

Consultation paper

APP fraud:  
Excess and maximum  
reimbursement level  
for Faster Payments  
and CHAPS

August 2023

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We welcome your views on this consultation. If you would like to provide comments, please send these to us by **5pm on 12 September 2023**.

You can email your comments to **appscams@psr.org.uk** or write to us at:

APP Scams  
Payment Systems Regulator  
12 Endeavour Square  
London E20 1JN

We will consider your comments when preparing our response to this consultation.

We will make all non-confidential responses to this consultation available for parliamentary and public inspection.

We will not regard a standard confidentiality statement in an email message as a request for non-disclosure. If you want to claim commercial confidentiality over specific items in your response, you must identify those specific items which you claim to be commercially confidential. We may nonetheless be required to disclose all responses that include information marked as confidential in order to meet legal obligations, in particular if we are asked to disclose a confidential response under the Freedom of Information Act 2000. We will endeavour to consult you if we receive such a request. Any decision we make not to disclose a response can be reviewed by the Information Commissioner and the Information Rights Tribunal.

You can download this consultation paper from our website: **[www.psr.org.uk/app-fraud-excess-max-cap-consultation-paper/](http://www.psr.org.uk/app-fraud-excess-max-cap-consultation-paper/)**

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# 1 Executive summary

**1.1** In June, we published our final policy statement, PS23/2: *Fighting authorised push payment fraud: a new reimbursement requirement*.<sup>1</sup> We clarified our position in relation to the excess and the maximum level of reimbursement, in particular regarding:

- **Claim excess:** Sending payment service providers (PSPs) may apply a claim excess under the new reimbursement requirement. This cannot be applied to vulnerable customers.
- **Minimum threshold:** There is no separate minimum value threshold for authorised push payment (APP) fraud.
- **Maximum level of reimbursement:** There is a maximum level of reimbursement for APP fraud claims (by value) under the new reimbursement requirement.

**1.2** We have identified key themes raised by stakeholders in response to our proposals. Among these, several respondents raised significant concerns that the new reimbursement requirement could lead customers to exercise less caution when making payments, because they are more likely to be reimbursed. While the evidence we received through the consultation was limited, in our final policy statement we accepted this as a valid risk to be managed. We consider that both PSPs and customers have a role to play in managing APP fraud risk.

**1.3** Given the current rates of fraud, with 207,372 incidents of APP fraud reported in 2022 – resulting in gross losses of £485.2 million<sup>2</sup> – and the complexity of social engineering and the evolving tactics of fraudsters, we expect PSPs to have effective controls in place to prevent fraud and protect customers. Our policy will ensure that PSPs are incentivised to take the necessary actions to reduce the likelihood of APP fraud while also recognising the need for customer caution.

**1.4** We previously consulted on the excess in September 2022<sup>3</sup>, and have since engaged with PSPs, industry groups, consumer groups and the Bank of England (the Bank) as the operator of the Clearing House Automated Payment System (CHAPS), to help inform our policy thinking.

**1.5** We expect to publish the final value of the excess and maximum reimbursement level by the end of 2023. These will complement the broader APP fraud reimbursement requirements set out in our final policy statement, published in June 2023, and will become live alongside it. We will take initial responsibility for defining the excess and the maximum level of reimbursement under the new reimbursement requirement. In the future, when Pay.UK has built sufficient capability and capacity, we will explore transferring these roles to Pay.UK.

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

2 [www.ukfinance.org.uk/policy-and-guidance/reports-and-publications/annual-fraud-report-2023](http://www.ukfinance.org.uk/policy-and-guidance/reports-and-publications/annual-fraud-report-2023)

3 CP22/4: [Authorised push payment \(APP\) scams: Requiring reimbursement](#) (September 2023).

## Excess

- 1.6** We consider that a single claim excess, set at the appropriate level, will clearly communicate to customers the need to exercise proper caution. It will also be easier for PSPs to administer.
- 1.7** While most PSPs were in favour of levying an excess, we received wide-ranging and often differing views on the value necessary to drive customer caution. We recognise that these are finely balanced decisions. We are consulting on the value of the excess to gain further views on what would be an effective and suitable approach to encouraging customer caution, while maintaining appropriate incentives on PSPs to prevent APP fraud. We invite respondents to provide data and evidence to support their submissions.

## Maximum reimbursement level

- 1.8** A maximum reimbursement level already exists in other customer protections in payments and helps establishing clear parameters for the scope of the new reimbursement requirement. This also allows firms to understand and manage their potential liability. The maximum level will be applied by claim (a claim will include all payments relevant to that case). It will not apply to payments made before the start of the new reimbursement requirement.
- 1.9** We will monitor both the excess and the maximum reimbursement level to ensure that they are achieving their aims. We will keep these under review and consider changes post-implementation in line with any information we receive while monitoring and evaluating this policy.

## 2 Introduction

### Background

**2.1** In September 2022, we published our consultation paper CP22/4: *Authorised push payment (APP) scams: Requiring reimbursement*.<sup>4</sup> Within that consultation, we outlined the following proposals, including:

- **Claim excess:** We proposed a £35 excess that could be levied on any qualifying reimbursement claim – that is, those of £100 or more.
- **Minimum threshold:** We proposed a minimum threshold of £100, intended to encourage PSPs to investigate higher-value fraud of often life-changing amounts.
- **Maximum level of reimbursement:** We proposed not placing a maximum upper limit on any reimbursement.

**2.2** Responses to our consultation were generally supportive of the reimbursement policy. There were, however, some concerns that PSPs might struggle to understand and implement the excess and minimum threshold. Some PSPs also expressed concern about the potentially unlimited liability, which would lead to increased prudential risk without a maximum upper limit in place.

**2.3** In June 2023, we published PS23/3: *Fighting authorised push payment fraud: a new reimbursement requirement*<sup>5</sup>, which stated our final policy position:

- **Claim excess:** Sending PSPs may apply a claim excess under the new reimbursement requirement.
- **Minimum threshold:** There is no separate minimum value threshold for APP fraud claims under the new reimbursement requirement.
- **Maximum level of reimbursement:** There is a maximum level of reimbursement for APP fraud claims (by value) under the new reimbursement requirement.

**2.4** We are now consulting on the **values** of the claim excess and maximum reimbursement limit.

**2.5** In June and July 2023, we held engagement sessions with industry trade bodies, PSPs, and consumers groups on what values would be appropriate. The aim of these sessions was to gather initial views from our stakeholders to inform the questions and options we are presenting in this consultation.

**2.6** We are also asking questions on the topic of a maximum reimbursement level for CHAPS on behalf of the Bank of England.

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4 [CP22/4: Authorised push payment \(APP\) scams: Requiring reimbursement](#), (September 2022).

