

<b>Title:</b> Implementation of the EU Payment Accounts Directive <b>IA No:</b> RPC-3039(2)-HMT  <b>Lead department or agency:</b> HM Treasury  <b>Other departments or agencies:</b> Financial Conduct Authority Payment Systems Regulator Money Advice Service	<b>Impact Assessment (IA)</b>		
	<b>Date:</b> 06/08/2015		
	<b>Stage:</b> Final		
	<b>Source of intervention:</b> EU		
	<b>Type of measure:</b> Secondary legislation		
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**Summary: Intervention and Options** **RPC Opinion:** Awaiting scrutiny

Cost of Preferred (or more likely) Option				
Total Net Present Value	Business Net Present Value	Net cost to business per year (EANCB on 2014 prices; 2015 present value)	In scope of One-In, Two-Out?	Measure qualifies as
£-94.94m	£-94.94m	£10.86m	No	N/A

**What is the problem under consideration? Why is government intervention necessary?**  
The Payment Accounts Directive (2014/92/EU) ("PAD") was published in the Official Journal of the European Union on 28 August 2014. The Government is required to have implemented PAD in the UK by 18 September 2016 to meet its treaty obligations and avoid the risk of facing legal proceedings as a result of infraction. PAD sets common regulatory standards that Member States are required to meet in order to improve the comparability of fees related to payment accounts that are used for day-to-day transactions (broadly, current accounts), switching of those accounts, and access to accounts with basic features. The Government will need to legislate in order to ensure these standards are fully implemented in the UK.

**What are the policy objectives and the intended effects?**  
The policy intention is to achieve compliance with PAD while continuing to protect consumers and minimising the negative impact on UK industry in terms of their costs and competitiveness. PAD seeks to recreate in other EU Member States similar services and products to those that already exist in the UK (e.g. a procedure for switching current accounts, independent comparison websites, basic bank accounts). The UK Government intends to ensure that these services and products continue to be delivered in line with the UK market and domestic policy objectives.

**What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)**  
The Government has considered two options.  
Option 1 - Copy out PAD's requirements into UK legislation without amendment  
Option 2 - Legislate to ensure compliance with PAD, maintaining existing UK services and products  
Option 3 - Do nothing. However, in practice it will not be possible to 'do nothing' as PAD places legal obligations on the UK, so Option 3 has not been assessed in detail.  
Option 2 is the preferred option. While Option 1 ensures that we avoid 'gold-plating', it may also cause a deterioration in products and services that are working well in the UK market with significant benefits to consumers. Option 2 has the benefit of working alongside these existing products and services, protecting UK consumers and businesses, and making minimal changes to achieve compliance where required.

<b>Will the policy be reviewed?</b> It will be reviewed. <b>If applicable, set review date:</b> 09/2020					
Does implementation go beyond minimum EU requirements?			No		
Are any of these organisations in scope? If Micros not exempted set out reason in Evidence Base.		<b>Micro</b> Yes	<b>&lt; 20</b> Yes	<b>Small</b> Yes	<b>Medium</b> Yes
What is the CO <sub>2</sub> equivalent change in greenhouse gas emissions? (Million tonnes CO <sub>2</sub> equivalent)		<b>Traded:</b> n/a		<b>Non-traded:</b> n/a	

***I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.***

Signed by the responsible Minister: \_\_\_\_\_ **Harriett Baldwin** \_\_\_\_\_ Date: 10 August 2015

# Summary: Analysis & Evidence

# Policy Option 1

**Description:** Copy out PAD's requirements into UK legislation

## FULL ECONOMIC ASSESSMENT

Price Base Year	PV Base Year	Time Period Years	Net Benefit (Present Value (PV)) (£m)		
			Low: £-458.18m	High: £-266.65m	Best Estimate: £-363.76m

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	£94.5m	£20m	£266.7m
High	£284.3m	£20.2m	£458.2m
Best Estimate	£190.7m	£20.1m	£363.8m

### Description and scale of key monetised costs by 'main affected groups'

Payment service providers: over 1,000 providers will have to consider whether they will be in scope and up to 288 may consider that they are in scope. This means that transition costs are considerably higher under Option 1. Firms will also incur costs due to being mandated to implement a slow switching service. Ongoing costs may be incurred due to the comparison website, although these costs may not be passed on to firms. Consumers: basic bank holders will risk incurring fees (approx. £20million in charges per year).

### Other key non-monetised costs by 'main affected groups'

Payment service providers: it is estimated that other ongoing costs for providers will be minimal due as future updates may align with the regular updates firm implement, which would minimise costs. However, providers may also incur costs due to difficulties in attracting customers due to a slower, less attractive switching service.  
Consumer: consumers may incur indirect cost if providers seek to make up costs elsewhere

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	Optional	Optional	Optional
High	Optional	Optional	Optional
Best Estimate	0	0	0

### Description and scale of key monetised benefits by 'main affected groups'

No monetised benefits have been identified.

### Other key non-monetised benefits by 'main affected groups'

Consumers: consumers may benefit from greater transparency of fee information and easier comparability of payment accounts.  
Payment service providers: some large providers may benefit from a slower switching service as fewer of their customers may choose to switch to a challenger bank.

Key assumptions/sensitivities/risks

**Discount rate**

3.5%

Gaps in the data provided by firms mean that HMT has had to make a number of assumptions of the extent of costs. Although estimates were received concerning the costs of making changes to customer information for large firms, estimates were not received from medium or small firms. Assumptions have therefore been made to ensure suitable estimates were applied to medium and small firms. This is a key assumption as most costs will be incurred as a result of changes to customer information.

## BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual) £m:			In scope of OITO?	Measure qualifies as
Costs: £41.6m	Benefits: 0	Net: £-41.6m	No	N/A

# Summary: Analysis & Evidence

# Policy Option 2

**Description:** Legislate to ensure compliance with PAD, but maintain existing UK services and products where possible

## FULL ECONOMIC ASSESSMENT

Price Base Year	PV Base Year	Time Period Years	Net Benefit (Present Value (PV)) (£m)		
			Low:£-139.02m	High: £-45.5m	Best Estimate: £-94.94

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	£45.5m	£0.0m	£45.5m
High	£137.3m	£0.2m	£139m
Best Estimate	£94.1m	£0.1m	£94.9m

### Description and scale of key monetised costs by 'main affected groups'

Providers of current accounts: Firms would still be required to carry out familiarisation but we estimate that only a tenth of the firms mentioned in Option 1 would be required to do this. We also consider that far fewer firms will be brought into scope, limiting the costs incurred. Most of the costs are a result of the amendments required to customer information. Ongoing costs may be incurred due to the comparison website, although these costs may not be passed on to firms.

### Other key non-monetised costs by 'main affected groups'

Providers of current accounts: it is estimated that other ongoing costs will be minimal as future updates may be aligned to other regular updates carried out by the firm which would minimise costs.  
Consumers: No expected costs.

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	Optional	Optional	Optional
High	Optional	Optional	Optional
Best Estimate	0	0	0

### Description and scale of key monetised benefits by 'main affected groups'

No monetised benefits have been identified.

### Other key non-monetised benefits by 'main affected groups'

Providers of current accounts: No expected benefits to firms.  
Consumers: May benefit from improved information from firms and increased certainty around provision of, and eligibility for, basic bank accounts.

### Key assumptions/sensitivities/risks

Discount rate 3.5%

Gaps in the data provided by firms mean that HMT has had to make a number of assumptions of the extent of costs. Although estimates were received concerning the costs of making changes to customer information for large firms, estimates were not received from medium or small firms. Assumptions have therefore been made to ensure suitable estimates were applied to medium and small firms. This is a key assumption as most costs will be incurred as a result of changes to customer information.

## BUSINESS ASSESSMENT (Option 2)

Direct impact on business (Equivalent Annual) £m:			In scope of OITO?	Measure qualifies as
Costs: £10.9m	Benefits: 0	Net: £-10.9m	No	NA

# Evidence Base

## Problem under consideration

1. The Payment Accounts Directive (2014/92/EU) ('PAD') was published in the Official Journal of the European Union on 28 August 2014. PAD sets common regulatory standards that Member States are required to meet in order to:
  - Improve the transparency and comparability of fees related to payment accounts that are used for day-to-day transactions;
  - Facilitate switching of those accounts, and
  - Ensure access to accounts with basic features.
2. The Government will need to legislate in order to implement these standards in the UK. This section sets out the requirements in the Directive in more detail.

### *Chapter II: Transparency and comparability*

3. PAD proposes a further series of measures to develop and clarify information available to consumers:
  - First, each Member State is to establish a list of the most representative services linked to payment accounts in their territory. This 'provisional national list' must consist of between 10 and 20 services that are subject to a fee, and contain both terms and definitions. The most representative services are to be determined by having regard to the services that are most commonly used by consumers in relation to their payment accounts and to those that generate the highest costs for consumers. The European Banking Authority (EBA) is required to issue guidelines to assist in the application of these criteria. Each Member State then submits its list to the European Commission and the EBA.
  - The EBA will then develop EU standardised terms and definitions in respect of the services that appear on at least a majority of Member States' national lists.
  - Following adoption of the EU terms and definitions by the European Commission, each Member State must integrate this EU standardised terminology into its provisional national list and publish the resulting final linked services list for use by payment service providers. This will mean that some terms and definitions contained in the provisional national list may have to be replaced, while others will remain unchanged.
  - The terms on the final linked services list, including the EU standardised terms, should be used to compile a Fee Information Document, given to consumers

before they decide on a payment account provider. A glossary of at least the EU standardised terms, including their definitions, should also be made available to consumers on request. The EBA will develop a standardised presentation format for the Fee Information Document, and a common symbol to help consumers identify it.

