusion and error.

4.72 On the other hand, in the context of Metric A, we simply want to reflect how much victims have been reimbursed overall, whether from recovered funds or from one or both of the relevant PSPs. Therefore, we focus entirely on the money that is returned to the customer. The mechanism by which this happens is irrelevant for our reporting purposes. Similarly, victims are primarily concerned about how much of their money they will get back.[6]

4.73 We also recognise the importance of the efforts of receiving banks in recovering funds that have been lost in scams. We collect this data for inclusion in Metric C, which is expressed net of any recoveries by the receiving PSP, in recognition of its efforts to track down the funds.

Direction and reporting guidance

4.74 We have made changes to the direction to reflect changes to the Metric C process following our December 2022 consultation. We have also provided greater clarity to the definition of APP scams.

4.75 We consulted on draft guidance and the reporting template in February 2023. Most issues had previously been considered by us. Below, we have provided our views on new issues raised:

- **The treatment of microbusinesses and small charities:** We proposed that directed participants should review their customer data on a six-monthly basis to flag any small business customers and small charities that would be captured by our definition of 'consumer', meaning that they would fall within the scope of the reporting. Respondents argued that it would not be feasible to review such a large volume of customer data (in the case of larger PSPs). They also suggested that it was especially onerous to require this to be reviewed on a six-monthly basis. We recognise these concerns raised by directed PSPs, however it is a requirement for these microbusiness customers to be reported both for Measure 1 and for the current regime of reporting to UK Finance by CRM code signatories. We have therefore removed our specific guidance requiring a six-monthly review, but we note that directed participants must still have some measures in place to ensure that these customers are correctly captured in their data submissions. PSPs should provide details of the procedures they have followed in the explanations accompanying their data submissions. We also note that we have offered flexibility where directed participants already report consumer data for other purposes. Provided that the outcome of such reporting does not differ materially from what would result from our definition of 'consumer', directed participants may use their existing approach.

6 There is only one exception to this method of reporting – namely, repayments ordered by the Financial Ombudsman Service (FOS). These should not be included in reimbursements. This is because they result from the FOS's instructions, rather than the performance of the directed PSP. Second, FOS decisions may lead to a whole tranche of cases being reimbursed simultaneously and perhaps after a significant time lag. This would distort the reporting, if allowed, and the underlying trend would not be visible.

- **Definition of APP scam:** Some stakeholders expressed concerns that we had not provided detailed definitions of certain types of APP scam, including confirming whether they were within or outside the scope of the reporting. We have defined an APP scam for reporting purposes, in general terms, in Specific Direction 18 (see paragraph 4.1 of the direction), in line with the definition already in use by the industry in its reporting to UK Finance and its treatment of APP scams under the CRM code. If stakeholders seek greater clarity on whether certain types of scam (including new ones, as they emerge) are within the scope of APP scam reporting, the industry may be able to develop suitable guidance in the future, and we will consider if this is appropriate.
- **Updating the reporting guidance:** Some stakeholders expressed concerns that regular updates to this guidance could result in them having to make significant amendments to their processes and systems. They requested we provide sufficient notice of changes. We will keep the guidance and data submission template under review, so that it supports both directed participants and receiving PSPs. We will keep stakeholders updated and allow sufficient time for PSPs to make changes, if required.

On-us transactions

4.76 We initially proposed that when reporting on APP scams, PSPs should separate out their on-us transactions. This was in recognition that some on-us transactions would not take place in Faster Payment and so might not be captured. This also aligned to the reporting approach in relation to COP. However, stakeholders raised concerns that it can be difficult to separate data between on-us and Faster Payment transactions.

4.77 In view of this, we have decided that on-us transactions should be included within the scope of the data submissions. We provide further details of this in our reporting guidance.

Data on the origination of APP scams

4.78 In the course of our engagement with stakeholders, we have heard that, when reporting on fraud data, there should be recognition of where APP scams originate, such as social media or telecommunication firms.

4.79 We agree that the prevention of fraud requires a wider ecosystem response. We are in the early stages of considering what data could be collected on APP scam origination. We are aware that some PSPs are already capturing this data when recording instances of fraud.

4.80 Over the next few months, we will engage with relevant stakeholders, including industry, government, regulators, and consumer organisations. We will consider the policy options and the channels available to us to collect this data and how we might best utilise it. We will also consider whether we need to incorporate this as part of the data that directed PSPs provide to us in subsequent data collection rounds.

Out-of-scope issues

4.81 A number of stakeholders raised issues that were outside the scope of Measure 1. These were:

- **Transactions across multiple payment systems:** Some individual cases of fraud have been reported as multiple transactions across many payment systems, including Bacs and CHAPS, as well as Faster Payments. We recognise these concerns, but our objective is to address fraud taking place across Faster Payments. This is because the majority of APP scams take place across Faster Payments.
- **Cryptocurrency scams:** Stakeholders noted instances where a fraudulent transaction ultimately took place outside Faster Payments after an initial on-us or Faster Payments transaction, such as a customer transferring funds between accounts and then to their cryptocurrency wallet, enabling subsequent transmission to a fraudster's cryptocurrency wallet. While we recognise the harms associated with such scams, we do not intend to report transactions of this type, as they fall outside the current definition of an APP scam. We will keep this under review.
- **Scams prevented:** While some APP scam cases may still be reported even though there was no associated loss – that is, the scam was prevented before any transaction took place – this is outside the scope of our current work. We also note that such instances are not included within UK Finance's current APP scam reporting.
- **Supplementary variant of Metric C:** We recognise that there could be benefit in identifying a supplementary variant of Metric C that focuses on newly opened accounts – for example, those that are less than 90 days old. This could allow evaluation of PSPs' implementation of controls to prevent fraudsters opening accounts. However, the FCA already gathers and reviews a range of indicators to monitor the opening of accounts, and we believe that these are more suited to addressing this issue.

5 Cost benefit analysis

- Since we consulted on our proposed direction in November 2021, we have updated our assessment of the relevant benefits and costs, as well as the relevant baseline.
- The baseline scenario against which we assessed the impact remains one where PSPs continue to take some action to prevent APP scams and reimburse victims, but where information on PSPs' relative performance would not be widely available. We have now also taken into account related policy developments that we expect to have an impact on the same outcomes as our data publication, in particular: the extension of CoP checks to the additional PSPs over the course of the next 18 months; and the proposed introduction of mandatory reimbursement for victims of APP scams likely to take effect in 2024.
- In our consultation, we stated that we considered that the benefits of publishing the three metrics were likely to significantly outweigh the costs. Our updated assessment includes additional analysis and evidence from respondents to our consultation, which inform the relevant costs and benefits. While significant elements remain hard to quantify precisely, we still consider that the expected benefits materially outweigh the costs that are likely to arise as a result of our direction.