5 [PS23/3: Fighting authorised push payment fraud: a new reimbursement requirement](#) (June 2023)

- 2.7** The Bank, as operator of the CHAPS high-value payment system, announced its intention to create comparable consumer protections for retail CHAPS payments.<sup>6</sup> Obligation would be placed on relevant CHAPS participants that have retail customers; but wholesale payments would be unaffected.
- 2.8** The Bank considers that the mandatory reimbursement model for CHAPS payments should be as consistent as possible with that of Faster Payments. This would simplify implementation by PSPs and improve consumer awareness. The Bank plans to make relevant changes to the CHAPS rulebook, and in the interest of time we are seeking views on a maximum reimbursement level for CHAPS on their behalf.

## What we are seeking to achieve with this consultation

- 2.9** As stated in our June 2023 policy statement, we will introduce an excess and a maximum reimbursement level. However, it is not possible to set with great precision the level that would protect customers from significant financial loss while encouraging consumer caution.
- 2.10** We are inviting views on what these levels should be, and where possible we would like respondents to provide evidence and data to support those views. This will inform the levels we set.
- 2.11** We confirmed in our policy statement that the excess will not be applied to vulnerable customers. As part of this consultation, we are consulting on whether the maximum reimbursement level should apply to vulnerable customers.
- 2.12** The rest of this consultation paper is set out as follows:
- **Chapter 3** outlines our proposed options for the excess.
  - **Chapter 4** outlines our proposed approach to setting the maximum reimbursement level for Faster Payments and the Bank of England views for CHAPS.
  - **Chapter 5** sets out our plans to monitor the effectiveness of our policy once the excess and maximum reimbursement level are implemented.
  - **Chapter 6** sets out the next steps, including how to respond to this consultation, our timetable, and a list of the consultation questions.

### ANNEXES

- **Annex 1** provides a cost benefit analysis of our proposals.
- **Annex 2** sets out our assessment of the likely equality impacts and rationale for our proposals, in line with our public sector equality duty under the Equality Act.

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6 [committees.parliament.uk/publications/40547/documents/197730/default/](https://committees.parliament.uk/publications/40547/documents/197730/default/)

# 3 Excess

## Parameters of the policy

- 3.1** We consider that an excess at the appropriate level will encourage customer caution at the point of payment, addressing the risk of moral hazard.<sup>7</sup>
- 3.2** We recognise that an excess may discourage victims from reporting fraud, especially for amounts below the excess that would not be liable for reimbursement. We nonetheless expect sending PSPs to investigate lower-value fraud, together with receiving PSPs and law enforcement, and encourage customers to report these frauds regardless of any reimbursement. If repatriation is successful, PSPs may still be able to recover and return funds.
- 3.3** PSPs will not be able to levy an excess on reimbursements for victims considered to be vulnerable. This is because:
- A financial loss of any level (because of the excess) could have a disproportionately negative impact on vulnerable consumers.
  - Some types of vulnerability can impair decision-making, making certain people more vulnerable to social engineering used for APP fraud and less able to exercise caution to protect themselves from APP fraud. The case for incentivising caution with an excess is therefore weaker for these people.
  - Victims' Commissioner data tells us that the most vulnerable customers are more likely to be severely emotionally impacted by any financial loss. The Financial Conduct Authority's *Financial Lives* survey supports this: as of May 2022, 24% of all UK adults are already in financial difficulty or would find themselves in financial difficulty if they suffered a financial shock due to having little to no savings. Applying an excess to these people could cause significantly greater hardship.
- 3.4** In our September 2022 consultation, all respondents who addressed vulnerability agreed with our proposal that vulnerable customers should be exempt from any excess.
- 3.5** We recognise the impact of the current cost of living on consumers, and expect PSPs to ensure that any excess does not impose undue financial strain. In assessing vulnerability, PSPs should consider both the circumstances giving rise to the fraud, and the financial impact on the victim.

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<sup>7</sup> In this context, 'moral hazard' refers to the risk that a system of mandatory reimbursement could lead to an increase in payments where customers have not exercised sufficient caution, in the knowledge that any losses are likely to be fully reimbursed.



- 3.6** We also expect PSPs to apply the vulnerability exemption if the excess would cause a victim financial difficulty <sup>8</sup>.
- 3.7** The victim's PSP (the sending PSP) may apply a claim excess under the new reimbursement requirement. The sending PSP can decide how much the excess will be, up to the maximum level. If the sending PSP chooses to apply the maximum claim excess, the receiving PSP is liable for only 50% of an in-scope claim – minus the maximum claim excess.
- 3.8** While we will allow PSPs to levy an excess, they will not be mandated to do so. Our position is that PSPs are free to choose not to apply an excess. Some respondents to our consultation felt that allowing PSPs to apply a partial excess may create confusion and/or undermine the objectives of an excess if it is not adopted fully, but we do not want to prevent PSPs from reimbursing more funds to victims if they wish. Sending PSPs that apply a partial excess will not be able to claim any of the waived amount from the receiving PSP.

**Question 1: Do you agree that PSPs should be free to apply a partial excess, as well as not levy an excess at all, should they want to?**

## Factors to consider when setting the excess

- 3.9** When considering what the excess level should be, we have identified four primary relevant factors. These are:
- incentivising customer caution and influencing customer decision-making
  - the level of operational demand for PSPs (either in applying an excess or in excluding low-value claims)
  - ease of understanding for consumers
  - minimising financial loss for consumers

**Question 2: Are these factors the correct ones when considering the excess?**

**Question 3: Is there anything else we should consider when setting the level for the excess?**

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<sup>8</sup> As mentioned in the [FCA FG21/1: Guidance for firms on the fair treatment of vulnerable customers](#), paragraph 2.16, one of the four key drivers behind increased vulnerability is low resilience, or the ability to withstand financial or emotional shocks: 'Firms should understand how vulnerability can be perpetuated or worsened by their own actions, or inaction'.

## Options we are presenting

- 3.10** We have identified three options that we believe could address these primary factors. The options are:

<b>Fixed excess</b>	Any reimbursement claims under this amount would not receive any funds, and PSPs could deduct this amount from any valid reimbursement claims above it
<b>Percentage excess</b>	The excess would be a percentage of the reimbursement claim amount. All valid claims would receive some funds, but PSPs could deduct the excess percentage amount from the reimbursement. Victims with smaller reimbursement claims would pay a smaller excess than victims with a larger reimbursement claim.
<b>Percentage excess with a cap</b>	The excess would work as a percentage excess up to a certain financial limit. The excess could be no more than this limit, regardless of the value of the reimbursement claim.

- 3.11** We recognise that these options would deliver very different outcomes. For example, the fixed excess would operate as a de facto threshold, taking lower-value frauds out of scope, while the percentage excess would have more impact on higher-value fraud. We are seeking stakeholders' views.