- An annual statement of fees (setting out all the fees incurred and the overdraft and credit interest rates that applied to the account during the previous year) should be provided to the consumer. The UK's largest banks are already providing an annual statement of this kind to their customers. The EBA will develop a standardised presentation format for the statement of fees, and a common symbol to help consumers identify it.
  - Finally, the terms on the final linked services list, including the EU standardised terms, should be used alongside brand names in firms' communications with consumers.
4. Part of the impact on firms will be determined by the content of the final linked services list and the extent to which a payment service provider is already using them. Further, if none of the services that appear in the UK's provisional list of services linked to a current account are also common to at least a majority of Member States, and do not appear on the EBA's list of EU standardised terms, then the changes to terminology required in the UK will be minimised. However, if all of the services that appear in the EBA's list are in use in the UK, then the change required would be more burdensome.
  5. The Directive also requires that Member States ensure that consumers have access to at least one comparison website that is operationally independent, clearly discloses its owners and the criteria on which comparisons are made, be accurate and up-to-date, and provides a mechanism for consumers to report incorrect information. Further, once the list of EU standardised terms has been agreed and is in place in the UK, the directive requires this website to use the standardised terms where applicable.
  6. PAD also requires that, when payment service providers offer packaged accounts (current accounts that offer an additional service or services, unrelated to the current account (such as mobile phone or travel insurance, or car breakdown cover), consumers should be informed whether it is possible to sign up for the current account without purchasing the additional services. If the additional services can be purchased separately from the same payment provider, the consumer should be informed about the cost of purchasing each of those additional services.

### *Chapter III: Switching*

7. The switching requirements set out in Articles 9 to 14 of PAD provide Member States with a blueprint for a basic switching regime. They place obligations on the transferring service provider (i.e. the old payment service provider) and the receiving service provider (i.e. the new payment service provider). A switch carried out within the timeframe set out in PAD would take 12 working days.
8. However, Article 10(1) states that Member States may also choose to establish or maintain an alternative switching service to the regime in PAD, provided that it:
  - Is clearly in the interest of the consumer;
  - Presents no additional burden for the consumer; and
  - The switch is completed within the same time frame as PAD, or less.

### *Chapter IV: Payment accounts with basic features*

9. Consumers legally resident in the EU have a right to open and use a basic bank account with firms located in their territory. This right applies irrespective of the consumer's place of residence. An application for a basic bank account should be processed without undue delay, and the account should be opened or refused 10 working days at the latest after receiving a complete application.
10. PAD also specifies that Member States shall ensure that firms refuse an application for a basic bank account, or close an existing account, where opening the account or allowing it to remain open would infringe domestic laws implementing EU Directive 2005/60/EC on the prevention of money laundering and the countering of terrorist financing.
11. Firms may also close an existing account where the consumer has: deliberately used the account for illegal purposes; has not used the account for more than 24 months; has provided incorrect information in order to obtain the account; is no longer resident in the EU; or has opened a second account with at least the same features as a basic bank account.
12. Member States may also identify limited and specific additional cases where firms may be required or may choose to refuse an application for a basic bank account. These cases need to be based on domestic law, and be aimed at either facilitating access, or avoiding abuses by consumers of their right to a basic bank account.
13. PAD also sets out the characteristics of a basic bank account, including the level of any associated fees.

## **Rationale for intervention**

14. The Government is required to have implemented PAD in the United Kingdom by 18 September 2016 to meet its treaty obligations and avoid the risk of facing legal proceedings as a result of infraction.
15. The Government published a consultation document setting out its proposed approach to implementing PAD on 23 June 2015, along with draft regulations and a consultation stage impact assessment.

## **Policy objective**

16. The policy objective in our implementation is to achieve compliance with PAD, and preserve some key aspects of existing UK practice, while minimising any negative impact on UK industry in terms of their costs and competitiveness.
17. The UK has already taken domestic action on the majority of the areas addressed in PAD, including:
  - A series of measures delivered through Government agreement with the banking industry to improve transparency of fees and charges, including annual statements and text message alerts for unarranged overdraft fees;
  - The creation of the 7-day Current Account Switch Service (CASS) which was launched in the UK in September 2013; and
  - A landmark agreement in December 2014 ('the 2014 agreement') to improve and expand the availability of UK banks' existing basic bank account offer, alongside their other personal current accounts.
18. As such, PAD seeks to recreate in other EU Member States similar structures, products and services to those that already exist in the UK. It also reflects banking practice on fees and charges in the majority of other Member States, despite the UK's prevailing free-if-in-credit banking model.
19. The Government's objective is therefore to align the Directive requirements as far as possible with existing UK regulations and banking practice, with a view to minimising the impact on UK industry and consumers.
20. Member States have discretion to extend the Directive's application in a number of areas. The Government's starting approach is not to extend the application of PAD beyond what is strictly required.

21. In particular, the UK Government intends to ensure that basic bank accounts continue to be delivered in line with the UK market and domestic policy objectives. In December 2014 an agreement was reached with the banking industry that will see improved basic bank accounts available in the UK from the end of 2015. These accounts will offer consumers:

- Standard features in line with the characteristics required by PAD;
- Fee-free banking, including for standard features and breaches of terms, in line with the UK's free-if-in-credit banking model; and
- The Government intends to implement PAD in such a way as to preserve the UK's existing basic bank account policy supporting financial inclusion, while ensuring access to basic bank accounts is in line with PAD and creates the necessary legal certainty for consumers.

### **Description of options considered (including do nothing)**

The Government has considered two options.

#### ***Option 1 – Copy out PAD's requirements into UK legislation***

22. The Government has considered whether it would be possible simply to copy-out PAD. While this would avoid 'gold-plating', it would not reflect the UK's existing policy and structures in relation to current accounts, switching and basic bank accounts. This would have consequences for the UK market:

- Despite the Commission's focus in negotiations on payment accounts that are used for day-to-day transactions, the definition of a payment account in PAD is limited in detail. If copied-out, it would result in a broad applicability of PAD to a much wider set of payment accounts and payment service providers (e.g. to all instant access savings and e-money accounts), significantly increasing burdens on those firms;
- Mandating a reversion to a slower, more burdensome current account switching procedure than CASS, and widening of its coverage to include payment accounts that may not offer customers the same level of functionality as a standard current account; and
- Based on PAD Article 18(2), copy-out would create an opportunity for credit institutions who offer basic bank accounts to charge a 'reasonable' fee if the customer does not comply with the terms of the contract (e.g. to charge 'unpaid item fees' if a customer's direct debit or standing order were to fail). This would reverse existing UK policy, most recently reaffirmed in the 2014 agreement, that basic bank accounts should be fee-free.



***Option 2 – Seek to maintain the existing regulatory framework and UK structures, minimising any adjustments required to implement PAD***

23. The Government's lead option is Option 2. Option 2 employs copy-out wherever possible, but tailors the approach to the UK market where necessary by:

- Combining the definition of a payment account provided in PAD with text from Recital 12 of the Directive to clarify the types of payment account that the Government does not expect to be affected by the regulations. This will help payment service providers to establish which of their accounts the regulations must apply to. The Government's expectation is that this clarified definition should ensure that the regulations apply to current accounts;
- Using the discretion available in the Directive to maintain an existing switching service, provided that doing so is clearly in the interest of the consumer, there is no additional burden for the consumer, and that the switching is completed within, as a maximum, the same timeframe set out in PAD. This will ensure that the UK's world-leading CASS is unaffected. If firms choose to remain outside CASS, they will be required to provide a switching service that at least meets the minimum requirements set out in PAD; and
- Ensuring that credit institutions who offer basic bank accounts maintain existing UK policy on fees and charges to support financial inclusion for the most vulnerable banking customers, including continuing to protect consumers from charges when a direct debit or standing order payment fails.

24. Option 2 has the benefit of employing copy-out to its fullest extent, but making minimal changes to maintain existing structures and achieve compliance where necessary.