Introduction

5.1 This chapter contains our cost benefit analysis. We first set out the ways in which we expect the policy to affect customer and PSP behaviour, and ultimately improve outcomes for individuals (the 'causal chain'). We then summarise respondents' views on the cost benefit analysis that was presented in our November 2021 consultation paper[7], as well as relevant responses to our more recent consultation on the Metric C process, published in December 2022.[8] Based on these submissions and our revised policy, we then set out our updated assessment of the relevant benefits and costs. As with the draft assessment that we consulted on, it has not been feasible to quantify all of the relevant impacts. In some cases, we cannot predict how the effects will manifest themselves; therefore, we cannot quantify them with precision. We note, however, that even where some effects cannot be quantified with precision, this does not necessarily mean that they are immaterial. We have relied on indicative evidence to weigh these multiple effects carefully and reach an overall judgement about the likely net impact of the policy.

7 CP21/10, Authorised push payment (APP) scams consultation paper (November 2021), Annex 1.

8 CP22/5, Revised approach to APP scams Measure 1, Metric C process (December 2022), Annex 1.

How the policy could improve outcomes

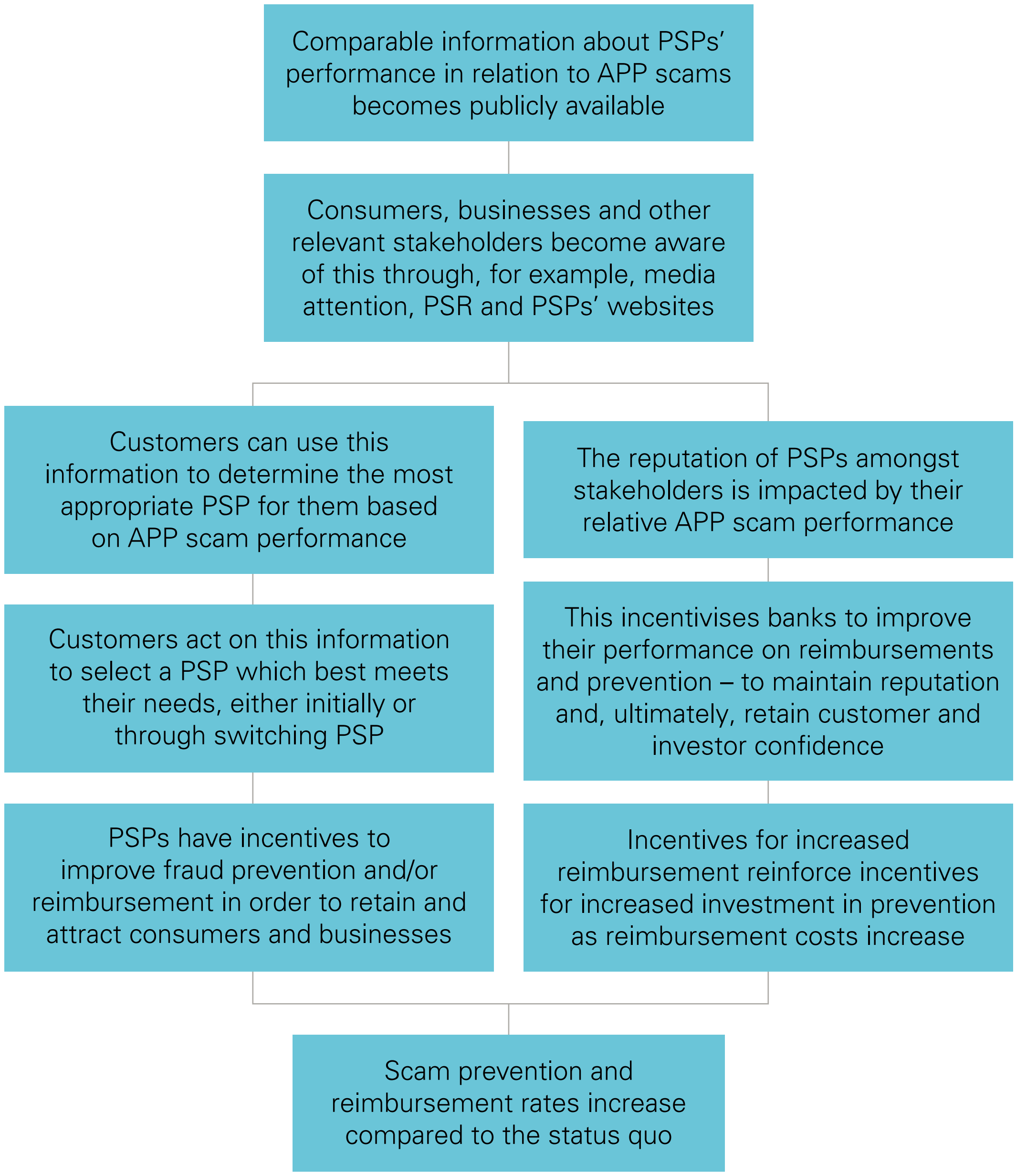
5.2 There are two main mechanisms through which the publication of data on PSPs' relative performance could impact the level of APP scam-related fraud and reimbursement:

1. Customers may factor these metrics into their decisions when selecting a PSP. This would help inform their initial choice of PSP, as well as potentially impacting some marginal customers' decisions when considering their switching options. Therefore, it could enable these users to select the PSP that best meets their needs regarding APP scam performance. This would incentivise PSPs to improve their performance to attract and retain more customers.
2. Greater public awareness of PSPs' relative performance in relation to APP scams is likely to have an impact on their reputations with a range of key stakeholders, including government, politicians, investors, journalists, consumer groups, employees, and regulators, as well as customers. We expect this reputational impact to be strong, given the high public prominence of concerns about the prevalence and impact of APP scam fraud. This is likely to provide PSPs with an incentive to improve their relative performance – independent of any direct reaction from their customers – in terms of customer switching or new customers choosing other PSPs for their first current account. These indirect effects would be felt through the impact on reputation and 'brand value' of the PSPs in question. Ultimately, such effects are also likely to influence consumer decisions and outcomes.