### Effects of presented options

#### Fixed excess (£100 or £250)

- 3.12** If the fixed excess was £100, a customer who was defrauded out of £300 would receive that amount minus the £100 excess. The customer would, therefore, receive £200 as a reimbursement and would 'pay' the other £100 as an excess.
- 3.13** With a fixed excess, victims with claims smaller than the excess might receive no reimbursement at all, giving them little incentive to report the fraud. This could reduce the quality of information available about all types of APP fraud.
- 3.14** This option would encourage greater levels of customer caution for smaller payments (relative to larger payments) as customers would lose a larger proportion of the funds in lower-value frauds.
- 3.15** PSPs would have no obligation to reimburse (non-vulnerable) customers for frauds falling below the fixed excess. This would reduce the financial incentive on firms to invest in fraud prevention intended to prevent fraud for types of transactions that typically fall below, or close to, the fixed excess. Over time, this could encourage fraudsters to target these types of transactions, where the incentives to prevent fraud are the weakest. We note that a fixed excess could take a high proportion of purchase frauds out of scope for reimbursement, as these are more likely to be lower value.

- 3.16** Through our engagement with stakeholders, we have been told that this option would be the easiest for PSPs to implement. It would reduce the administration cost for PSPs as they would not have to process very small claims. We have also been told that this option would be the easiest for customers to understand.

**Figure 1: UK Finance aggregate data on APP fraud cases below selected excess amounts, by volume and value<sup>9</sup>**

<b>Cases up to and including £100</b>	
<b>% Volume of total APP fraud below the value of £100</b>	<b>32.30%</b>
<b>% Value of total APP fraud below the value of £100</b>	<b>0.91%</b>
<b>Cases up to and including £250</b>	
<b>% Volume of total APP fraud below the value of £250</b>	<b>54.37%</b>
<b>% Value of total APP fraud below the value of £250</b>	<b>2.79%</b>
<b>Cases up to and including £500</b>	
<b>% Volume of total APP fraud below the value of £500</b>	<b>67.16%</b>
<b>% Value of total APP fraud below the value of £500</b>	<b>5.28%</b>
<b>Cases up to and including £1,000</b>	
<b>% Volume of total APP fraud below the value of £1,000</b>	<b>78.52%</b>
<b>% Value of total APP fraud below the value of £1,000</b>	<b>9.58%</b>

#### Percentage excess (5% or 10%)

- 3.17** If the percentage excess was 10%, a customer who was defrauded out of £30,000 would receive 90% of their claim back. The customer would, therefore, receive £27,000 as a reimbursement.
- 3.18** With a percentage excess, all victims would receive some reimbursement from their PSP, which could encourage greater fraud reporting. This option would encourage customer caution proportionate to the value of the payment being made. This option would also mean that victims of larger frauds could have a very significant excess applied.
- 3.19** This option avoids excluding any frauds from the compensation arrangements, maintaining incentives on PSPs to prevent all types of frauds, with the strength of that incentive being linked to the value of the frauds.
- 3.20** In our engagement with stakeholders, we were told that while this option would be relatively easy to implement, it is more difficult for customers to understand than a fixed excess. It would mean that all cases, no matter how low the value, would need to be processed for some reimbursement.

<sup>9</sup> Data provided by UK Finance on behalf of eight PSPs for H2 2022. The cases include personal accounts, microbusinesses and charities.

### Percentage excess with a cap (5% or 10%)

- 3.21** If the fixed excess was 10% with a cap of £1,000, a customer who was defrauded out of £30,000 would receive that amount minus the cap amount, because the cap would have been reached. This means they would receive £29,000 as a reimbursement, and would lose £1,000.
- 3.22** Or, if the excess was 10% with a cap of £250, a customer defrauded out of £100 would receive 90% back, which would be £90. If they were defrauded out of £10,000, they would receive £9,750.
- 3.23** With a percentage excess with a cap, all victims would receive some reimbursement from their PSP, which could encourage greater fraud reporting. In claims above the excess cap, victims would pay a proportionally smaller excess than victims defrauded out of less. This could have the impact of incentivising caution for all payments while balancing the financial harm to victims.
- 3.24** This option avoids excluding any frauds from the compensation arrangements, maintaining incentives on PSPs to prevent all types of frauds, with the strength of that incentive being linked to the value of the frauds.
- 3.25** Through our engagement with stakeholders, there have been concerns about how easy it would be to explain this option and some concerns that all cases would be potentially eligible for some reimbursement, increasing the administration cost to PSPs.

**Question 4:** We are seeking views on whether the excess should be a fixed amount or a percentage of the fraud value. Should the excess be a fixed value, a percentage or a percentage with a cap? If fixed, what value should it be and why? If a percentage, what amount and why? If a percentage with a cap, what amount and what should the cap be?

**Question 5:** Do you have any data, evidence or views to suggest how an excess should be calibrated?

**Question 6:** Should the excess remain static? Increase with inflation? Some other metrics? Not increase at all?

## Other options we considered

- 3.26** We considered several other options, but these seemed less viable when assessed against the factors we have set out above.

### Variable excess levels for different fraud types

- 3.27** We considered, and some stakeholders agreed, that varying the excess by type of fraud would be hard to communicate to customers, and would place a high operational demand on PSPs. We believe that people must understand the potential cost of experiencing APP fraud, so that they will exercise the proper caution. Furthermore, people are often unaware

they are the victim of a fraud until it has happened, meaning they may not be able to identify the nature of the fraud.

- 3.28** PSPs would have to put resources into identifying the type of fraud, and be prepared to justify and explain their decisions to customers. The level of investigation required for this could be overly burdensome, especially with more sophisticated and long-term fraud.
- 3.29** This proposal would also create a degree of judgement as to which frauds victims should have taken more care to avoid, or which frauds they should have been more able to notice.

### Variable excess levels for different fraud amounts

- 3.30** Some stakeholders suggested applying a fixed excess for lower-value fraud and a percentage excess for higher-value fraud. We again considered that this option would be hard to explain to customers, which would make it less effective as an incentive for customer caution.

### High fixed excess of £500 and more

- 3.31** We considered that a very high excess would be too financially damaging to victims of APP fraud. A significant amount of APP fraud, approximately 67%<sup>10</sup>, is for values below £500 and with an excess set at this level, too many victims would receive no reimbursement at all. Claims above this amount would also lose a substantial amount of money. This would significantly reduce fraud reporting and deprive PSPs of data that would be useful in counteracting APP fraud.
- 3.32** We will consider any fixed excess option presented up to and including £500, but any excess above this we are unlikely to consider viable.

### Excess of £35

- 3.33** We considered that this proposal would be too low to effectively encourage customer caution. While it would encourage reporting of lower-value frauds and minimise financial loss for victims, it would likely not achieve the purpose of having an excess.

### Mixed percentage and fixed excess

- 3.34** Some stakeholders suggested combining a percentage excess and a fixed excess. This could mean having a £100 fixed excess up to losses of £1,000, and then switching to a percentage excess for losses above this amount. While this proposal could incentivise customer caution for both smaller and larger payments, it would risk customers not understanding the system and therefore not taking proper caution anyway.