***Do nothing***

25. In our assessment of Options 1 and 2 we have taken the hypothetical 'do nothing' scenario to be the counterfactual. In practice it will not be possible to 'do nothing' as PAD places legal obligations on the UK, and so it has not been included as an option. However, it is useful to set out the key characteristics of the 'do nothing' scenario, so that the impacts of Options 1 and 2 can be better understood:

- Firms' conduct in relation to current accounts is already regulated by the FCA under the Banking Conduct of Business Sourcebook (BCOBS);
- The Payment Systems Regulator (PSR) will, from April 2015, regulate the conduct of designated payment systems (including Bacs, which is now wholly responsible for operating CASS);

- The Money Advice Service is the UK's independent body charged with enhancing the public's understanding of financial matters;
- UK consumers already benefit from action taken to encourage the banking industry to improve transparency of fees and charges, including annual statements and text message alerts for unarranged overdraft fees;
- Through CASS, UK consumers can already switch the vast majority of current accounts within seven working days, with a guarantee that protects them against financial loss if the switch goes wrong;
- Basic bank accounts are already offered to UK consumers, and have been available for over a decade, aimed at supporting financial inclusion for those without a bank account. A 2003 industry agreement ('the 2003 agreement') on basic bank accounts established that basic bank accounts should be fee-free, and should not be able to go overdrawn;
- The Government's clear position has been that these accounts should be completely fee-free in the context of the UK's prevailing free-if-in-credit banking model. In the 2014 agreement the providers of these accounts committed to improve their offerings, including ensuring that basic bank account customers are not charged fees for either standard features or for a failed payment, by the end of 2015.

### **Direct costs and benefits to business calculations (One-in, two-out)**

26. As this measure involves the implementation of an EU Directive, and does not add to existing costs on business other than in areas where this is required by the Directive, it is out of scope for the purposes of one-in, three-out (OITO). The Government has taken advantage of all relevant exemptions to limit additional regulatory burdens on UK business.

### **Approach to analysis of costs and benefits**

27. The sections below look at the costs and benefits of these changes to UK current account providers and consumers. Option 2 is considered in greater detail than Option 1 as it is our proposed option. Option 2's maintenance of existing UK structures, products and services also means that we are able to be clearer about likely impacts.

28. In the consultation stage impact assessment, published by HM Treasury on 23 June 2015, we included indications of monetised costs where we had relevant data. Our approach in preparing this final impact assessment has been to test these assumptions with stakeholders during our consultation period, to request

additional cost information from stakeholders, and to carry out additional internal analysis where required to fill gaps in the consultation stage impact assessment.

29. The Regulatory Policy Committee's (RPC) opinion on the consultation stage impact assessment, issued by the RPC on 11 May 2015, stated that the Department should provide further evidence in its final impact assessment of the costs that may be passed to business as a result of changes that will be made by industry regulators to their rules in order to meet the requirements of the Directive.
30. In response to this, we have also used the consultation period to request clarification from the regulators as to the anticipated costs associated with the changes they may make to their rules in order to comply with the Directive. The assessment of costs on this issue corresponds to the changes that the regulators will have to make to their rules as a result of our proposed policy. Any costs that may result from rule changes by regulators that are not directly required by our proposed policy have not been included. In the interests of providing as complete an assessment as possible, we have also requested clarification from the regulators on the costs they expect to incur themselves due to the UK's transposition of PAD (and which may therefore be passed on to industry).
31. The 'sources of evidence' section discusses in further detail how we have responded to the RPC's opinion and have developed the indicative costs included in the consultation stage impact assessment.
32. As Option 1 uses copy-out throughout, and Option 2 uses copy-out where possible, there is some overlap in the two analyses set out below.
33. As above, in practice it will not be possible to 'do nothing' as PAD places legal obligations on the UK, and so it has not been included as an option. However, in our assessment of costs and benefits for Options 1 and 2 we have taken the hypothetical 'do nothing' scenario to be the counterfactual. For example, we intend to implement PAD in such a way as to preserve the UK's existing basic bank account policy, while ensuring access to the accounts is in line with PAD and creates the necessary legal certainty for consumers. As a result, this impact assessment only highlights the costs and benefits of changes to basic bank accounts that are necessary to comply with PAD.

### **Sources of evidence**

34. As mentioned above, HM Treasury published the consultation stage impact assessment on 23 June 2015. The impact assessment set out our assumptions on

costs and benefits associated with Policy Option 1 and 2. These assumptions were based on discussion with regulators, industry experts (e.g. the members of HM Treasury's Payment Accounts Directive Working Group and representatives of individual firms) and on internal analysis undertaken to estimate the changes that firms and consumers may experience as a result of the transposition of PAD.

35. We have used the consultation period to test these assumptions both by requesting formal responses to consultation from firms and other interested parties, as well as by canvassing views more informally. This included specifically requesting information on costs and benefits in order to support the preparation of this impact assessment.

36. Informal requests for information were sent to 12 market participants (encompassing large and medium firms, one trade association and one operator of a switching service) three weeks prior to the consultation deadline specifically requesting information on anticipated costs and benefits as a result of the Government's proposed implementation of PAD. This led to a number of informal meetings and email exchanges with market participants in order to source evidence for the impact assessment. This approach also gave firms that did not plan to respond formally to the consultation the opportunity to nonetheless share their views with us.

37. In addition, further requests for information were sent to a number of firms that responded formally to the consultation.

38. The consultation responses from firms and other interested parties have been reviewed along with the information received more informally. A total of 12 formal consultation responses were received. Consultation responses and informal views were received from:

- Firms (including two formal responses from large credit institutions, two formal responses from medium sized credit institutions, one formal response from an operator of a switching scheme, and three informal responses from large credit institutions);
- Regulators (informal responses from the FCA and PSR);
- Trade associations (four formal responses); and
- Consumer groups (three formal responses, including one from the FCA's Financial Services Consumer Panel).

39. The review of the responses received has been complemented with additional internal analysis based on information available from the industry and from the EU

Commission in order to deliver a comprehensive analysis of cost and benefit estimates.

40. Wage and occupational data is taken from the Annual Survey of Hours and Earnings, 2014.

### **Risks and assumptions**

41. The main risk is the uncertainty in the estimates given the lack of data in some areas. Most of the firms that responded formally to our consultation did not attach figures to the costs they expected to incur as a result of the Government's proposed implementation of PAD.

42. Informal requests for cost information were sent to firms, including large and medium sized firms, and an operator of a switching service in an effort to address this gap. This did result in one set of estimates being shared. However, due to the uncertainty surrounding several measures provided for in PAD, it is difficult for firms to estimate the costs they will incur. This explains why there is a gap in the data provided.

43. For example, the extent of amendments required to customer information will only be known once the European Commission has adopted the finalised list and the necessary technical standards. According to indicative timelines, this will not take place until December 2016/January 2017.

44. For this reason, transition costs related to the fee information document, glossary of terms, statement of fees, and other changes to be made to customer information as applicable are difficult to estimate accurately.

45. With regards to the transition costs referred to in paragraph 44, cost estimates have only been received from two large firms (one which was received prior to the consultation stage impact assessment, and one which was received following an informal request for information during the consultation period). Despite requesting cost estimates from medium sized firms informally, these have not been received. Assumptions have therefore been made in order to estimate costs to medium and small firms as well.

46. In addition, although firms have indicated which of the measures they expect will lead to costs, figures have, in several cases, not been attached to these costs. For example, firms have reported that costs will be incurred where a member of CASS

is required to respond to and meet the requirements of a PAD compliant current account switch request from a firm operating outside CASS. However, firms have not indicated how much they expect this cost to be. In order to estimate the possible impact of the switching requirements on businesses, we have therefore had to use other available information and internal analysis.

47. Assumptions have also been made regarding changes to the stock of basic bank accounts in the UK. Although figures of the size of the stock are available, it is expected that the figure may fluctuate. This is due some basic bank account holders being upgraded to standard personal current accounts if appropriate based on the account holders' circumstances, which may reduce the stock of basic bank accounts. However, the stock of basic bank accounts may also increase due to wider eligibility for basic bank accounts under PAD. Due to the uncertainty concerning fluctuations that may decrease as well as increase basic bank account stock, we have continued to assume that the size of the basic bank account stock will remain as it is.
48. Costs have been developed further for Option 2 as this is our preferred option. We consider that certain estimates used in Option 1 are lower than would actually be the case as under Option 1, large firms as well as medium and small firms will be required to carry out changes of process for switching.
49. The social rate of discount used is 3.5 per cent and the appraisal is conducted over a ten year period (although the policy will be reviewed in 2020).
50. Further detail of the assumptions used in deriving each of the costs included in the EANCB is presented throughout the document.

### Option 1 – Copy out PAD’s requirements into UK legislation

52. Option 1 would see the Government copy-out the articles in PAD without amendment.

53. All payment service providers in the UK who offer a payment account would be drawn into scope, unless the payment account they offered consumers did not fulfil the limited description set out in the directive.

54. Each of these payment service providers would then be required to:

- Amend their existing customer information to reflect the final linked services list, including any applicable EU standardised terminology, when it is finalised;
- If offering a packaged account, inform their customer whether the payment account can be purchased separately from the additional services, and if so, the costs of or fees for the additional services if they are available from the same provider; and
- Establish an account switching procedure in line with the requirements in the Directive.

55. In addition, credit institutions that provide basic bank accounts would:

- Offer basic bank accounts to a larger number of consumers than at present, to ensure that the unbanked have access to accounts in the UK; and
- Be able to charge a ‘reasonable fee’ if the customer does not comply with the terms of their contract (e.g. to charge ‘unpaid item fees’ if a direct debit or standing order were to fail). The Government has recently taken action to end this unfair practice through the 2014 agreement.