5.3 We consider that the policy is likely to have its greatest impact through the second of these mechanisms. This is because, as highlighted by previous work in this area, demand-side pressure in retail banking is likely to be weak.[9] This means that we would expect many consumers not to act on this information. Even for those who do, it would be only one of several factors affecting their decision making. In contrast, we would expect reputational effects from the reactions of more informed stakeholders, like government, investors, journalists, and consumer groups, as well as PSPs' boards, to be more effective in influencing the behaviour of those PSPs that most need to improve their performance.

9 See, for example, CMA, Retail banking market investigation – Final report (9 August 2016), paragraphs 64 to 85.

Figure 5: Causal chain of Measure 1



The baseline

5.4 We have analysed the impacts of the policy against a baseline, or 'counterfactual', scenario. The starting point for our baseline is that PSPs will continue taking some action to prevent APP scams and reimburse victims, as a number of them do at present.

- Ten of the 14 PSPs that we are directing are signatories to the CRM code, under which they have existing obligations regarding preventing APP scams and protecting victims.

- Existing regulatory requirements, and likely future requirements, mean that PSPs have incentives to prevent scams. For example, PSPs have existing FCA requirements to consider the needs of their customers, including the recently introduced Consumer Duty.[10]
- As the reimbursement of APP scams represents a cost to PSPs, we also expect them to continue to face commercial pressure to prevent scams. This incentive depends upon the approach taken to reimbursement.

5.5 As part of our baseline, we also consider that PSPs already analyse their APP scam performance to inform their internal decision making. As set out above, 10 of the 14 PSPs that we are directing are currently signatories to the CRM code, so they are already collecting and submitting the relevant data. We also understand that most PSPs already regularly submit data on APP scams to industry bodies (including UK Finance) and regulators (including the FCA), and assume this will continue in the baseline. Our analysis is therefore focused on the incremental costs and benefits that will materialise in addition to those that have already occurred due to PSPs' current actions and which arise from the increased transparency and wider availability of this information to stakeholders.

Other PSR policy interventions in relation to APP scams

5.6 In relation to two of the other APP scam policy measures that the PSR is working on, we have assumed, for the purposes of this assessment, that these are likely to be in place in our baseline scenario:

- **Measure 2 – intelligence sharing:** Progress continues on technical design aspects of the new Enhanced Fraud Data (EFD) system. UK Finance and Pay.UK are continuing to develop the standards, rules, and legal agreements to share account-level data between PSPs on a real-time basis.[11] We expect PSPs to phase in the implementation of sending and receiving data on the EFD system before the end of 2023, which will enable them to better identify and stop scam payments. We have therefore assumed, for the purposes of this assessment, that this measure is likely to be in place and having an impact on APP scam prevention in the near future.
- **Measure 3 – mandatory reimbursement:** In September 2022, we published a consultation on our proposals to require all PSPs sending payments over Faster Payments to fully reimburse APP scam victims, with only limited exceptions.[12] Our proposed policy would also allocate the costs of reimbursement equally between sending and receiving PSPs, with a default 50:50 split. For this assessment, we have assumed that this measure is likely be in place and having an impact on APP scam prevention in 2024.

10 See: https://www.fca.org.uk/firms/consumer-duty

11 See: https://newseventsinsights.wearepay.uk/media-centre/press-releases/pay-uk-develops-new-data-model-to-help-prevent-app-fraud/

12 CP22/4, *Authorised Push Payments (APP) scams: Requiring reimbursement* (September 2022).

5.7 **PSR policy on the extension of CoP checks:** In October 2022, the PSR issued Specific Direction 17, which requires c.400 PSPs to begin providing CoP checks from mid-2023 onwards.[13] For the purposes of this assessment, we have assumed that this expansion of the CoP system will happen as directed, with c.30 PSPs providing CoP checks from October 2023 onwards and a further c.370 PSPs providing CoP checks from October 2024 onwards. Therefore, even without the publication of our data, we should expect some decrease in the number of APP scams, specifically those that are likely to be affected by the wider use of CoP checks – for example, impersonation scams. The broader scope of our proposed policy on mandatory reimbursement (in terms of covering all APP scam types) and the financial incentives it provides to PSPs mean that it is likely to have a greater effect on APP scams overall than our work on extending CoP checks.

5.8 **Voluntary reimbursement:** At present, a number of PSPs offer reimbursement to customers who are victims of APP scams. Under the CRM code, just under half of consumer APP scam losses are reimbursed – a proportion that has remained stable over a number of years. In addition, the incentives for PSPs to increase their reimbursement rates voluntarily, in response to the publication of Measure 1 data, may lead to higher reimbursement levels among sending PSPs even in the absence of our proposed mandatory reimbursement policy. However, as discussed, a system of mandatory reimbursement will, by definition, lead to a greater increase in overall reimbursement than publication of reimbursement rates under Measure 1 would be likely to achieve.

Respondents' views

5.9 Chapter 3 summarises respondents' views on our proposed policy. In this section, we summarise respondents' views on the cost benefit analysis set out in the November 2021 consultation. We received 17 responses to that consultation that specifically addressed our cost benefit analysis: six respondents agreed with our assessment of the benefits and costs; six took the view that the benefits were overstated and/or the costs were understated; and the remaining five disagreed with the approach taken in our assessment, as set out below.

5.10 In response to our more recent (December 2022) consultation on the Metric C process, a further three respondents expressed views on the cost benefit analysis:

a. One trade body strongly disagreed with the analysis, pointing to high compliance costs for PSPs, the risk of reputational damage to PSPs, challenges to PSPs in calculating contingent liabilities, and the impact on competition and innovation, especially for entrants and 'scale-up' fintech firms.

b. One trade body broadly agreed, but pointed to the risk that sponsor PSPs will pass on any additional costs from the data reporting requirements to their indirect PSPs.

c. One individual respondent agreed with the assessment, pointing to the value of reputational risk in incentivising PSPs to invest in fraud prevention.

13 PS22/3, Extending Confirmation of Payee coverage (October 2022).

5.11 Of the eight respondents that argued that the costs were understated:

a. Two respondents (one industry body and one PSP) criticised the analysis for failing to take into consideration the cost of added friction to payment journeys due to PSPs introducing new measures or technologies to reduce the incidence of APP scams, and the subsequent potential customer dissatisfaction that may arise.

b. Six respondents argued that the cost benefit analysis underestimated the cost of introducing a new data reporting and publication regime, with most pointing to the disproportionate costs this would impose on the directed PSPs. Others pointed to the cost of dispute resolution between PSPs, as well as the additional costs for non-CRM Code signatories and account-servicing PSPs.