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10 Figure 1 – UK Finance data

# 4 Maximum reimbursement level

## Parameters of the policy

- 4.1** A maximum reimbursement level will establish clear parameters for the new reimbursement requirement, allowing firms to understand and manage their potential liability. The reimbursement requirement imposes a financial risk on PSPs, but we believe PSPs will be able to manage this by creating strong and sophisticated anti-fraud measures on both sending and receiving sides. By setting a maximum reimbursement level, we want to protect PSPs from potentially unlimited financial risk. They will nonetheless be incentivised to maintain their anti-fraud measures, because we will require them to reimburse the victim up to a fixed amount regardless of how much above this amount the victim has lost.
- 4.2** We intend to use the same parameters as existing consumer protections, to ensure consistency and aid understanding. A maximum reimbursement level will bring our policy in line with other consumer protections already in place, such as the limits on Financial Ombudsman Service awards and Financial Services Compensation Scheme (FSCS) protection.
- 4.3** For these reasons, we are consulting on whether to apply the cap to all consumers, including vulnerable customers.
- 4.4** We are not proposing that PSPs must use the maximum reimbursement level we set. PSPs will be free to increase the level or remove it entirely for their customers, and we do not want to limit this.

**Question 7: Do you agree that the maximum reimbursement level should be applied to all consumers, including those who might be classed as vulnerable?**

## Factors to consider when setting the maximum reimbursement level

- 4.5** We did not propose a maximum reimbursement level in the September consultation, but some stakeholders expressed concerns about the financial risk if there was no limit on reimbursement for some high-value transactions. We agreed that this was a valid risk and should be mitigated against with a maximum reimbursement level. We have identified three factors relevant to deciding what the level should be:
- the level of PSP liability
  - the ability of the cap to cover the majority of cases
  - appropriate coverage of all fraud types to incentivise PSP anti-fraud measures

**Question 8: Are these factors the correct ones when considering the maximum reimbursement level?**

**Question 9: Are there any other factors we should consider?**

## The option we are presenting for Faster Payments

- 4.6** This maximum reimbursement limit would apply specifically to Faster Payments. Other consumer protection mechanisms, such as the FSCS and the ombudsman service, also offer a maximum cap. Capping liability is common in consumer protection and aligning with an existing cap such as the ombudsman service limit would ensure consistency and aid customer understanding.
- 4.7** We would currently prefer to match the maximum reimbursement level to the ombudsman service limit of £415,000. This is a well understood limit and is sufficiently high that most victims, approximately 99.98%<sup>11</sup>, will be unaffected by it, and even those who are will still be reimbursed a significant amount. We would expect customers and PSPs to take extra steps to guard against fraud and would expect these checks to increase proportionally to the value of the transaction.
- 4.8** We believe that a cap of £415,000 strikes a balance between protecting and reimbursing nearly all consumers and protecting PSPs from very large frauds that could affect their financial viability. This should still incentivise PSPs to improve and maintain anti-fraud measures for all values.
- 4.9** The ombudsman service limit increases every year with inflation, following the levels set by the Financial Conduct Authority (FCA). We are consulting on whether we should mirror this limit, or alternatively use some other metric for the maximum reimbursement level.

**Question 10: Do you gather any data that would show what type of cases are likely to fall outside the maximum reimbursement level?**

**Question 11: Should the maximum reimbursement level align with the Financial Ombudsman Service going forward? Increase by inflation? Some other metrics? Not increase at all?**

**Question 12: What factors should we consider as part of the review of a maximum reimbursement level?**

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

## Options we considered for Faster Payments

**4.10** Other options for a maximum reimbursement level that we considered were:

- £30,000 (consumer credit limit)
- £85,000 (FSCS limit)
- £1 million (Faster Payments transaction limit)

**4.11** £30,000 and £85,000 were deemed too low, since they would exclude a significant number of victims. There would be significant harm to those victims defrauded above this amount. We do not consider the FSCS limit to be directly comparable to a maximum reimbursement limit, as customers are able to manage their own risk with deposits, and open multiple accounts to keep their savings in each firm below £85,000. This is not possible with APP fraud as reimbursements will be considered on a per case basis, not a per payment basis.

**4.12** £1 million was deemed too high since it would affect hardly any cases and has no analogue in any other UK scheme. Some stakeholders also stated that such a high limit would offer limited prudential protection for PSPs, and make smaller PSPs less willing to process larger transactions. If the maximum reimbursement level is higher than this but a PSP refuses to pay, the appeal route for customers would have a £415,000 maximum. We anticipate not aligning with the ombudsman service would significantly increase appeals.

**Figure 2: UK Finance aggregate data on APP fraud cases below selected maximum thresholds, by volume and value<sup>12</sup>**

<b>Cases from £0 up to and including £85,000</b>	
<b>% volume of total APP fraud up to and including £85,000</b>	<b>99.72%</b>
<b>% value of total APP fraud up to and including £85,000</b>	<b>74.79%</b>
<b>Cases From £0 up to and including £350,000</b>	
<b>% volume of total APP fraud up to and including £350,000</b>	<b>99.98%</b>
<b>% value of total APP fraud up to and including £350,000</b>	<b>94.62%</b>
<b>Cases from £0 up to and including £410,000</b>	
<b>% volume of total APP fraud up to and including £410,000</b>	<b>99.988%</b>
<b>% value of total APP fraud up to and including £410,000</b>	<b>95.49%</b>
<b>Cases from £0 up to and including £500,000</b>	
<b>% volume of total APP fraud up to and including £500,000</b>	<b>99.995%</b>
<b>% value of total APP fraud up to and including £500,000</b>	<b>96.85%</b>

<sup>12</sup> Figure 2 – Data provided by UK Finance on behalf of eight PSPs for H2 2022. The cases include personal accounts, microbusinesses and charities.



## The option presented for CHAPS

- 4.13** The below section includes questions that the PSR is presenting on behalf of the Bank of England. These questions from the Bank, as the operator of CHAPS, have been included in this consultation to inform the appropriate levels for CHAPS, given the Bank and our work on implementing reimbursement for CHAPS payments. This consultation also reflects time considerations and the synergies between the two policies. Answers to these questions will be sent to the Bank to analyse and will not be analysed by the PSR.
- 4.14** The Bank of England recognises the benefits of aligning the Faster Payments and CHAPS maximum reimbursement limit at the current ombudsman service limit of £415,000. This limit is sufficiently high to ensure that the vast majority of victims are unaffected by it, and even those that are will still be reimbursed a significant amount. The Bank would expect customers and PSPs to take extra steps to check the validity of the payment and avoid being defrauded, but that these checks increase relative to the value of the transaction.
- 4.15** Aligning the Faster Payments and CHAPS maximum reimbursement limit at the ombudsman service limit is the preferred option of the Bank, as the operator of CHAPS. This reflects the Bank's views of the importance of a consistent limit being applied for all claims whether they are Faster Payments-only, CHAPS-only, or a combination of Faster Payments and CHAPS payments. A consistent limit is easier for customers to understand, for PSP staff to communicate, and for PSPs to operationalise.
- 4.16** At £415,000, the Bank considers there is a good balance between ensuring nearly all consumers using CHAPS payments are protected and receive appropriate reimbursement, while also protecting PSPs from very large frauds that could affect their financial viability. The Bank believes this level also still incentivises PSPs to improve their anti-fraud measures for all fraud values.
- 4.17** The ombudsman service limit increases every year with inflation, with this rebasing being done by the FCA. The Bank is seeking views on whether it should commit to increase in line with the ombudsman service limit, as set out by the FCA, or whether some other metric or method should be used to update the maximum reimbursement level.
- 4.18** The PSR will consult at a later date on how to ensure consistency and effective implementation in CHAPS.