56. While this approach would avoid 'gold-plating', it would not reflect the UK’s existing policy and would have consequences for the UK market due to:

- Uncertainty over the types of payment accounts that are in scope, including drawing in a wider set of payment service providers to more burdensome requirements on transparency and switching;
- A reversion to a slower, more burdensome current account switching procedure than CASS; and
- Reintroducing the opportunity for credit institutions who offer basic bank accounts to charge a ‘reasonable’ fee for if a direct debit or standing order were to fail.

57. We have used the consultation period to test our initial assessment of the potential costs and benefits of Option 1 on the main affected groups in the UK. Based on responses from firms and other interested groups, as well as further internal analysis, we have developed our assessment of the costs of this option.

## **Monetised and non-monetised costs of Option 1**

### *UK payment account providers*

58. The Government believes that significant costs would arise from drawing a wider range of payment accounts and payment service providers into the Directive's scope. According to the Association of UK Payment Institutions, there are more than 1,153 banks, building societies, authorised payment institutions and small payment institutions operating in the UK. Each of these would be required to assess their product offering and decide whether they offer a payment account that can be used for placing and withdrawing funds, and executing and receiving payment transactions, including credit transfers, to and from a third party, that can be used for day-to-day payment transactions. The impact of this has been included as a familiarisation cost in our calculations and we estimate it to cost, collectively, £0.19million. If this aspect of the Directive was simply copied out there would be considerable uncertainty in the UK market as to what constitutes a payment account for the purposes of PAD.

59. For all payment service providers who do offer such a payment account, there would be further costs associated with Option 1. We estimate that a quarter of the firms that will be required to carry out familiarisation may decide that they are in scope of PAD, i.e. 288 firms. Changes would be required to firms' customer information (both at the pre-contract stage and during the life of the contract). To the extent to which it applies in the UK, the linked services list of EU standardised terms will need to be applied to their existing customer information documents, including the adaptation of existing pre-purchase product descriptions, glossaries, regular statements and annual statements to meet the standards set out for the Fee Information Document, annual statement of costs and glossary. The extent of the changes required could only be known and planned once the provisional UK list has been submitted and the European Commission has adopted the finalised list and the necessary technical standards. Ongoing compliance costs can be incurred as the lists are updated every four years.

60. In our consultation stage impact assessment, we reported that informal soundings suggested that the cost of a change of a single term throughout a large retail bank's customer information may cost anywhere between £3 million and £8 million. This would include changes to terms and conditions, systems costs to



support these, and cascading the new terms throughout the firm's communications with customers, existing literature and online systems. If a term is very commonly used, the cost could be higher. The cost of further, additional changes would be minimal provided they were made with sufficient notice to allow firms to plan a single, comprehensive update of all their information.

61. Most of the firms that responded to the consultation and our informal requests for further information reported that the costs of changing customer information documents to meet the requirements in PAD could not be estimated at this stage, for reasons outlined above.

62. However, two large firms have shared further cost estimates on this issue. One of these estimated the cost of implementation to be in the region of at least £2million to £2.5million. The same firm estimated that a minimum of 6 months is likely to be required to complete the work, which will include system changes; artwork design and production of new documents; changes to a number of existing customer materials, including website changes; staff training; and changes to scripting. The firm also reported that the changes would require formal notices of variation to be prepared and issued to customers at least 60 days in advance of the changes coming into effect. This would reduce the preparation time available to implement the changes from nine months to seven months – adding further to the costs of complying with this requirement.

63. The second firm referred to the cost of carrying out previous changes to terms and conditions in order to support our analysis. Previous updates have cost in the region of £2million.

64. Based on the information provided by these two firms following informal requests for information, we have revised the initial estimate of £3million–£8million to £2million–£6million. The fact that the firm has not been able to estimate the cost of system changes explains the We expect these costs to be considerably less for medium and small firms due to the different systems they operate. We expect a medium firm to incur costs of £0.5million–£1.5million and a small firm to incur costs of £0.25million–£0.75million. Collectively, we expect industry to face a transition cost for customer information measures of £189million (best estimate).

65. In addition to the transition costs associated with the fee transparency requirements of PAD, firms may face ongoing compliance costs. This is because, as mentioned previously, the list of standardised terms can be updated every four years. However, the Directive does not specify the time frame in which changes would need to be made to reflect an update to the list. Several firms have indicated

that where changes to customer information can be aligned with annual updates already planned, costs would be minimised.

66. Some payment service providers would also face a cost from the requirement to notify consumers if a packaged account could be purchased separately from the services offered as part of the package; and, if the services could be purchased separately from the same provider, the consumer would have to be informed and made aware of the fees and charges that would apply if they purchased the services separately. Not all firms offer packaged accounts and consultation responses indicate that only four firms will be affected by the measures. Cost estimates have not been provided by these firms. However, firms indicated that depending on the extent of services that they were required to disclose cost information for, costs could be limited. We consider that costs are likely to centre on the time taken to put together a fee information document and that this will range between £5,287 and £10,574 per firm (please see Annex 1 for the assumptions used in deriving this estimate). Based on our understanding that only four firms will be affected, we expect a total transition cost of £0.03million and minimal ongoing costs.
67. By drawing a wider range of payment accounts and payment service providers into the Directive's scope, more firms may also face costs due to mandated participation in a different procedure for switching accounts. Assuming that up to 288 firms could be brought into scope, and based on the cost estimate for a firm re-framing a switching service as PAD compliant, we estimate the cost of this to be at least £0.58million to industry for transition. Compliance costs are expected to be minimal due to low switching volumes. The procedure would involve more manual processes and cover a wider range of payment accounts. There may also be an impact on firms' ability to attract new customers through a less attractive switching service procedure. Two challenger banks that shared their views informally with us during the consultation process considered that CASS had benefited them in attracting new customers away from more established banks. A slower, less beneficial switching service could therefore impact on challenger banks' ability to attract customers, and therefore on competition. It is currently medium sized firms that benefit most in attracting customers through CASS.
68. Article 9 of the Directive requires payment service providers offering currency accounts to offer a PAD compliant switching service to customers wishing to switch to another currency account provided both accounts are in the UK and are denominated in the same currency. Firms that offer currency accounts will therefore face costs as a result of having to set up a PAD compliant switching service for currency accounts. It is possible that these costs will be higher than those for setting up a PAD compliant switching service for sterling accounts. This is because sterling and currency accounts are operated by different teams and

currency account teams may have less experience of switching services. One firm has raised this issue as a concern, as well as an operator of a switching service and a trade association (although these last two would not be affected). However, cost estimates have not been shared with us. The firm in question has acknowledged that most of its currency accounts do not meet the functionality requirements of a payment accounts (and are therefore not in scope). In addition, it is only if the accounts are held in the UK, or in the branch of a firm regulated in the UK, that the switching service must be provided. If the currency accounts are held offshore and are held by a subsidiary of the firm, they will be out of scope. As cost estimates have not been shared with us by the firm or trade associations, we have carried out internal analysis to approximate costs. We estimate that the transition cost to a firm of offering a switching service for currency accounts is £13,177. Ongoing compliance costs are expected to be minimal.

69. The only public estimate that the Government is aware of for the annual cost of basic bank accounts under the current industry agreement was collated by the Parliamentary Commission on Banking Standards (PCBS) in 2013. Using data supplied by banks, the PCBS estimated that approximately 9 million basic bank accounts cost industry a combined total of £300 million per year.
70. Eligibility for basic bank accounts from EU consumers resident outside the UK could also lead to costs for providers as firms may they seek to address the challenges of carrying out identification and verification checks on customers resident elsewhere in the EU. Carrying out 'Know Your Customer' checks may be particularly challenging to apply for customers with no fixed address, asylum seekers and consumers who have not been granted a residence permit but whose expulsion is impossible for legal or factual reasons. This is because it may be more difficult for firms to verify the identity of customer as required by the Money Laundering Regulations. We anticipate that firms may spend in the region of £10,000 each on designing new, appropriate checks and a further £50,000 each in adapting systems and training staff. Costs for medium and smaller firms, we expect, could be lower, at £20,000. The difference in cost is due to the more limited resource in place for medium and smaller firms to carry out changes, as well as the smaller number of staff to be trained.
71. Firms will also have to comply with additional regular reporting requirements set out in PAD. Depending on the nature and volume of the information to be provided, and whether it can be incorporated into existing reporting formats, these reporting costs may vary. Firms will be required to report to the FCA as directed (with regards to frequency and format) by the FCA. After the regulations have been adopted, the FCA will consult on its proposed reporting requirements. To the extent that these go beyond the requirements laid down in the Regulations, the

FCA will publish its own cost–benefit analysis. HMT will not intervene in these deliberations. Due to the uncertainty concerning the reporting requirements that will be implemented, firms have not been able to estimate the costs that may be incurred as a result. They are not expected to be substantial, however, and have therefore not been factored into our calculations.

72. More broadly, we recognise that the RPC has requested further evidence of the costs that may be passed to business as a result of changes that will be made by industry regulators to their rules in order to meet the requirements of the Directive. Further information on this issue and on the costs that may be incurred by the FCA under Option 1 are discussed below under ‘wider society’.