5.12 Four respondents disagreed with our analysis of the reputational incentives that would arise from publishing fraud data at the PSP level. One PSP and one industry body argued that the impact on PSPs' behaviour would not be as significant as the assessment assumed. Another PSP, which disagreed with our approach to the cost benefit analysis, argued that the proposed data metrics and performance statistics for PSPs would not change either customers' habits or the behaviour of PSPs. One PSP, while agreeing with the cost benefit analysis, highlighted the risk that publishing fraud data could unfavourably skew the public's perception of domestic banks as compared to their international counterparts, given our proposal to publish data that only applies to UK banks.

5.13 Of the five respondents that disagreed with our approach to the cost benefit analysis:

a. One industry body criticised its robustness in relation to the impact of the proposals for smaller PSPs. The respondent also argued that the cost benefit analysis did not include detailed or quantitative analysis regarding the cost of Metric C. Another PSP agreed with this criticism, further arguing that there was no evidence that the PSR had undertaken an assessment of Measure 1, or the interplay with its statutory objective to advance competition and innovation.

b. Two respondents disagreed with the topics that the cost benefit analysis focused on in the consultation. One PSP encouraged us to measure APP scam performance more widely by including prevention of scams and the coverage of protections, such as CoP, as well as reimbursement. For example, it argued that, while low reimbursement rates are seen in the context of a PSP failing to refund innocent victims, they could in fact reflect a strong control environment and high prevention rates. A third-party solution supplier argued for implementing functional solutions that address the root causes of fraud, rather than reporting numbers that indicate the rise of fraud.

5.14 As some of these points do not relate to specific costs or benefits, we consider them here:

a. We address the impact on smaller PSPs, and our competition and innovation objectives, as part of our assessment of the potential impact of the policy on competition and innovation, at paragraphs 5.49 to 5.52, below.

b. Quantification is discussed at paragraph 5.1, above.

c. The suggestion that we should also look at prevention and CoP coverage is not a point about the scope of the cost benefit analysis, but about the scope of the policy itself. Robustly recording scam prevention across PSPs would raise significant challenges, while focusing on measures where existing data is already readily available (on reimbursement and APP scam numbers) is a proportionate approach to getting relevant information in the public domain in a timely manner. CoP protection is expanding as a result of our intervention and already has wide coverage across PSPs, accounting for the vast majority of Faster Payments transactions.

d. The question of whether implementing functional solutions would be more effective than reporting data on APP scams is also a point about the scope of the policy, rather than the scope of the cost benefit analysis.

Our updated assessment of the impacts

5.15 Table 1 summarises our updated assessment of the likely costs and benefits of the policy relative to the baseline, and their likely magnitudes.

Table 1: Impacts of publishing data on PSPs' relative performance

Benefits		Costs	
Type	**Magnitude[14]**	**Type**	**Magnitude**
Consumers able to select a PSP which best meets their needs in respect of APP scam performance (direct benefit)	Low	Collating and reporting high-quality data (direct cost)	Low
Better prevention of APP scams (indirect benefit)	High	Improving investment in fraud prevention (indirect cost)	Medium
Improved reimbursement rates for victims and increased trust in the payment system (indirect benefit)	High	Unintended facilitation of fraud (indirect cost)	Low
		Potential exclusion of customers, who may be vulnerable, from accessing current accounts (indirect cost)	Low
		Incorrect reputational damage to PSPs (indirect cost)	Low
		Payment friction	Low
		Impact on competition and innovation	Low

5.16 Considering these impacts in the round, we consider that the benefits of publishing the three metrics are likely to significantly outweigh the costs. In undertaking this assessment, we have sought to account for three important factors:

1. The extent to which some relevant costs and benefits should be considered as incremental to those that would arise in any case.

14 Magnitude, in this context, is our estimate of the combined probability of a cost or benefit materialising and the likely size of that cost or benefit. For example, the risk that all PSPs would miss the proposed deadline for migration to Phase 2 would represent a high cost, but we would assess this as very unlikely, so we would classify it as a 'low' magnitude cost overall. This approach is consistent with the cost benefit analysis methodology set out in HM Treasury's Green Book (2022) – for example, at paragraphs A5.13 to A5.15.

2. In relation to many of the costs and benefits, the extent of behavioural change should be proportionate to the scale of a given PSP's APP scam problem.
3. The likely timeframe over which these impacts are likely to materialise.

Incremental nature of costs and benefits

5.17 We have considered the extent to which some of the relevant costs and benefits are incremental, relative to what PSPs or customers would have done in the absence of this policy intervention.

5.18 Some of the most important costs arise in areas where well-run PSPs should already have robust systems in place – that is, APP scam detection and prevention and the collation of data on APP scam incidence and victim reimbursement. As set out below, many of the PSPs that are being directed to provide data already provide similar data to us, to UK Finance and to the FCA as part of their regular data reporting and regulatory returns.

5.19 The most important benefits will also be driven by other PSR policy interventions, in particular the proposed introduction of mandatory reimbursement for victims. However, in this context, the incremental benefit from publishing data on PSPs' relative performance from autumn 2023 onwards is expected to be significant, as this will provide PSPs with additional incentives to improve their prevention and reimbursement of APP scams earlier than would otherwise have been the case. Even an additional year of improved APP scam prevention and reimbursement would be significant in the context of annual APP scam losses in excess of £500 million, of which roughly half is not reimbursed at present. Even when mandatory reimbursement is in place, there is still likely to be significant benefit to having publicly available comparative data on PSPs' relative performance, especially in relation to the incidence of sent and received APP scams.

Impacts are proportionate to the fraud issue in question

5.20 Many of the costs (and benefits) arise as an indirect result of the policy – that is, PSPs' reactions to the fact that data on their APP scam performance is in the public domain. These reactions should be proportionate to the scale of any APP scam problem that is revealed. Therefore, a PSP with a high rate of sent or received APP scams will be incentivised, for example, to invest more in APP scam detection and prevention. This, in turn, should generate benefits in APP scam reduction that are proportionate to the problem being tackled. PSPs that are already performing well – in terms of reimbursement and scam prevention, as well as data reporting – should not incur substantial additional costs. Beside the benefit of the worst-performing PSPs improving their performance, there is the more general positive outcome of enabling consumers to make better-informed decisions, benefiting customers of all PSPs, rather than just those of the poor performers.