- Question 13:** Do you agree that the current ombudsman service limit of £415,000 should be the maximum reimbursement level for APP fraud claims in CHAPS?
- Question 14:** For CHAPS, should the maximum reimbursement level be applied to all consumers?
- Question 15:** For CHAPS, do you gather any data that would show how many and what type of cases are likely to fall outside the maximum reimbursement level?
- Question 16:** Should the maximum reimbursement levels for Faster Payments and CHAPS diverge now or in the future?
- Question 17:** For CHAPS, should the maximum reimbursement level align with the ombudsman service going forward? Increase by inflation? Some other metrics? Not increase at all?

## Other options considered for CHAPS

- 4.19** The Bank of England considered also setting a maximum reimbursement level of £1 million. As with Faster Payments, this was deemed too high as it would offer limited prudential protection for PSPs, and make smaller PSPs less willing to process larger transactions due to the potential financial risk to themselves.
- 4.20** The Bank, as operator of CHAPS, has weighted consistency with Faster Payments. And as with Faster Payments a relatively small additional number of cases would exceed the maximum reimbursement level.

- Question 18:** Should a limit higher than £415,000 be adopted instead for CHAPS, and if so, what level?

# 5 Implementation and review

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The UK is the first country in the world to implement consistent minimum standards for reimbursing victims of APP fraud. We will monitor the effectiveness of our policy from day one and publish a post-implementation review within two years.

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## Implementation of the excess and maximum reimbursement level

- 5.1** We expect to publish our final position on the values of the excess and the maximum reimbursement level by the end of 2023. These will complement the wider APP fraud reimbursement requirements we set out in our policy statement published in June 2023 and will become live along with them.

## Monitoring the effectiveness of the new reimbursement requirement

- 5.2** We will monitor the effectiveness of the new reimbursement requirement using information from Pay.UK as well as our own data on how Pay.UK itself is monitoring compliance. We expect to collect data regularly on outcomes set out in Chapter 1, including:
- the level of APP fraud, including total value and the number of reported cases
  - the level of APP fraud reimbursement under the new requirement, including the number of claims and their value
  - treatment of vulnerable customers, including levels of reimbursement to them
  - the value of repatriated APP fraud funds
  - transaction volumes through Faster Payments
  - the speed of reimbursement, including the average length of all investigations
- 5.3** We will use this data to assess the effect of the excess and maximum reimbursement level on customers, and consider whether changes need to be made to ensure we have a fair and proportionate policy in place.
- 5.4** We aim to report on the effectiveness of the new reimbursement requirement through our annual performance report and publish a review within two years.
- 5.5** The effectiveness of the reimbursement policy as a whole will help us assess whether we have set the excess and maximum reimbursement level at the right amounts.

## Aligning with the balanced scorecard of APP fraud data

**5.6** In March 2023, we directed 14 PSP groups to collect and report data on their management of APP fraud using three metrics of performance:

- **Metric A:** The proportion of APP fraud victims left out of pocket.
- **Metric B:** APP fraud rates for each sending PSP.
- **Metric C:** APP fraud rates for each receiving PSP (not including any money returned to the victims).

**5.7** We plan to publish this balanced scorecard of APP fraud data for the first time in October 2023. Over time, the data reporting method is likely to change. Once we have implemented the new reimbursement requirement, we will replace the Metric C validation process with a fuller process for checking information between sending and receiving PSPs to support the liability split between them. We will review how well the balanced scorecard supports our ongoing evaluation of the new reimbursement requirement, recognising overlaps between some data points. We will also consider whether there are opportunities to streamline our reporting requirements.

## Post-implementation review

**5.8** We plan to publish a comprehensive review of the new reimbursement requirement within two years of day one. This will consider how effective the excess and the maximum reimbursement level have been, set against our objectives.

**5.9** We will also work with Pay.UK towards our goal of Pay.UK eventually making, maintaining, refining, monitoring and enforcing compliance with comprehensive scheme rules addressing fraud in the system. Where necessary, we will consult on any changes to Pay.UK's role and implement these changes through appropriate legal instruments.

**5.10** We will review the progress of wider action to fight fraud. This includes our own efforts – publishing a balanced scorecard of APP fraud data, increasing intelligence sharing and expanding Confirmation of Payee – as well as the projects and activities of others.

**5.11** We will review the level of the excess and the maximum reimbursement level and consider their effectiveness and whether any changes should be made.

# 6 Next steps

## How to respond

- 6.1** We are asking for feedback on the issues set out in this consultation by **Tuesday 12 September 2023**. We continue to welcome feedback from all stakeholders and interested parties, not only entities that we regulate.
- 6.2** You can provide feedback by emailing us at **appscams@psr.org.uk**. We would be grateful if you could provide your response in a Microsoft Word document (rather than, or as well as, a PDF).
- 6.3** We will make all non-confidential responses available for public inspection. If your submission includes confidential information, please also provide a non-confidential version suitable for publication.
- 6.4** For the questions related to CHAPS, we will share those responses with the Bank of England as they are the final decision makers on this.
- 6.5** Following the deadline for this consultation, we will take feedback into account and include our final policy positions in a policy paper to be published by the end of 2023.

## Timetable

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<b>Q3 2023</b>	The PSR will consider responses to this consultation in developing its policy decisions on the excess and maximum reimbursement level.
<b>Q4 2023</b>	The PSR will publish its final policy position on the excess and maximum reimbursement level.

