

Bank of England

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Chair of the Treasury Sub-Committee on
Financial Services Regulation
House of Commons
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Dave Ramsden
Deputy Governor, Markets and Banking

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Dear Harriett

Authorised Push Payment Fraud - update

I am writing further to my letter of 9 February 2023 to update you on the Bank's plans to enhance consumer protection from APP Fraud in the CHAPS payment system (CHAPS). In my letter, I said that our policy development needed to co-ordinate with HMT, the Payment Systems Regulator (PSR) and the FCA in order to deliver robust and consistent protections for consumers. The PSR has this week published its Policy Statement on APP scam reimbursement in FPS¹ so we are able to confirm more about the model the Bank is developing for CHAPS.

You had asked whether the Bank intends to implement measures for the reimbursement for victims of APP fraud comparable to those that the PSR has proposed for Faster Payments. I can confirm that we have decided to do that. CHAPS Direct Participants when settling consumer payments will be required to implement mandatory reimbursement via a direction by the PSR to comply with new rules in the CHAPS rulebook. When considering our approach, we started from the principle that consumers should receive comparable protection regardless of the payment system they use.

As a predominantly wholesale payment system, CHAPS users are mainly financial market participants or participants making payments for corporate treasury management.² Accordingly, there is a need to identify the consumer transactions to

¹ June 2023: <https://www.psr.org.uk/publications/policy-statements/ps23-3-fighting-authorised-push-payment-fraud-a-new-reimbursement-requirement/>.

² Payments under £100,000 in value represent around 0.5% of overall CHAPS values. In 2022, the daily average value of CHAPS transactions was £395bn, and the daily average volume of transactions was around 200,000.

which the protections should apply. An example of such consumer payments is payments for housing purchases – which contribute around 10% of CHAPS volumes.

The main features of our model³ for reimbursement are:

- As set out above, CHAPS Direct Participants when settling consumer payments would be **directed to implement mandatory reimbursement via a direction by the PSR to comply with rules to that effect in the CHAPS rulebook**. The PSR would also require indirect participants to implement mandatory reimbursement.
- The sending Payment Service Provider (PSP) will be required to **reimburse the victim within a stipulated timeframe**, separately seeking to recover the appropriate proportion of the cost of reimbursement from the receiving PSP.
- PSPs will **report on reimbursement outcomes and the PSR will consider whether to take action, including where appropriate, enforcement for unsatisfactory performance** under the PSR's original direction. We are still developing the reporting mechanism in conjunction with the PSR.

This model would follow the approach the PSR has proposed for FPS. Finer details of the FPS approach are still being finalised and we await those before the Bank will finalise the model for CHAPS. We believe alignment will achieve better outcomes for consumers from the perspective of clarity and consistency. It will also minimise the potential for distortions caused by fraudulent activity migrating between payment systems. In several areas, we expect the alignment to be close – an example is that we anticipate the forthcoming PSR guidance around the customer standard of caution and gross negligence definition should be applicable to CHAPS. We also expect to adopt the single definition of an APP scam the PSR will set out in relation to FPS. The Bank will work with the PSR to input into their future consultations and implementation discussions with Pay.UK over the course of this year.

In some places, a different approach might be needed in the context of CHAPS. One possible example is the maximum level of reimbursement. This is a difficult design issue for implementing protections in any payment system, but particularly in CHAPS because – in contrast to FPS - there is no upper limit on the size of CHAPS payments. The PSR is planning to introduce a specific maximum level of reimbursement for APP fraud claims in FPS and we would look to similarly place an upper limit on reimbursement claims in CHAPS.⁴ The PSR will consult on this for FPS later this year. We are closely engaged

³ The PSR cannot impose a regulatory direction on the Bank as they are able to for Pay.UK, but the PSR could – as it has done for Confirmation of Payee – impose a direction on CHAPS direct and/or indirect participants.

⁴ June 2023: <https://www.psr.org.uk/publications/policy-statements/ps23-3-fighting-authorised-push-payment-fraud-a-new-reimbursement-requirement/>. Page 7.

with PSR, Pay.UK and HMT on this matter and are evaluating the right level of the limit for CHAPS. That may or may not match with the limit in FPS.

There are benefits in common timing and customer messaging between the approach being taken by Faster Payments and our proposals for CHAPS. We intend following broadly the same timetable as PSR/FPS. Based on current information this would involve mandatory reimbursement being operational for relevant CHAPS Direct Participants with retail traffic in Q1 2024, and with additional engagement with CHAPS Direct Participants on any change to the CHAPS rulebook in late 2023.

The Bank continues to co-ordinate its approach with other authorities in this area. Given the multiple pieces of the payments ecosystem, this co-ordination is central to achieving a comprehensive set of consumer protections. We have been engaging with HMT and the PSR regularly to discuss how the design and implementation of mandatory reimbursement requirements can be best undertaken to create a simple and consistent experience for consumers across CHAPS and FPS. The Bank regularly engages with Pay.UK and UK Finance as part of our work on fraud prevention initiatives – on APP scams and more generally. The Bank is also engaging with the FCA in light of their responsibilities under the Payment Services Regulations relating to electronic payments – including CHAPS payments.

I will write again with a further update once the details of the model are finalised. In the meantime, I would be happy to answer any questions you may have.

Yours sincerely



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