Timing of costs and benefits

5.21 On timing, we recognise that some of these costs may be one-offs and materialise mostly at the beginning of the policy, such as the cost to some smaller PSPs of creating the required mechanisms of collecting and reporting this data. On the other hand, most benefits may take some time to fully materialise, but are likely to continue throughout the relevant period – for example, improved prevention of APP scams and facilitating better-informed consumer choices.

Benefits

Consumers are better informed

5.22 One of the direct benefits of the policy is that consumers will be better informed and more able to select the PSP that best meets their needs in respect of APP scam performance. In its 2016 market investigation into retail banking, the Competition and Markets Authority (CMA) found significant demand-side barriers to consumers accessing, assessing and acting on information when selecting a personal current account. For example, the switching rate for personal current accounts was about 3% a year, and many of those consumers selected accounts based on better interest rates, customer service or branch availability.[15] Initiatives since then may have had some effect on switching behaviour and, as below, there is some evidence of rising switching rates among current account holders in recent years.

5.23 As set out above, four respondents disagreed with our analysis of the reputational incentives that would arise from publishing fraud data at the PSP level and, therefore, disagreed that there would be material benefits to consumers. One PSP and one industry body argued that the impact would not be as significant as the analysis assumed. Another PSP argued that the proposed data metrics and performance statistics for PSPs would not change either customers' habits or the behaviour of the PSPs in question.

5.24 While switching current accounts is still relatively rare, there is evidence that it has increased in recent years – for example, the number of personal current account switches made through the Current Account Switching Service rose from less than 50,000 per month in early 2021 to over 100,000 per month in late 2022.[16] We do not know if wider availability of APP scam-related information would have influenced these switchers' decisions or if it will lead to increased switching in the future.

5.25 However, given the wide variation in PSPs' performance on these metrics, it would be reasonable to assume that some consumers would take this information into account when deciding on which PSP to bank with. Even if a small number of consumers decide to act on the information and switch to a PSP with better fraud prevention rates and/or higher reimbursement rates, that would represent a direct benefit to consumers from the greater transparency. Given the potentially modest number of consumers we believe will act upon this information, we would not anticipate that the competition effects will be of sufficient magnitude to incentivise PSPs to change behaviour, but we do believe that there will be some overall benefits from consumers switching to PSPs that have higher reimbursement rates and/or better fraud prevention rates.

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15 GfK, Personal current account investigation: a report for the Competition and Markets Authority by GfK NOP (April 2015), Figure 38.

16 Pay.UK, Current Account Switching Service Statistics, Switching dashboards.

Improved APP scam prevention

5.26 The most important indirect benefit of the policy is an improvement in the prevention of APP scams. As set out in the causal chain, above, we expect the publication of PSPs' relative performance to incentivise PSPs to invest in more effective fraud prevention measures. We consider that the overall magnitude of this effect is likely to be material. The PSPs that we are directing account for over 95% of Faster Payments transactions, as well as the vast majority of APP scam payments sent over Faster Payments, which totalled almost £250 million in the first half of 2022.[17] We also note that many cases of APP fraud involve individuals being scammed out of life-changing sums of money which ends up in the hands of criminals. Moreover, consumers face psychological costs associated with losing their savings to fraudsters. Even if they are fully reimbursed (weeks or months later), they will still suffer a cost for losing the money in the first place and will face the stress and anxiety of not knowing if and when they will be reimbursed. Preventing scams will mitigate these issues. Therefore, we consider that even a modest increase in fraud prevention as a result of this policy is likely to have material benefits in improving victims' overall wellbeing. These benefits are likely to be particularly significant for victims who lose substantial sums of money or who are vulnerable consumers – greater than would be reflected in the total amount of financial loss avoided.

5.27 As set out above, four respondents disagreed with our analysis of the reputational incentives that would arise from publishing fraud data at the PSP level and, therefore, disagreed with our assessment that these would have a material impact in driving beneficial changes in PSPs' behaviour.

5.28 As discussed above, a number of respondents agreed with our assessment and with the importance of reputational incentives in improving PSPs' prevention and reimbursement of APP scam frauds. A number of non-directed PSPs have also expressed an interest in participating voluntarily in the data submission and publication, further demonstrating the importance of reputational incentives for PSPs. More generally, the issue of reputational risk is clearly one that firms in the financial sector take seriously and to which significant management time is devoted.

5.29 While we have been unable to quantify the expected impact, we note that, in the context of our proposed mandatory reimbursement regime, we set out indicative estimates of the effect of incentivising poorly performing PSPs to improve their rates of sent and received APP scams.[18] That analysis started by identifying those PSPs that had rates of sent and received APP scams that were higher than those of the median PSPs. We then assumed that the poorly performing PSPs could be incentivised through mandatory reimbursement to improve their rates in line with the median PSPs. The analysis pointed to APP scam losses potentially falling by between £100 million and £150 million per annum.

5.30 We are not ascribing benefits of that scale to our data publication intervention, and we are mindful not to 'double-count' such impacts. However, we have concluded that there are likely to be material benefits from incentivising PSPs that display the highest rates of sent and received APP scams, and/or the lowest reimbursement rates, to improve their relative performance. The system of mandatory reimbursement will take some

17 UK Finance, *2022 Half year fraud update* (13 October 2022).

18 CP22/4, Authorised push payment (APP) scams: requiring reimbursement (September 2022), Annex 2, paragraphs 2.23 to 2.29.

time to implement, so there will be a period between the publication of relative performance data under Measure 1 and the implementation of mandatory reimbursement. During this time, the publication of comparative performance data should provide incentives for PSPs to implement more effective APP scam prevention measures. Even once a system of mandatory reimbursement has been implemented, there are still likely to be significant benefits from publishing the relevant data, while, by contrast, the incremental costs to PSPs of data reporting will be much lower.

Improved reimbursement for victims

5.31 The other important indirect effect of the policy will be improved reimbursement rates for APP scam victims. As with increased investment in fraud prevention, this benefit will arise as a result of the stronger incentives for PSPs, rather than as a result of anything they are directly required to do. We consider that this effect is also likely to be material. As set out in our consultation on mandatory reimbursement[19], we have previously pointed to a wide variation in reimbursement rates across individual PSPs.[20] This continues to be the case. Even among CRM code members, reimbursement rates vary substantially – from less than 20% to over 70% in terms of the value of losses reimbursed, based on annual data for 2021.[21]

5.32 A more consistent approach would benefit victims – and consumers more broadly – as there would be more certainty about how APP scam losses are treated by PSPs. APP scam losses are in excess of £500 million per annum, with some victims losing life-changing sums of money. Any improvement in reimbursement rates would therefore likely have a significant impact not only on victims in terms of recovering their lost savings, but also on consumers more generally by increasing their trust in the payment system and their confidence that they will be able to recover any money lost.