### *Consumers*

73. Costs to consumers may arise from changes to the prices and products offered by payment service providers as a result of compliance with the regulations. We expect that there may be a small increase in the costs faced by a relatively small number of consumers. Our consultation document asked firms to consider whether there would be any impact on their fees and charges or on the number of products they offer, in order to help us monetise and quantify these costs. However, none of the consultation responses received, or informal responses to requests for information, indicate that there would be an increase in costs to consumers.

74. Consumers may also face indirect costs if payment service providers were to revert to a less–effective, slower account switching procedure.

75. Based on the counterfactual, there would be direct costs to consumers with basic bank accounts if credit institutions were permitted to charge ‘reasonable fees’ in the case of a failed direct debit or standing order. Article 18(2) of PAD requires that Member States ensure that fees charged in these situations should be reasonable, and sets out a mechanism for determining the level of a ‘reasonable fee’.

76. This would be a reversal of the 2014 agreement on basic bank accounts. The 2014 agreement was made in order to reverse a situation where charges for a breach of terms (e.g. an unpaid item fee for a failed direct debit or standing order) had been applied to basic bank accounts outside the spirit of the original 2003 agreement. A small number of banks charged no fee, but in some banks, fees were as high as £35 per failed item. In some of these cases charges were uncapped, meaning that fees could accumulate with no limit. These fees were responsible for pushing consumers into negative balances which they were unable to repay, resulting in many UK consumers effectively becoming unbanked.

77. The costs to consumers of a reversion to this practice could be substantial. To give an illustrative example, if 1 in 9 of the UK's 9 million basic bank accounts were to attract a single unpaid item fee of £20 in a single year, this would suggest a cost to consumers of £20 million pounds. In reality, the actual cost may be higher if the incidence of unpaid items or other fees were higher.

*Wider society*

78. The UK's main competent authority under Option 1 would be the FCA. There will be a cost to the FCA to develop the list of most representative services linked to a payment account, and to engage with the EBA's process to determine EU standardised terms and definitions, and formats. However, this cost has arisen (and is already being incurred by the FCA) as a result of the Directive, rather than the UK's transposition of PAD. We have therefore not allocated resource to estimating this cost and have not included it in our calculations.

79. It is expected that the FCA would incur costs as a result of the UK's transposition of PAD under Option 1. Costs that the FCA would incur are likely to be mainly related to supervising firms' compliance with PAD requirements. Given the wider range of firms that may be brought into scope under Option 1, the FCA would face ongoing compliance costs in monitoring the larger number of firms that may be in scope. Transitional costs may also be incurred as a result of setting up a reporting system into which firms will input the requested data. As Option 1 is not our preferred option, the FCA has not been asked to consider the costs associated with this option, or the potential increase in fees for firms in order to off-set the costs.

80. After the Payment Account Regulations have been adopted, the FCA will consult in the usual manner on any rule changes it considers necessary to give effect to the Regulations. HMT will not intervene in these deliberations. We have consulted the FCA on this issue, however, in order to consider the costs that firms may incur as a result of the FCA's rule changes. The Government understands that any rule changes are likely to focus on ensuring compliance with PAD and the Payment Account Regulations. For example, this is likely to include additional reporting rules, which, as mentioned above, are not expected to be substantial. If the FCA believes it is appropriate to propose any rules that go beyond the requirements covered under the Directive and the new regulations, the FCA will carry out and publish a cost-benefit analysis alongside its consultation on the proposed rule changes.

81. In the case of firms that do not comply with the requirements in the regulations, there would be implications for the supervision and enforcement divisions of the FCA. As reported in the consultation state impact assessment, the Government

does not believe that this should require major organisational change and should be deliverable within current structures. The FCA has also been consulted on this issue.

82. Under Option 1, a new criminal offence (misleading the FCA), and a right to refer a matter to the Upper Tribunal would be introduced. It is these changes which have the potential to impact on the supervision and enforcement divisions of the FCA. However, as mentioned above, we do not consider that there will be a significant impact on the FCA (or, as a result, on industry). The new criminal offence mirrors section 398 of the Financial Services and Markets Act 2000 (misleading FCA or PRA: residual cases). Since section 398 was introduced, only two prosecutions have been brought in respect of breaches of section 398 (and no financial penalties were imposed in either case). It is therefore not anticipated that even one prosecution per year would take place as a result of the creation of the new offence.
83. The new right to refer a matter to the Upper Tribunal also should not impact on the FCA or tribunals. This is because instances where the FCA will have to exercise its power of direction are expected to be very rare. Instances where the FCA's directions are referred to the Upper Tribunal by a payment service provider are expected to be rarer still. Since 2006, 142 referrals have been made to the Upper Tribunal concerning a direction by the FCA or FSA. However, this figure takes into account the powers of direction the FCA can make under a range of financial services legislation.
84. A justice impact test regarding the new criminal offence and new right to refer a matter to the Upper Tribunal has received clearance from the Ministry of Justice.
85. As the UK's independent body charged with improving consumers' understanding of financial matters, the Money Advice Service (MAS) will be required to operate a comparison website in line with the requirements in PAD. The cost of establishing this website is expected to range between £0.2 million and £0.8 million, with ongoing maintenance costs (updating and quality assuring data, server provision etc.) of around £0.1 million to £0.2 million. MAS is funded by a levy charged to industry by the FCA. If the cost of setting up and running the comparison website leads to an increase in the annual budget for MAS, as opposed to being funded through reallocation of resource or efficiency savings elsewhere in the organisation, costs could be passed on to industry. As it is possible that the cost will be funded through a reallocation of resource or efficiency savings, we have taken the cost to industry with this measure to be a maximum of £0.8 million for transition and a minimum of £0 and a maximum of £0.2 million for compliance and a minimum of £0.

86. Under Option 1 there would not be a mechanism in place for an alternative switching process to apply to the PSR for designation as an alternative switching process. Costs to the PSR, and which may be passed on to industry, have therefore not been considered.

## **Monetised and non-monetised benefits of Option 1**

### *UK payment account providers*

87. The option to provide a less-effective, slower version of CASS may result in a limited cost saving for firms. Firms which currently lose customers to competitors as a result of CASS may also stand to benefit by losing fewer customers, due to the slower switching service. However, it is difficult to estimate how this may be balanced by the changes required to establish such a switching procedure and any effects on the firms' attractiveness to potential customers. It would also be misaligned with the Government's support and ambitions for CASS to encourage more competition in banking.

88. Firms could also benefit from charging fees for breaches of contract on basic bank accounts, reducing the current losses made on basic bank accounts.

### *Consumers*

89. Consumers may benefit from improved customer information from firms and the ability to identify and compare fees for services linked to a payment account across the EU. However, we expect this benefit to be minimal in the context of the overall policy.

90. This view has been corroborated in responses to our consultation. One consumer group and several firms supported the measures concerning customer information documents in the context of improving consumers' understanding of how their accounts work. However, it was also noted by one firm that findings by the FCA indicate that the annual summary documents currently provided in the UK may have limited effect on consumer behaviour with regards to overdraft charges, balance levels and switching. Measures such as text alerts or mobile banking apps, in comparison, have previously reduced unarranged overdraft charges incurred by 24%. However, other transparency measures introduced by PAD, such as the fee information document, may impact on consumer behaviour.

91. Consumers who currently bank with firms operating outside of CASS may also benefit from being offered a PAD compliant switching service. However, given that only 1% of the current account market is not covered by CASS, and that only a

proportion of these customers are likely to switch accounts, we expect benefits in this regard to be minimal.

#### *Wider society*

92. Benefits to wider society under Option 1 have not been identified by HMT or by the interested parties that responded to our consultation.

#### **Small and micro business assessment (SaMBA)**

93. Under Option 1, the Government would be able to use the flexibility available in the Directive to exempt a number of entities (e.g. credit unions and central banks) from compliance with PAD.

94. The Government would also be able to ensure that basic bank account requirements are not extended to payment institutions beyond credit institutions, thereby limiting the impact on smaller firms.

95. However, it is possible that under Option 1 a number of payment service providers (a sub-set of the UK's c. 800 small payment institutions) may fall within the definition of a small or micro-business and may offer a payment account within the scope of the transparency and switching requirements in PAD.

96. Beyond the exemptions outlined above, the Directive does not provide Member States with flexibility with regard to the application of the requirements to small and micro businesses. It is clear from a legal perspective that PAD must be applied consistently regardless of the size of the firm. This means the Government is limited in its ability to offer tailored treatment to mitigate the impact on these businesses.

97. However, a number of options have been explored:

Option	Reason for rejection
Partial exemption	PAD does not allow Member States to exempt payment service providers within the definition of small or micro-businesses from the requirements on transparency or switching.
Extended transition period	PAD does not provide transitional flexibilities for small or micro businesses.
Temporary exemption	PAD does not provide for temporary exemptions for small or micro businesses.



Varying requirements by type or size of business	Beyond the flexibility to restrict the application of basic bank account requirements to credit institutions, PAD does not allow the UK to vary its implementing legislation by type or size of business.
Specific information campaigns or user guides, training or dedicated support	The Government will seek to confirm its final policy approach as far in advance of the implementation date as possible, so that firms have as much time as possible to understand and implement the changes. The FCA, who would be implementing the changes, would also communicate with firms to raise awareness.
Direct financial aid	The Government does not believe that there is a case for direct financial aid, and does not believe this would represent good value for money, in light of the wider approach to minimise the impact on business wherever possible.