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## List of questions

- Question 1:** **Do you agree that PSPs should be free to apply a partial excess, as well as not levy an excess at all, should they want to?**
- Question 2:** **Are these factors the correct ones when considering the excess?**
- Question 3:** **Is there anything else we should consider when setting the level for the excess?**
- Question 4:** **We are seeking views on whether the excess should be a fixed amount or a percentage of the fraud value. Should the excess be a fixed value, a percentage or a percentage with a cap? If fixed, what value should it be and why? If a percentage, what amount and why? If a percentage with a cap, what amount and what should the cap be?**

- Question 5:** Do you have any data, evidence or views to suggest how an excess should be calibrated?
- Question 6:** Should the excess remain static? Increase with inflation? Some other metrics? Not increase at all?
- Question 7:** Do you agree that the maximum reimbursement level should be applied to all consumers, including those who might be classed as vulnerable?
- Question 8:** Are these factors the correct ones when considering the maximum reimbursement level?
- Question 9:** Are there any other factors we should consider?
- Question 10:** Do you gather any data that would show what type of cases are likely to fall outside the maximum reimbursement level?
- Question 11:** Should the maximum reimbursement level align with the Financial Ombudsman Service going forward? Increase by inflation? Some other metrics? Not increase at all?
- Question 12:** What factors should we consider as part of the review of a maximum reimbursement level?

#### Questions from the Bank of England in relation to CHAPS

- Question 13:** Do you agree that the current ombudsman service limit of £415,000 should be the maximum reimbursement level for APP fraud claims in CHAPS?
- Question 14:** For CHAPS, should the maximum reimbursement level be applied to all consumers?
- Question 15:** For CHAPS, do you gather any data that would show how many and what type of cases are likely to fall outside the maximum reimbursement level?
- Question 16:** Should the maximum reimbursement levels for Faster Payments and CHAPS diverge now or in the future?
- Question 17:** For CHAPS, should the maximum reimbursement level align with the ombudsman service going forward? Increase by inflation? Some other metrics? Not increase at all?
- Question 18:** Should a limit higher than £415,000 be adopted instead for CHAPS, and if so, what level?

# Annex 1

## Cost benefit analysis

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In June, we published our cost benefit analysis of the overall reimbursement policy.<sup>13</sup> This identified those costs and benefits that could be materially affected by our approach to setting the excess and maximum reimbursement level. The most significant effects will come from where we set the excess (£100 excess, for example, could impact a quarter of claims), while the maximum level of reimbursement, if set at £415,000, would impact a very small share of APP fraud claims, based on current data.

The biggest impacts on the benefits are likely to be:

- a slight reduction in PSP incentives to invest in APP fraud prevention – and so a lower reduction in APP fraud – although an excess that reduces the risk of moral hazard should still reduce APP fraud
- reduced incentives on PSPs to recover funds, especially in low-value cases

A number of important costs are likely to fall, based on:

- reduced investment by PSPs in fraud prevention, although this is unlikely to be material
  - lower administrative costs for PSPs due to fewer claims, which will be significant if a large share of lower-value claims are affected
  - lower costs from payment friction if lower-value transactions are out of scope
  - reduced risk of moral hazard and greater incentives on consumers to exercise caution
  - Maximum level of reimbursement reduces prudential risk for smaller PSPs
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<sup>13</sup> [PS23/3: Fighting authorised push payment fraud: A new reimbursement requirement](#), (June 2023), Annex 4.

# Introduction

## June 2023 policy statement

- 1.1** In our policy statement from June 2023, we removed the previously proposed £100 minimum claim threshold and the £35 excess that we had consulted on in September 2022, stating that we would consult separately on the appropriate levels for an excess and for a maximum reimbursement level<sup>14</sup>. Our cost benefit analysis, published with the policy statement, identified a number of benefits and costs likely to be affected by our decision here<sup>15</sup>:
- a. The excess and the maximum reimbursement level would limit the overall scale of reimbursement going from PSPs to victims of APP fraud.<sup>16</sup>
  - b. We pointed to two benefits likely to be reduced as a result of the excess and maximum reimbursement level<sup>17</sup>:
    1. Reduced PSP liability could reduce their incentives to invest in APP fraud prevention, and so reduce its impact on APP fraud prevention.
    2. Reduced PSP liability could also reduce their incentives to recover funds.
  - c. We identified four costs likely to be reduced<sup>18</sup>
    1. Reducing PSP liability weakens their incentive to invest in fraud prevention, so their costs in this area are likely to be lower.
    2. An excess that reduces the volume of lower-value claims would lower PSPs' administrative costs.
    3. A maximum level of reimbursement would mean that a small number of high-value claims would not disproportionately affect a small PSP – reducing the risk of prudential impacts that might affect competition and innovation.
    4. A sufficiently high excess could reduce the risk of moral hazard and incentivise greater customer caution, reducing costs on PSPs.

## Approach to this assessment and our baseline

- 1.2** These proposals are part of a package of measures aimed at reducing APP fraud. Rather than looking at the costs and benefits of each element in isolation, we have taken the approach of building on our existing analysis in this assessment. We have set as our baseline the reimbursement policy with no excess and no maximum reimbursement level. We then assess the impact of the options in this consultation against that baseline.

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

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

16 [PS23/3: Fighting authorised push payment fraud: A new reimbursement requirement](#), (June 2023), Annex 4, paragraph 1.29.

17 [PS23/3: Fighting authorised push payment fraud: A new reimbursement requirement](#), (June 2023), Annex 4, paragraph 1.30.

18 [PS23/3: Fighting authorised push payment fraud: A new reimbursement requirement](#), (June 2023), Annex 4, paragraphs 1.31 and 1.33.



- 1.3** Our assessment is based on a combination of qualitative and quantitative evidence. We have not been able to precisely estimate the likely impacts of all the relevant benefits and costs. However, we have been able to estimate the impact on overall reimbursement levels of relevant excess options and of our preferred maximum reimbursement level. While these numbers do not translate directly into specific values for the relevant costs and benefits, they give an indication of the likely scale of any impact.

## Impact of the excess on our assessment

- 1.4** While we are not consulting on specific values for the excess, for the purposes of this assessment, we have looked at fixed excesses of £100 and of £250, and at percentage excesses of 5% and 10%. Our calculations are likely to overstate the effect of our proposed excess, as this is **optional** for PSPs and many PSPs already voluntarily reimburse a significant proportion of customer losses.
- a. **£100 fixed excess:** APP fraud cases with values below £100 currently account for just under 1% of APP fraud losses (or around £4.5 million per annum), although they account for 32% of cases.<sup>19</sup> In these cases, victims would receive no reimbursement. In addition, in cases where the loss exceeds £100, victims would have the level of reimbursement reduced by £100, with APP fraud losses in the region of £14 million being affected.<sup>20</sup> Overall, the level of reimbursement would be around 4% or £18 million lower with a £100 excess than if there were no excess.
  - b. **£250 fixed excess:** APP fraud cases with values below £250 currently account for just under 3% of APP fraud losses (or £13.5 million per annum), although they account for 54% of cases.<sup>21</sup> In these cases, victims would receive no reimbursement. In addition, in cases where the loss exceeds £250, victims would have the level of reimbursement reduced by £250, with APP fraud losses in the region of £24 million being affected.<sup>22</sup> Overall, the level of reimbursement would be 8% or £37 million lower with a £250 excess than if no excess is imposed.
  - c. **5% or 10% percentage excess:** Total reported APP fraud in 2022 was just over £485 million.<sup>23</sup> A 5% excess would reduce the level of reimbursement by c.£24 million per annum, while a 10% excess would lead to losses of c.£49 million not being reimbursed by PSPs.