5.33 The publication of the three metrics will also provide PSPs that have not signed up to the CRM code, as well as PSPs in receipt of APP scams that appear in the published data, with an additional incentive to improve their reimbursement rates.

5.34 As set out above, our baseline assumption is that mandatory reimbursement with limited exceptions will result in high and consistent reimbursement rates for consumers across all PSPs. However, this system will take time to implement, so there will be a period between the publication of relative performance data under Measure 1 and the implementation of mandatory reimbursement under Measure 3. During this time, the publication of comparative performance data should provide incentives for PSPs to implement more effective and consistent reimbursement policies. Even once a system of mandatory reimbursement has been implemented, there may still be some benefits from publishing the relevant data – for example, as is currently the case, PSPs will still have the option of voluntarily reimbursing their customers, even for claims that may fall outside any future mandatory reimbursement system.

19 CP22/4, Authorised push payment (APP) scams: requiring reimbursement (September 2022). For example, see Annex 2, paragraphs 2.32 to 2.34.

20 CP21/3, Authorised push payment scams – call for views (February 2021), page 16, Figure 4.

21 PSR analysis of UK Finance data collected from CRM code members (2021).

5.35 We have been unable to quantify the scale of the benefits that this increased consistency and certainty for customers would bring. However, given the current wide variation in reimbursement rates, even within the same PSP across different time periods, moving towards a consistent level of reimbursement, based on criteria that apply to all Faster Payments transactions, will lead to a substantial improvement in the welfare of victims and all consumers. Based on data for 2021 and the first half of 2022, annual APP scam losses are in the region of £500 million[22], with the current systems of voluntary reimbursement (the CRM code and TSB's policy) resulting in about 50% of this being reimbursed.[23] There is thus scope for substantial improvement, which, even if short-lived, would result in material benefits for consumers.

Costs

Costs to PSPs of collating and reporting data

5.36 We consider that the directed PSPs will incur direct costs associated with collating and reporting high-quality data – including extracting, quality assuring, transferring and responding to any queries on the data. In our November 2021 consultation paper, we stated that we believe the magnitude of these costs is likely to be relatively low for a number of reasons:

- It is likely that these PSPs already analyse data on their APP scam performance to inform their internal decision making. Moreover, we understand that, for most of these PSPs, broadly similar data is already made available to industry bodies and regulators. We understand that the exact metrics we are collecting differ, to some extent, from the data already collected and reported by PSPs, but we take the view that the incremental costs are likely to be low, given that processes are already in place for doing this.
- We understand that the requirement for a CFO, or equivalent, to assure the quality of data being provided is likely to have associated costs. However, we feel that this is necessary to ensure the data is high quality and not misleading. We also note that we would expect senior management within each PSP would want to understand their relative APP scam performance. We would also expect this cost – and the costs of collating and reporting the data more generally – to reduce over time as PSPs become familiar with the reporting requirements. As set out above, the incremental costs – over and above what PSPs are already spending on this issue – are likely to be small.
- We believe that requiring data from the 14 directed PSPs is more proportionate than requiring a wider set of smaller PSPs to submit data, too. As set out above, the directed PSPs should have the required mechanisms broadly in place; therefore, we believe that the incremental costs they might face will be minimal.

22 See: UK Finance, Annual fraud report: the definitive overview of payment industry fraud in 2021 (August 2022), page 47; UK Finance, 2022 Half year fraud update (October 2022), page 9.

23 See: UK Finance, Annual fraud report: the definitive overview of payment industry fraud in 2021 (August 2022), pages 48 to 49; UK Finance, 2022 Half year fraud update (October 2022), pages 21 to 22.

5.37 In response to our consultation, six respondents argued that the cost benefit analysis underestimated the cost of introducing a new data reporting and publication regime, with most pointing to the disproportionate costs this would impose on the 14 directed PSPs.

5.38 While we agree that the new reporting regime will create some additional costs for some PSPs, there are still a number of reasons to believe that these will not be material:

a. First, as set out above, PSPs should already have robust systems in place to track and analyse their APP scam performance, and this should especially be the case for the 14 largest PSPs, which account for over 90% of Faster Payments transactions.

b. Second, ten of the 14 directed PSPs are signatories of the CRM code, so are already collating data on sent APP scams and on their reimbursement of APP scam victims. In addition, a number of other PSPs submit data on APP scams sent by their customers to UK Finance's regular fraud publications, so the incremental cost of submission to the PSR should not be substantial. A number of the largest PSPs also submit data to the PSR on the level of APP scams sent by their customers as part of our monitoring of the CoP system. A number of other PSPs also reimburse victims of APP scam frauds that fall outside the CRM code in any case.

c. Third, a number of respondents particularly disagreed with our view that requiring directed PSPs to share APP scam data with the relevant receiving PSPs would create 'a small additional burden'.[24] However, we have refined our approach since the consultation by limiting the number of receiving PSPs with which each directed PSP will need to share data, and limiting the scope of the receiving PSPs' 'right of reply'.[25] This burden will therefore be lower than was envisaged in the consultation paper.

d. Fourth, with mandatory reimbursement of victims likely to be in place from 2024 onwards, all PSPs will soon have to maintain robust systems for tracking, collating, reporting and reconciling APP scam payments to and from their accounts, as well as data on their reimbursement of victims. Therefore, any necessary improvements to PSPs' existing systems that may be required for the mandatory reimbursement would happen in any case, with any incremental costs as a result of our data publication arising only where improvements are needed sooner than otherwise mandated.

e. Finally, in our consultation, we explicitly asked respondents to provide 'evidenced views on [the] likely relative magnitude' of the costs and benefits that we had identified.[26] As discussed, while a number of respondents argued, for example, that the cost of collating data had been 'underestimated' and that the burden arising from sharing data between sending and receiving PSPs was not 'small', none submitted detailed or robust estimates of the incremental costs of implementing the relevant data-collection and validation processes.

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24 CP21/10, Authorised push payment (APP) scams consultation paper (November 2021), paragraph 4.47.

25 CP22/5, Revised approach to APP scams Measure 1, Metric C process (December 2022).

26 CP21/10, Authorised push payment (APP) scams consultation paper (November 2021), Annex 1, paragraph 1.3.

Greater investment in fraud prevention

5.39 The most important benefit of publishing this information is that it incentivises PSPs to increase their investment in fraud prevention. As outlined above, we understand that PSPs have existing programmes to promote fraud prevention and consumer education. We would expect the directed PSPs to be incentivised to increase prevention as a result of this policy, but expect this incremental cost to be relatively modest as they would be building on existing initiatives. Greater investment in effective fraud prevention measures would also generate further benefits for the PSPs, the financial services industry and society more generally.