98. The Government's proposed approach seeks to minimise the impact on business where possible, which will also benefit micro and small businesses.

#### *Wider impacts*

99. HM Treasury has not identified any other wider impacts resulting from this proposal, including on our responsibilities under the Equalities Act 2010.

### **Summary of estimated transition costs under Option 1**

We anticipate that the only significant ongoing costs under Option 1 will consist of costs to consumers due to basic bank account fees, and potential costs to industry due to the comparison website.

This table summarises our estimated transition costs (based on best estimates only):

<b>Transition Costs - Option 1</b>	
<b>Description</b>	<b>Cost (£m)</b>
Familiarisation Cost	0.2
Changes to Customer Information	189
Packaged Accounts	0.03
Switching Service	0.58
Currency Accounts	0.01
Money Advice Service (MAS) Website	0.5
Know Your Customer checks	0.42

<b>Total</b>	<b>190.7</b>

**Option 2 – Seek to maintain the existing regulatory framework and UK structures, minimising any adjustments required to implement PAD**

100. Our consultation stage impact assessment explained that Option 2 is our preferred option. It employs copy-out wherever possible, but tailors the approach to the UK market where necessary by:
- Clarifying that payment accounts used for day-to-day transactions (broadly, current accounts) are in scope, by copying-out the relevant sections of recital 12 of PAD alongside the criteria provided in Article 1(6);
  - Using the discretion available in the Directive to maintain the UK’s existing CASS as an alternative to the procedure set out in PAD; and
  - In line with Recital 11 of the Directive, which states that the Directive should not preclude Member States from retaining or adopting more stringent provisions in order to protect consumers, ensuring that credit institutions who offer basic bank accounts will continue to do so on the basis that the accounts are fee-free, including where a customer does not comply with the terms of the account.
101. Option 2 has the benefit of working alongside what is already in place, making minimal changes to achieve compliance where necessary. Current account providers would still be required to:
- Amend their existing customer information to reflect the linked services list when it is finalised;
  - If offering a packaged account, inform their customer whether the payment account can be purchased separately from the additional services, and if so, the costs of or fees for the additional services if they are available from the same provider; and
  - If outside CASS, to offer an account switching procedure that is at least in line with the requirements in the Directive.
102. Further, credit institutions that offer basic bank accounts would also be required to:
- Offer basic bank accounts to a larger number of consumers than at present, to ensure that the unbanked and financially excluded have access to accounts in the UK in line with PAD.
103. Consultation responses and informal views shared with us by firms have corroborated that, broadly, firms and other interested parties favour the Government’s proposed approach of maintaining the UK’s existing structures where possible and using copy out to ensure compliance with other areas of the Directive.

104. We have used the consultation period to test our initial assessment of the potential costs and benefits of Option 2 on the main affected groups in the UK. We have developed our assessment of the costs of this option based on responses from firms and other interested groups, as well as further internal analysis.

## **Monetised and non-monetised costs of Option 2**

### *UK current account providers*

105. The Government considers that without clarification, PAD's definition of a payment account is insufficiently clear. The recitals to a Directive, although not binding on Member States, can be used as an aid to interpretation. Under Option 2, the Government would copy-out Article 1(6) of the Directive, alongside text from Recital 12 which makes clear that accounts such as savings accounts, credit card accounts where funds are usually paid in for the sole purpose of repaying a credit card debt, current account mortgages and e-money accounts should in principle be excluded from the scope of the Directive.
106. Responses to the consultation indicate that firms appreciate the Government's clarification of the definition of the payment account. Firms have requested that the Government clarify the term even further though. The Government's clarification makes clear that accounts such as savings accounts, credit card accounts where funds are usually paid in for the sole purpose of repaying credit card debt, current account mortgages and e-money accounts should in principle be excluded. However, the draft regulations go on to state that if these accounts are used for day-to-day payment transactions and comprise the all of the functions set out in the Directive's Article 1 (6), then they will fall within scope. Firms have argued that the reference to 'day-to-day payment transactions' fails to tighten the definition of a payment account sufficiently, leading to risks that products such as savings account would need to be included within the scope, significantly increasing costs.
107. Further clarification in the regulations is unlikely to be possible due to the Government being bound by the wording of the Directive. The Government has already made clear its intention that PAD should, broadly, only apply to current accounts. In addition, one trade association has already indicated which of its members consider their accounts to be within scope. This indicates that some firms have already carried out an assessment of their accounts to determine those that will be in scope.
108. Firms are likely to carry out a degree of familiarisation once the regulations are made in order to determine if any of their accounts are within scope of PAD, but we expect that a significantly smaller number of firms are likely to do this under

Option 2. Our estimate of the collective cost of familiarisation under Option 2 is approximately £18,000.

109. The Option 1 assessment of costs to firms at paragraphs 60–66 above would apply equally to Option 2, as the transparency requirements in PAD would be copied out. However, those costs would apply to a much smaller number of firms and products in the UK due to the clarification of the Directive’s scope.
110. Although each firm will need to make its own judgement, the Government’s view is that the accounts that are in scope are likely to be current accounts. In the consultation stage impact assessment, the Government estimated that there are approximately 50 active bank and building society current account providers in the UK. These firms are already required to have identified which of their products may be current accounts for the purposes of compliance with the Immigration Act 2014 and its associated regulations, so costs of identifying accounts that are in scope should be minimised.
111. Under the Immigration Act, current account providers must check new customers against a list of known illegal migrants before opening a new current account for the customer. In the course of developing a new measure for the Immigration Bill, it has emerged that 143 firms are able to check whether customers are on the list of known illegal migrants, implying that there are 143 current account providers in the UK, rather than the previously estimated 50. However, a considerable portion of the firms that check whether customers are on the list of known illegal migrants are very small firms. A smaller number of firms, closer to the originally estimated 50, is likely to cover most of the current account market in the UK. However, based on the new figure available, we have increased our estimate of the firms that may be in scope under Option 2. Our best estimate is that up to 100 banks and building societies may be in scope.
112. Beyond the estimated 100 active bank and building society current account providers, there may be around 5–10 payment service providers that offer a current account–style product (e.g. e–money current accounts) that may meet the criteria set out in the draft regulations.
113. Based on this revised figure of the providers that may be within scope, we estimate that industry will face a cost of £91 million for adapting their customer information (best estimate).
114. Around 40 of the 105–110 firms that offer current accounts are members of CASS, accounting for over 99% of the UK’s current account market. CASS members contribute to operational costs by paying switching fees split equally between the customers’ old and new bank providers. The costs payable per switch are the only

fees payable by CASS members; there are no annual membership fees (although Bacs may charge members from time to time to meet costs that cannot be absorbed within its annual budget). Existing members would incur no additional costs from complying with the switching requirements in PAD by remaining within CASS.

115. However, CASS members may incur costs if they receive a switch request from a firm that is not a member of CASS. As the transferring service provider, the CASS member will have to comply with the requests made by the firm operating outside CASS. Given that the switching service provided by the firm operating outside CASS is likely to have more stringent requirements in place compared to the switching services already offered in order to comply with PAD, e.g. shorter timescales for transferring information, CASS members will need to ensure that they can meet these requirements. The costs on CASS members as a result of this are difficult to estimate because they depend on how big a difference there is in the requirements on the transferring service provider once the existing non-PAD compliant switching service has been re-framed as PAD compliant. However, based on the manual switch service developed by Bacs, re-framing a non-PAD compliant switching service as PAD compliant is likely to require the most change in respect of ensuring the switch is carried out according to the timescales set out in PAD. Currently, no timeline is included in the manual switch service described developed by Bacs. Costs may be incurred as a result of additional resourcing and training needs.
116. Due to the lack of estimates provided by industry with respect to the above mentioned costs, internal analysis has been carried out to produce estimates. Our estimate is that the 40 CASS members will collectively face a transition cost of £1.88million. We expect minimal ongoing costs due to the small volume of switch requests anticipated and minimal system updates required once the initial changes have been made.
117. In addition, CASS members may incur costs if accounts they offer are not in CASS, but fall within the scope of PAD. In this case, the payment service provider would have to decide whether to include the account in CASS (assuming the account meets the requirements to join CASS) or to develop a separate PAD compliant switching service for the account. Only one payment service provider that is a member of CASS has informed us that they will incur a cost for developing a separate PAD compliant switching service for an account that is not included in CASS. However, the firm did not indicate an estimate for the cost of developing the separate switch service.
118. Any operator of a switching service wishing to be designated as an alternative switching service will need to apply to the PSR for designation. At the moment, we

only anticipate that the operator of CASS would seek designation as CASS is the only known switching scheme available which could meet the necessary criteria for an alternative switching service. The PSR has indicated that any costs charged to operators of a switching service seeking designation would be cost reflective. Costs to the PSR as a result of Option 2, and which may therefore be passed on to industry, are discussed below under 'wider impacts'.