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19 Data provided by UK Finance in relation to eight PSPs for H2 2022.

20 Cases with losses in excess of £100 account for 68% of APP fraud cases. In 2022, there were 207,372 cases, so we assume that 140,391 involved losses in excess of £100. Given this, a £100 excess would reduce reimbursement on these cases by about £14 million per annum. See UK Finance, [Annual fraud report – the definitive overview of payments industry fraud in 2023](#), (May 2023), page 47.

21 Data provided by UK Finance in relation to eight PSPs for H2 2022.

22 Cases with losses in excess of £250 account for about 46% of APP fraud cases. In 2022, there were 207,372 cases, so we assume 94,624 involved losses in excess of £250. Given this, a £250 excess would reduce reimbursement on these cases by about £24 million per annum. See UK Finance, [Annual fraud report – the definitive overview of payments industry fraud in 2023](#), (May 2023), page 47.

23 UK Finance, [Annual fraud report – the definitive overview of payments industry fraud in 2023](#), (May 2023), page 47.

**1.5** As set out in our cost benefit analysis, we have not taken the approach of directly balancing the costs of increased reimbursement that PSPs will face against the benefits of increased reimbursement that victims will receive. In a sense, this is a transfer of the current costs that victims bear into additional costs on PSPs that will have to reimburse them.<sup>24</sup> Allowing PSPs to charge an excess will reduce this transfer, with the benefits to victims falling (as some are left only partially reimbursed) and costs to PSPs also falling (as a lower share of losses are reimbursed). Our analysis here, therefore, focuses on how changes in the level and incidence of reimbursement, due to having an excess, affects PSP and customer incentives and behaviour, and hence what costs and benefits are affected.

## Benefits

**1.6** Relative to a situation of having no excess, allowing PSPs to impose an excess will lower the liability on PSPs and so could weaken their incentives to make greater investment in APP fraud prevention. A fixed excess would weaken PSPs' incentives to prevent lower-value fraud, while a percentage excess would give PSPs the same incentive regardless of value.

**1.7** In our cost benefit analysis, we recognised that the new reimbursement requirement could lead to some customers exercising less caution.<sup>25</sup> Any resulting increase in APP fraud losses could offset some of the gains of improved prevention by PSPs. The option for PSPs to charge an excess will help manage this risk and incentivise customers to exercise caution, helping to minimise any increase in APP fraud as a result of the new reimbursement requirement.

**1.8** Where overall reimbursement costs are reduced – and some low-value claims no longer qualify for reimbursement – PSPs' incentives to recover funds from fraudsters may be weakened. Again, this will be more pronounced if a fixed excess means that lower-value fraud does not qualify for reimbursement.

## Costs

**1.9** Relative to having no excess, PSPs' reduced reimbursement costs could reduce their incentive to invest in APP fraud detection and prevention. As above, this reduces the benefit of fraud prevention investment, but it also reduces the relevant costs for PSPs.

**1.10** A fixed excess would mean that many low-value claims are no longer reimbursed, leading to fewer claims and reducing administrative costs for PSPs. With a £100 or £250 excess, as in the calculations above, this could affect a substantial share of APP fraud cases. A percentage excess would not affect victims' incentives to report APP fraud, and so would not significantly reduce PSP costs.

**1.11** If, with a fixed excess, PSPs were not liable for lower-value fraud, customers might face less payment friction and so lower associated costs. Again, a percentage excess would have this effect, as all transactions would remain in scope.

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<sup>24</sup> PS23/3: *Fighting authorised push payment fraud: A new reimbursement requirement*, (June 2023), [Annex 4](#), paragraphs 1.36 and 1.37.

<sup>25</sup> See paragraphs 1.51, 1.57, 1.103 and 1.104 of [Annex 4 to the Policy Statement](#) (June 2023).

- 1.12** In general, allowing PSPs to levy an excess would reduce the risk of moral hazard and incentivise greater customer caution, reducing relevant costs for PSPs.
- 1.13** One unintended consequence of allowing PSPs to impose an excess is that it could lead to some victims not reporting lower-value APP fraud losses. Customers would still report APP fraud if they believed that their PSP could recover the funds, but we would still expect to see some underreporting of APP fraud nonetheless.

## Impact of maximum reimbursement level on our assessment

- 1.14** As set out in Chapter 4, we are consulting on our preferred maximum reimbursement level of £415,000. As with the excess, any limit on the level of reimbursement in individual cases will reduce the overall liability of PSPs and reduce the reimbursement going to victims. Based on current data, cases that exceed £410,000 account for around 4.5% of APP fraud losses by value, representing less than 0.1% of cases by volume.<sup>26</sup> Victims in those high-value cases that exceed £415,000 would still be reimbursed up to the £415,000 limit. Overall, the level of APP scam reimbursement would only be reduced by just over 2% (or £12 million per annum) as a result of a £415,000 limit.

### Benefits

- 1.15** As with an excess, a maximum reimbursement level could weaken PSPs' incentives to increase their investment in APP fraud prevention. However, the small number of APP fraud claims affected means that we would not expect this reduction to be significant.

### Costs

- 1.16** Potentially, the greatest impact of a maximum level of reimbursement would be in reducing prudential risk, as it would prevent higher-value claims from disproportionately affecting smaller PSPs. This should reduce the risk of prudential impacts that could affect competition and innovation.
- 1.17** PSPs' reduced reimbursement costs due to a limit could reduce their investment in fraud detection and prevention, reducing these costs for PSPs. However, the low level of APP fraud claims affected means that this reduction would not be material.
- 1.18** A maximum reimbursement level should, in theory, reduce the risk of moral hazard and increase customer caution in high-value transactions. However, the share of APP fraud affected is low, and we would expect customers to already exercise significant caution in making such payments. Given these factors, we would not expect the reduction in the risk of moral hazard among customers to be material.

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<sup>26</sup> Data provided by UK Finance in relation to eight PSPs for H2 2022.

## Overall assessment

**1.19** We summarise the effects of our four excess options and our preferred maximum reimbursement level on our identified costs and benefits in Table 1.