5.40 As set out above, with mandatory reimbursement of victims likely to be in place from 2024 onwards, all PSPs will soon have stronger incentives to detect and prevent APP scams as both sending and receiving PSPs. Therefore, greater investment in improving PSPs' existing systems will happen in any case, with our data publication generating incremental costs only where improvements are needed sooner than otherwise mandated.

Unintended facilitation of fraud

5.41 In principle, there is a risk that data published about a PSP's APP scam performance may inadvertently help scammers to target potential weaknesses in that PSP's systems. However, we believe that this risk is likely to be low for the following reasons:

1. Under the timeframes proposed in the policy, PSPs would have sufficient time to address any weaknesses in their systems before each tranche of data is published.
2. Data showing that a PSP has previously been disproportionately targeted by scammers is unlikely to reveal new information to scammers, while the level of aggregation is such that there will be little new information for fraudsters to use.[27]

De-banking of vulnerable customers

5.42 There is a potential risk that some customers, who may be vulnerable, will be excluded from accessing current accounts, or face restrictions on the services that they can access, as an indirect cost of the data publication. We have considered the risk that – in trying to improve their APP scam performance – PSPs may apply stricter criteria when deciding whether to allow potential customers to open current accounts. This could lead to some groups of customers, who may be more likely to exhibit characteristics of vulnerability, struggling to open accounts. We consider that this risk is likely to be low in practice, given the wider requirements for PSPs to protect vulnerable consumers and promote inclusion. We also consider that while, in theory, applying stricter criteria may marginally improve a PSP's performance on a single metric, it is unlikely to improve their overall performance materially across the balanced scorecard.

27 For example, which types of APP scam a particular PSP might be vulnerable to and which sending–receiving PSP pairs accounted for disproportionate levels of APP scam payments would not be revealed.

Unjustified reputational damage to some PSPs

5.43 In our November 2021 consultation, we identified the risk of unjustified reputational damage to PSPs as an indirect cost. We noted the risk that stakeholders may make incorrect inferences about a PSP's performance from the available information – for example, if they make assessments based on just one metric, rather than the balanced scorecard. This could lead to some PSPs facing unwarranted reputational damage.

5.44 A trade body pointed to the 'unquantifiable costs' associated with the reputational damage to a PSP should the reporting outputs be misinterpreted or misrepresented by the media and consumers while a PSP argued that there was a risk of 'disproportionate reputational' effects on firms, where commentators who are 'not best placed' or unbiased in assessing an individual firm's performance could 'inflict substantial and potentially irrecoverable damage' on a PSP.

5.45 We consider the risk of this cost arising to be low in practice, as we believe that it can be minimised through clear presentation of the data on the PSPs' and the PSR's websites. We are carefully considering the presentation of the metrics and the messaging around them as we implement the policy and collect the first tranches of data over the coming months.

Payment friction

5.46 One additional cost that was raised by a number of respondents was increased friction in payment journeys as a result of PSPs' efforts to prevent APP scams. Two respondents (one industry body and one PSP) criticised the assessment in the consultation paper for failing to take into consideration this risk and the subsequent customer dissatisfaction that may arise due to PSPs introducing new measures or technologies to reduce the incidence of APP scams.

5.47 We note that a significant number of respondents to our September 2022 consultation on mandatory reimbursement of APP scam victims[28] also pointed to the costs associated with increased payment friction – for example, delayed payments, declined payments, late-payment penalties for payers, etc.

5.48 In the context of our cost benefit analysis for the proposed mandatory reimbursement policy, we are considering its likely impact on payment friction. While it is possible that payment friction may increase initially, there are a number of reasons to believe that this should not impose material costs on PSPs or consumers:

1. While PSPs may initially adopt a more risk-averse approach, over time enhanced data sharing and cooperation between sending and receiving PSPs should mean that the impact on payment friction decreases (for those transactions that are not, in fact, scams).
2. While there may be increased friction, this does not necessarily lead to consumer harm, as some friction will be effective in preventing fraud and so should not be considered a cost.

28 CP22/4, Authorised Push Payments (APP) scams: Requiring reimbursement (September 2022).

3. There is no evidence that increased friction in the form of CoP checks that many PSPs have introduced over the past three years has led to payments being abandoned or delayed such that consumers have materially suffered – for example, due to late-payment penalties or failed transactions.

Impact on competition and innovation

5.49 The other area where respondents pointed to a potentially material cost that was not explicitly included in the cost benefit analysis in our consultation paper was the possible impact on competition and innovation. One industry body criticised robustness of our assessment in relation to the impact of the proposals on smaller and newer PSPs, pointing to:

a. Challenges around quantifying PSPs' contingent liabilities, especially for start-up fintech companies that need to raise capital.
b. Lack of assessment of the implications for competition, innovation and the international attractiveness of the UK, especially for new market entrants and 'scale-up' firms. One PSP agreed with this criticism, arguing that there was no evidence that we had undertaken an assessment of the interplay between the proposed policy and our statutory objective to advance competition and innovation.

5.50 One PSP, while agreeing with the cost benefit analysis, highlighted the risk that publishing fraud data could unfavourably skew the public's perception of UK banks as compared to their international counterparts, given the PSR's proposal to publish data that only applies to UK banks.

5.51 In assessing the scope for differential impacts on PSPs of different sizes, different ages and/or different models, we have considered two issues:

1. The costs of reporting – for both sending and receiving PSPs – should, to some extent, be proportionate to their size and the scale of APP fraud in question. The sending PSPs are 14 of the largest PSPs in the UK and, as set out above, should already have the capability and capacity to collate and report the relevant fraud data. For receiving PSPs, only the top 25 or so PSPs, in terms of APP scams received, will be involved in the data-validation process, rather than all of the several hundred PSPs that may be receiving APP scam payments. The reporting costs will thus be incurred by those PSPs that receive the most fraudulent payments. This is a proportionate application of the policy, rather than a distortion of competition.
2. Whether smaller or newer PSPs, or PSPs with specific business models (fintech or otherwise), are likely to face disproportionate uncertainty or challenges with regard to securing investment as a result of our data publication is, again, dependent on the levels of APP fraud that such firms receive. Any 'naming and shaming' of specific PSPs will reflect their levels of APP scam payments. As set out above, only the top 25 or so PSPs in terms of APP scam payments received will be listed as part of the Metric C publication, so there is no sense in which large numbers of, for example, smaller or newer PSPs, E-Money Institutions (EMIs), fintech firms or start-ups will be affected. Entrants are unlikely to be disincentivised from entering the UK market unless they were planning on quickly becoming leading hosts for fraudsters or mule accounts.