119. Firms that are outside CASS but wish to join the scheme in order to comply with PAD, would face costs due to the resource required to apply for membership. Firms are not charged any fees for applying to join CASS. However, resource costs will be incurred through the application process and system changes are also likely. We have taken these factors into account in estimating the cost to a firm seeking to join CASS. We estimate that a medium sized firm will incur costs of approximately £44,000 in joining CASS and a small firm will incur costs of approximately £9,000. We do not anticipate significant compliance costs as costs per switch are expected to be low as are switching volumes. We estimate that at most, one medium firm and one small firm may choose to join CASS.
120. Firms that are outside CASS and are unable to join, or do not wish to join, may incur transitional and ongoing administrative costs from ensuring that they offer a switching procedure at least in line with the requirements in PAD. We estimate that a firm that already offers a manual switching service, but needs to re-frame it as PAD compliant, will incur costs of £2,029. We anticipate that approximately 60 firms that are outside CASS will re-frame their existing switching service to a PAD compliant switching service, resulting in a total transition cost of approximately £120,000.
121. Of the 65–70 firms that we expect to be in scope of PAD and that are not members of CASS, eight currently only offer customers a partial switch service. In order to comply with PAD, these firms will therefore have to decide whether to join CASS or to set up a separate PAD compliant switching service from scratch, rather than re-framing an existing switching service. It is likely that these eight firms will therefore face a higher burden than firms which already offer a non-PAD compliant switching service. We estimate that collectively, these eight firms, plus the firm referred to in paragraph 117, will incur costs of £42,689 due to setting up a PAD compliant switch service from scratch.
122. To ensure compliance with PAD, the FCA will be required to collect information the number of payment accounts that have been switched and the proportion of applications for switching that have been refused. Bacs already gather data on the number of switches that take place and on the number of switches initiated using CASS which are rejected by the old (i.e. transferring) payment service provider. We

therefore expect that CASS members will face no additional costs as a result of reporting requirements related to switching. However, firms that are outside CASS and that do not join CASS may incur additional costs as a result of having to report switching data directly to the FCA. We expect these costs to be minimal.

123. The Option 1 assessment of costs to firms offering currency accounts as a result of having to offer a PAD compliant switching service would apply equally to Option 2.

124. At present, nine firms provide basic bank accounts in line with the December 2014 agreement. These firms each hold more than 1% of personal current account market share. In order to reflect changes in the market in future and ensure sufficient access for consumers in the UK, the Government will designate banks that will be required to participate in basic bank accounts, based on a set of clear criteria, including: the credit institution's geographical coverage; the distribution of consumers within the UK; and the credit institution's share of the personal current account market. The Government believes that this market share threshold ensures coverage of more than 90% of the UK's current account market, but would not discourage newer, smaller entrants to the personal current account market who may otherwise find the cost of providing basic bank accounts a barrier to entry. The Government anticipates that the nine firms that have signed up to the 2014 agreement will be designated to offer basic bank accounts. As these firms will already have the necessary products in place, costs are not anticipated as a result of designation.

125. Recital 11 of the Directive states that the Directive should not preclude Member States from retaining or adopting more stringent provisions in order to protect consumers, provided that this is consistent with obligations under EU law and with the Directive.

126. While Article 18(2) states that Member States shall "ensure that the fees charged to the consumer for non-compliance with the consumer's commitments laid down in the framework contract are reasonable", this provision does not explicitly mandate the charging of any such fees. In addition, recital 46 provides that "any additional charges to the consumer for non-compliance with the terms laid down in the contract should be reasonable. Member States should establish what constitutes a reasonable charge according to national circumstances". The Government's view is that in the circumstances of the UK, and its prevailing free-if-in-credit banking model, it would be reasonable to explicitly prohibit the charging of unpaid item fees to basic bank account customers altogether. Accordingly, credit institutions who offer basic bank accounts will continue to do so on the basis that the accounts are fee-free, including if a direct debit or



standing order fails. Participating firms have already committed to ensure that basic bank accounts will be fee-free from December 2015, so there is no additional cost to firms from this approach.

127. In addition, participating firms would be required to open a basic bank account for any consumer who is legally resident in the EU and a) unbanked in the UK or b) ineligible for that bank's standard personal current account. This eligibility criteria ensures that the requirements in PAD are met, and that the Government's wider financial inclusion objectives, established in the 2003 and 2014 agreements, also continue to be met by basic bank accounts after September 2016.
128. The eligibility of non-UK EU residents for a basic bank account in the UK will also lead to costs for firms as they seek to address the challenges of carrying out identification and verification checks on customers resident elsewhere in the EU. Carrying out 'Know Your Customer' checks may be particularly challenging to apply for customers with no fixed address, asylum seekers and consumers who have not been granted a residence permit but whose expulsion is impossible for legal or factual reasons. This is because it may be more difficult for firms to verify the identity of customer as required by the Money Laundering Regulations. We anticipate that firms may spend in the region of £10,000 each on designing new, appropriate checks and a further £50,000 each in adapting systems and training staff. Costs for medium and smaller firms may be lower at £20,000. The difference in cost is due to the more limited resource in place for medium and smaller firms to carry out changes, as well as the smaller number of staff to be trained.
129. As mentioned in paragraph 69, the PCBS estimated in 2013 that approximately 9 million basic bank accounts cost industry a combined total of £300million per year.
130. Despite the wider eligibility criteria for basic bank accounts under PAD, the number of basic bank account holders could decrease as well as increase. Under the 2014 agreement, providers of basic bank account holders are able to upgrade basic bank account holders to a standard personal current account if the latter would be a more appropriate product for the customer. When considering whether to upgrade a basic bank account holder, a bank must take into account the customer's financial circumstances, the pattern of usage on the account, and the eligibility criteria for basic bank accounts. Under PAD, banks will continue to be allowed to review their basic bank account portfolios and migrate customers if appropriate. This may mitigate anticipated increases in banks' portfolios of basic bank accounts. We have therefore not anticipated an increase in cost to firms as a result of changes to their stock of basic bank accounts.

131. Article 16 of the Directive offers Member States the option to require that consumers who wish to open a basic bank account in the UK ‘show a genuine interest in doing so’, provided demonstration of that genuine interest is not made too burdensome or difficult. The Government has chosen not to pursue the option of a genuine interest test in the regulations. Although a genuine interest test may mitigate the increase in costs to firms as a result of the wider eligibility for basic bank accounts, firms will still be able to refuse an application for a basic bank account if the consumer does not meet the eligibility criteria or in certain circumstances (e.g. to ensure compliance with anti-money laundering regulations) as specified under the Directive’s Article 16. However, the Government will consider amending the regulations at a later date if a genuine interest test is regarded as necessary and a suitable test is identified.

### *Consumers*

132. Given that Option 2 largely preserves the UK’s existing products and services, and in particular does not use any of the flexibility in PAD to allow firms to charge fees for basic bank accounts, we have not identified any additional costs to consumers.

### *Wider society*

133. The UK’s main competent authority under Option 2 would be the FCA. The costs outlined at paragraph 78 above would also apply under Option 2.

134. Following informal soundings with the FCA during the consultation process, the Government does not expect the FCA to incur significant costs under Option 2. As mentioned in paragraph 79, costs that the FCA will incur are likely to be related mainly to supervising firms’ compliance with PAD requirements. Under Option 2, only 55–60 firms are expected to be in scope. It is therefore expected that these ongoing costs will remain low. Transitional costs may also be incurred as a result of setting up a reporting system into which firms will input the requested data. However, it may be possible to collect this data via existing systems, which would keep these costs very low. As a result of the low costs the FCA is expected to incur in meeting its responsibilities under Option 2, the Government does not expect firms’ fees to rise as a result.

135. However, it is possible that firms will incur costs as a result of complying with certain rule changes that the FCA considers necessary. With regards to this issue, paragraph 80 also applies under Option 2.

136. In the case of firms that do not comply with the requirements in the regulations, there would also be implications for the supervision and enforcement divisions of

the FCA under Option 2. The costs outlined in paragraphs 81–83 above therefore also apply under Option 2.

137. Given the reliance on CASS as an alternative switching mechanism under Option 2, the Government has decided that there should also be a competent authority role for the PSR.
138. As CASS is run by Bacs, which is a designated payment system, the PSR will take responsibility for ensuring that the service continues to meet the criteria set out in Article 10(3) of PAD. These include ascertaining that the service is clearly in the interest of the consumer, there is no additional burden for the consumer, and that the switching is completed within, as a maximum, the same timeframe set out in PAD.
139. The PSR may incur costs in assessing information they receive from firms on their compliance with PAD, and limited costs in supervision and enforcement. The Government does not believe that this should require major organisational change and should be deliverable within current structures.
140. The PSR is still considering its approach and process for designating an alternative switching service, as well as the level of fees that the operator of a switching service may be charged as part of the designation process. The PSR have indicated that any fees should be cost-reflective. Given that we do not anticipate more than one operator applying for designation, we expect the costs to remain low. The PSR will publish its own consultation on fees to be charged and the methodology for doing so.
141. Given the PSR's role under Option 2, this option would also introduce a new right of appeal to the Upper Tribunal for operators of switching services who wish to challenge decisions made by the PSR in respect of the designation of their system, or the cancellation of designation of their system, as an "alternative arrangement". As we only anticipate there to be one operator of an alternative arrangement, we do not anticipate that this provision will, in practice, generate any extra tribunal business, nor therefore, any significant costs to the justice system. The new right of appeal was included in the justice impact test referred to in paragraph 84 which has received clearance from the Ministry of Justice.
142. Should a firm offering a current account choose not to join CASS, or leaves it, the draft implementing regulations provide that they offer a switching procedure at least in line with the requirements in PAD. The FCA would be responsible for supervising these firms' switching arrangements outside CASS. It is unlikely that this responsibility will directly lead to increases in fees, although firms may incur costs in having to report to the FCA as mentioned above.