**Table 1: Summary of impacts on costs and benefits**

	Excess options				Maximum claim limit
	£100	£250	5%	10%	£415,000
<b>Benefits</b>					
APP fraud reduction – PSP investment	Minimal effect	Small decrease	No effect	No effect	Negligible
APP fraud reduction – reduced moral hazard	Increase	Increase	Small increase	Small increase	Small increase
Recovery of funds	Small decrease	Small decrease	No effect	No effect	Negligible
<b>Costs</b>					
Investment	Minimal effect	Small decrease	No effect	No effect	Negligible
Admin	Decrease	Decrease	No effect	No effect	No effect
Friction	Decrease	Decrease	No effect	No effect	No effect
Moral hazard	Decrease	Decrease	Small decrease	Small decrease	Small decrease
Prudential risk	No effect	No effect	No effect	No effect	Decrease
<b>Overall impact</b>	Net benefit – costs decrease > benefits	Net benefit – costs decrease > benefits	Net benefit – small decrease in costs	Net benefit – small decrease in costs	Net benefit – decrease in costs

**1.20** Drawing these effects together, we consider that:

- a. £100 excess is likely to **materially increase net benefits overall**. It should reduce PSPs' costs in processing claims, since there will be fewer claims, while also reducing the costs from friction in payments and reducing the risk of moral hazard, but without materially affecting PSPs' incentives to prevent APP fraud.
- b. £250 excess is likely to **increase net benefits overall**, for the same reasons.
- c. A 5% or 10% excess is likely to lead to **slightly increased net benefits overall**. The main effect should be reduced risk of moral hazard, since all customers would risk losing some of their money if they fall victim to an APP fraud.
- d. A maximum level of reimbursement of £415,000 is likely to lead to **a small increase in the net benefits overall**. It should reduce the risk of moral hazard and the prudential risk that an uncapped liability would place on smaller PSPs, although we think the overall effect would be small.

# Annex 2

## Equality impact assessment

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In line with our Public Sector Equality Duty (PSED) under the Equality Act 2010, we have assessed the likely equality impacts for the new reimbursement requirement. We have consulted on this policy and considered any responses we received in respect to potential impacts on specific groups.

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### Approach to assessment

- 2.1** Section 149 of the Equality Act 2010 requires us to consider the likely equality impacts of our policy on the public, including on people with the following relevant protected characteristics: age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex, sexual orientation, and marital status. We have looked at a broad range of evidence to support our assessment, including the responses to our September consultation and data from the Victims' Commissioner.<sup>27,28</sup>

#### All customers

- 2.2** As a result of the new reimbursement requirement, we expect PSPs to prevent more APP fraud, leading to fewer APP fraud cases. This would be a positive outcome for people across all demographics, including those with protected characteristics.

#### Interaction with vulnerable customers

- 2.3** We recognise that there is likely a significant overlap between vulnerable customers and those with certain protected characteristics. There is evidence, for example, that older customers are more likely to be victims of APP fraud.<sup>29</sup>
- 2.4** We have taken the interests of vulnerable customers into account. According to the FCA's definition, a vulnerable customer is 'someone who, due to their personal circumstances, is especially susceptible to harm – particularly when a firm is not acting with appropriate levels of care'. As further set out in the FCA guidance, 'consumers with some characteristics of vulnerability may be more likely to fall victim to scams'. Some types of vulnerability can negatively affect decision-making, placing people at greater risk of social engineering and making them less able to exercise caution against APP fraud.

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27 [Victims Commissioner, \*Who suffers fraud? Understanding the fraud victim landscape\* \(October 2021\)](#)

28 [FCA, \*Financial Lives 2022 Survey\* \(2022\).](#)

29 [Victims' Commissioner, \*Who suffers fraud? Understanding the fraud victim landscape\* \(October 2021\).](#)

- 2.5** We are proposing that the maximum reimbursement level should apply to vulnerable customers, and are consulting on the potential impact of this on customers. This may harm a small number of vulnerable respondents, but we consider that it is necessary to mitigate the prudential risk of PSPs. This policy should still reduce overall harm for victims of APP fraud as a result of increased reimbursement rates and better PSP anti-fraud measures.

## The equality objectives

### Remove or minimise disadvantages suffered by people due to their protected characteristics

- 2.6** We accept that some PSPs may see certain groups with protected characteristics as being at higher risk of APP fraud. This could result in PSPs implementing greater friction in payment journeys or removing some banking services. In our consultation, several PSPs reported that there is no typical high-risk service user for APP fraud. We think this is a manageable risk, and we will consider it as part of our post-implementation review.

### Take steps to meet the needs of people from protected groups where these are different from the needs of other people

- 2.7** We recognise that there is likely a significant overlap between vulnerable customers and those with certain protected characteristics. We require PSPs to exempt vulnerable customers from the consumer standard of caution exception and the claim excess. This is a proactive step to meet the needs of vulnerable people with protected characteristics who may be more susceptible to APP fraud.

### Encourage people from protected groups to participate in public life or in other activities where their participation is disproportionately low

- 2.8** There is limited evidence of how our policy will impact this area. However, a decrease in successful APP fraud and clearer consumer protection will inspire greater confidence for customers in using Faster Payments.

## Equality risks and mitigations

### Groups being disproportionately impacted by the claim excess

- 2.9** We accept that some groups may be disproportionately impacted by the claim excess, particularly those groups from low-income households. Customers with low financial resilience may qualify as vulnerable and therefore will be exempt from the claim excess under the new reimbursement requirement. We will monitor this and consider it as part of our post-implementation review.

## Increased customer reluctance to use payment services

- 2.10** There is a risk that increased warnings and other fraud prevention measures introduced by PSPs could dissuade vulnerable people from using Faster Payments. We expect this to be mitigated by increased customer awareness of their reimbursement rights, should they suffer APP fraud. We also consider that the new reimbursement requirement will lead to fewer APP fraud cases, which should increase confidence in the payment system. We therefore do not see the need for any further mitigating action.

## Claim excess driving excessive caution

- 2.11** There is a risk of any claim excess making customers overly cautious when using Faster Payments, even when the payment is legitimate. This risk is real, but without our policy, customers would face a total loss of funds if they fell victim to APP fraud. The excess is voluntary for PSPs to introduce.
- 2.12** Different levels and forms of excess could have very different impacts on different groups. We want to set the excess at a reasonable level to encourage sufficient customer caution, and will use the responses from this consultation to achieve this. We encourage respondents to provide us with evidence of the impact that different levels of excess might have on different customers.

## Increased friction

- 2.13** Our proposals incentivise PSPs to reduce APP fraud by introducing stronger fraud controls. This could mean that more genuine payments are also stopped because they trigger PSPs' detection processes or are considered higher risk. This could affect certain people more than others if they are perceived to be more vulnerable to APP fraud.
- 2.14** Our view is that some additional friction for a small proportion of payments is acceptable. Our proposals should protect customers from APP fraud, especially those from vulnerable groups. We also note that current industry initiatives to improve data sharing between PSPs, and increased incentives to improve fraud detection and prevention, should minimise the number of payments stopped unnecessarily.

## FCA Consumer Duty

- 2.15** We consider the Consumer Duty to be a significant mitigation against the equality risks that we have identified. We will work closely with Pay.UK and the FCA to ensure that customers are treated fairly and equally.

## Monitoring and evaluation

- 2.16** As part of our post-implementation review, we will assess whether there are any equality impacts or issues, and consider what changes and mitigations are necessary. The monitoring regime will help to ensure that any negative outcomes for specific groups are identified and mitigated as soon as possible.



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