5.52 As a general point, where the naming of poor performers leads to commercial harm – due to customer or investor reaction – this is an example of effective competition. More information for customers and investors should lead to more effective competition, rather than weakened competition. Any costs incurred by specific PSPs will reflect the levels of APP scams they are sending or receiving, and/or their reimbursement levels. They will not, therefore, distort competition between PSPs with different business models or of specific types or sizes. In relation to any perceived distortion between UK and international banks, we note that, based on available data, approximately 5% of APP scams suffered by UK consumers used international payment channels.[29] As such, our focus on APP scams occurring over Faster Payments is appropriate and proportionate to the problem that we seek to tackle.

Conclusion

5.53 Considering the costs and benefits set out above in the round, we believe that the benefits of publishing data on the relative performance of PSPs in relation to APP fraud are likely to outweigh the costs. In undertaking this assessment, we have sought to account for three important factors:

1. First, the extent to which some relevant costs and benefits should be considered as incremental to those that would arise in any case.
2. Second, for many of the costs (and benefits), the publication of comparative data will have an indirect effect, with PSPs incentivised to change their behaviour, rather than the policy mandating such behavioural change.
3. Third, the likely timeframe over which these impacts are likely to materialise.

5.54 This assessment is set out in more detail at paragraphs 5.15 to 5.21, above.

29 UK Finance, 2022 Half year fraud update (October 2022). 'International' accounted for less than 1% of APP scam payments by volume and just over 5% by value, while Faster Payments accounted for 98% of APP scam payments by volume and over 85% by value.

6 Public sector equality duty

In line with our public sector equality duty under the Equality Act 2010, we must assess the likely equality impacts of any measures that we propose and consult on.

6.1 In this chapter, we explore the potential impacts of the proposals we are considering (and their implementation), including on those with relevant protected characteristics.[30]

6.2 In developing our proposals, we have considered matters set out in section 149 of the Equality Act 2010 (the public sector equality duty), particularly the impact of our proposed direction on people with protected characteristics. We have also considered those matters in developing our direction with implementing Measure 1, including when deciding whether to propose a direction, who to direct and what should be in the direction.

6.3 Measure 1 would provide reputational incentives both to prevent APP scams and to reimburse customers affected by APP scams. When we consulted on Measure 1 in November 2021, we asked for stakeholders' views on the potential impact of our proposals on individuals with protected characteristics and considered that our Measure 1 proposals should have a positive impact on all those who use payment systems, including those with protected characteristics. This is because the measures should reduce the risk of APP scams happening and the risk of consumers becoming victims of APP scams.

6.4 However, we considered that when implementing Measure 1, we would need to consider the risk that customers with protected characteristics might reduce or cease their use of banking or payment services, as their awareness of the problem and their reluctance to use some payment methods might both increase due to the wider availability of APP scam figures.

6.5 To mitigate these potential adverse impacts, we will make it clear to PSPs that they must ensure that they meet the needs of groups considered to be vulnerable. For example, we will make it clear that customers who are more at risk of becoming victims of scams should not be refused or denied payment services merely to 'improve' a PSP's APP scam figures, which will be published under Measure 1. We also expect PSPs to continue to treat all prospective customers equally, regardless of their vulnerability to APP scams. We will monitor the impact of our proposals and take action if adverse impacts are noted.

6.6 We have not heard views from stakeholders or seen any new information that alters our original assessment of the impact of the policy on individuals with protected characteristics.

30 The relevant protected characteristics under section 149 are: age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex, and sexual orientation.

Annex 1
Timetable

Timetable for the first reporting cycle

1.1 Based on our policy decision for Measure 1, we have developed a timetable of key deadlines in the reporting process for the first reporting cycle.

1.2 The direction and the reporting guidance set out the timings in general terms for the reporting cycles. For the sake of clarity, we have converted these into actual dates for the first two cycles, below.

1.3 Our intention is to issue such a timetable with the reporting guidance for future cycles.

Action	Timing
PSR to receive data from sending PSPs **First PSR reporting day**	Tuesday 2 May 2023
PSR to contact the 25 PSPs that are the most significant (and to provide a breakdown of their results by each of the 14 sending PSPs)	Wednesday 10 May 2023
Receiving PSPs can check data and request breakdown from sending PSPs	Wednesday 24 May 2023
Sending PSPs provide breakdown to receiving PSPs	Wednesday 7 June 2023
Receiving PSPs review detailed breakdown and submit request for revision to sending PSPs	Friday 7 July 2023
Sending PSPs consider requests for revisions and re-submit revised data to PSR **Final PSR reporting day**	Tuesday 8 August 2023
Sponsor PSPs may submit disaggregated indirect PSP data to PSR	Tuesday 8 August 2023
PSR to review the data, undertake prudential considerations and prepare publication formats **Publication month**	October 2023

1.4 This reporting cycle will relate to data from the first and second halves of 2022 – that is, January 2022 to June 2022, and July 2022 to December 2022, respectively.

1.5 For the second reporting cycle, the timetable will be as follows:

Action	Timing
PSR to receive data from sending PSPs **First PSR reporting day**	Tuesday 1 August 2023
PSR to contact the 25 PSPs that are the most significant (and to provide a breakdown of their results by each of the 14 sending PSPs)	Tuesday 8 August 2023
Receiving PSPs can check data and request breakdown from sending PSPs	Tuesday 22 August 2023
Sending PSPs provide breakdown to receiving PSPs	Wednesday 6 September 2023
Receiving PSPs review detailed breakdown and submit request for revision to sending PSPs	Friday 6 October 2023
Sending PSPs consider requests for revisions and re-submit revised data to PSR **Final PSR reporting day**	Wednesday 8 November 2023
Sponsor PSPs may submit disaggregated indirect PSP data to PSR	Wednesday 8 November 2023
PSR to review the data, undertake prudential considerations and prepare publication formats **Publication month**	January 2024

1.6 This reporting cycle will relate to data from the first half of 2023 – that is, January 2023 to June 2023.

1.7 As set out above, future reporting cycles will be set out in the reporting guidance.

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