143. The Government's proposals on meeting the requirements for a comparison website under Option 2 are the same as under Option 1. The costs considered in paragraph 85 therefore also apply under Option 2.

### **Monetised and non-monetised benefits of option 2**

#### *UK current account providers*

144. Given that Option 2 largely preserves the UK's existing products and services, we have not identified any additional benefits to firms.

#### *Consumers*

145. As in the case of Option 1, consumers may benefit from improved customer information from firms. The benefits outlined in paragraphs 89–90 above therefore also apply under Option 2.

146. The benefits outlined in paragraph 91 also apply in the context of Option 2.

147. Consumers may also benefit from increased certainty around the provision of, and eligibility for, basic bank accounts. One formal response to our consultation highlighted that 10% of households in Northern Ireland alone do not have a current account. A significant number of UK residents may therefore benefit from the increased certainty around access to basic bank accounts.

#### *Wider society*

148. We have not identified any benefits to wider society at this stage.

### **Small and micro business assessment (SaMBA)**

149. The Government has used the flexibility available in the Directive to exempt a number of entities (e.g. credit unions and central banks) from compliance with PAD.

150. Further, this impact assessment has not identified any current account providers that would fall within the definitions used by the Government for small or micro organisations and offer a current account that would be required to comply with PAD under Option 2.

151. The authorisation requirements for banks and building societies – which are set at a European level through the Capital Requirements Directive – mean that these organisations must (with limited exceptions) hold over €5 million capital. Even

recent new entrants to the current account market (such as Virgin Money and Tesco) would not be considered micro or small organisations for the purposes of this impact assessment.

152. While the Directive does not provide Member States with flexibility with regard to the application of the requirements to small and micro businesses, the clarification of the scope of the Directive means that the Government would not expect any small and micro-businesses to be required to comply with PAD under Option 2.

153. Given this, the Government considers that Option 2 fully limits the impact of the Directive on small and micro-businesses, and that no table examining further options is required.

154. The Government’s proposed approach also seeks to minimise the impact on business where possible, which will also benefit micro and small businesses.

### Wider impacts

155. HM Treasury has not identified any wider impacts resulting from this proposal, including on our responsibilities under the Equalities Act 2010.

### Summary of transition costs under Option 2

We anticipate that the only significant ongoing cost under Option 2 will be the potential cost associated with running the comparison website.

This table summarises our estimated transition costs (based on best estimates only):

<b>Transition Costs - Option 2</b>	
<b>Description</b>	<b>Cost (£m)</b>
Familiarisation Cost	0.02
Changes to Customer Information	91
Packaged accounts	0.03
Switching Service	1.88
Currency Accounts	0.01
Joining CASS	0.05
Setting up a Service	0.04
Reframing a Service	0.12
Money Advice Service (MAS) Website	0.5
Know Your Customer checks	0.42
<b>Total</b>	<b>94</b>

### Summary and preferred option with description of implementation plan

156. The Government’s preferred option is Option 2.

157. The Government has considered whether it would be possible simply to copy-out PAD. While this would avoid 'gold-plating', it would not reflect the UK's existing policy and structures in relation to current accounts, switching and basic bank accounts, with consequences for the UK market.
158. Instead, Option 2 employs copy-out wherever possible, but tailors the approach to the UK market where necessary by:
- Clarifying that current accounts used for day-to-day transactions are in scope;
  - Using the discretion available in the Directive to maintain the UK's existing CASS as an alternative to the procedure set out in PAD; and
  - Ensuring that credit institutions who offer basic bank accounts maintain existing UK policy on fees and charges, including that they may not charge for a breach of terms such as an unpaid item fee.
159. This is in line with the policy objective to achieve compliance with PAD while minimising the negative impact on UK industry in terms of their costs and competitiveness. PAD seeks to recreate in other EU Member States similar services and products to those that already exist in the UK (e.g. a current account switch service, independent comparison websites, basic bank accounts). The UK Government intends to ensure that these services and products continue to be delivered in line with the UK market and domestic policy objectives.
160. Once the Payment Account Regulations have been made, the FCA will consult on the rule changes it will make to ensure compliance with PAD. The FCA's consultation will include a cost-benefit analysis of their proposed changes. The PSR may also consider that it is necessary to consult in relation to its role in respect of ascertaining that CASS continues to meet the criteria set out in Article 10(1) of PAD.
161. Due to limited parliamentary time in 2015, the finalised regulations may not be debated in both Houses of Parliament and finally made until later in 2015, before coming into effect from 18 September 2016.

## Annex 1

### Internal analysis used to determine familiarisation costs

The relevant occupations are: Financial Account Manager (SOC 3538) and Administrative Officer (Finance) (SOC 412) which have gross hourly median wages of £21.62 and £12.71 respectively.

Familiarisation Costs per Firm				
Role	Hourly Wage	Hours per Week	Weeks	Cost
Finance Manager	£21.62	5	1	£108.00
Admin Officer	£12.71	5	1	£63.00
Total				£171.00

Option 1 - Familiarisation Costs		
Number of Firms	Cost per Firm	Total Cost (£)
1153	171	197912

Option 2 - Familiarisation Costs		
Number of Firms	Cost per Firm	Total Cost (£)
110	171	18881

**Internal analysis used to estimate transition costs of adapting customer information (best estimates only)**

Option 1 – Costs of Changing Customer Information		
Number of Large Firms	Cost per Firm (£m)	Cost (£m)
6	4	24
Number of Medium Firms	Cost per Firm (£m)	Cost (£m)
317	1	317
Number of Small Firms	Cost per Firm (£m)	Cost (£m)
830	0.5	415
Total		756
Adjusted Total		<u>189</u>

\*Total adjusted to account for the fact not all firms will have to implement these changes

\*Assumes 25% of firms incur this cost

\*Cost for medium firms assumed to be ¼ of that of large firms, cost for small firms 1/8 of that of large firms

Option 2 – Costs of Changing Customer Information		
Number of Large Firms	Cost per Firm (£m)	Cost (£m)
6	4	24
Number of Medium Firms	Cost per Firm (£m)	Cost (£m)
30	1	30
Number of Small Firms	Cost per Firm (£m)	Cost (£m)
74	0.5	37
Total		<u>91</u>
Adjusted Total		NA



## Internal analysis used to determine cost estimates related to switching requirements

### Costs to CASS members of complying with switch requests from firms operating outside CASS

#### *Training*

It may be assumed that staff handling switch requests in a bank that is a member of CASS require 3 hours of training in order to understand the new requirements.

The relevant occupations are: Financial Account Manager (SOC 3538) and Administrative Officer (Finance) (SOC 412) which have gross hourly median wages of £21.62 and £12.71 respectively.

	Large firm	Medium firm	Small firm	Training cost per staff	Total cost
No. of admin officers to be trained	90	25	2	£38.13	£4,461.21
No. of finance managers to be trained	10	5	1	£64.86	£1,037.76
				Total	£5,498.97

Based on the assumption that 6 large firms, 30 medium sized firms, and 4 small firms will be affected, our estimated training costs are:

	Cost for admin officers	Cost for finance managers	Total	No. of firms	Total cost
Large firm	£3,431.70	£648.60	£4,080.30	6	£24,481.80
Medium firm	£953.25	£324.30	£1,277.55	30	£38,326.50
Small firm	£76.26	£64.86	£141.12	4	£564.48
				Total	£63,372.78

#### *System changes*

Our assumptions are that costs for different types of firm will be:

	No. of firms	System change costs	Total
Large firm	6	£100,000.00	£600,000.00
Medium firm	30	£40,000.00	£1,200,000.00
Small firm	4	£5,000.00	£20,000.00
		Total	£1,820,000.00

Total estimated cost to CASS members of complying with switch requests from firms operating outside CASS is therefore £1.88million. This is a transition cost as once system changes have been made, we expect very limited compliance costs.

## Cost to firms operating outside CASS that choose to join CASS

Although there are no membership fees, costs would be incurred as part of the joining process.

The process is estimated to take 32 weeks (based on Bacs data).

Assuming that 1 Financial Account Manager (SOC 3538) spends 4 hours per week on this work during the 32 week period and is supported by 2 Administrative Officer (Finance) (SOC 412) each spending 2 hours per week on this, estimated resource costs are £4,394.24

	Hourly wage	Hours per week	Weeks	Cost
Finance manager	£21.62	4	32	£2,767.36
Admin officer	£12.71	2	32	£813.44
Admin officer	£12.71	2	32	£813.44
			Total	£4,394.24

Estimated system costs for a medium and small firms are £40,000 and £5,000 respectively (large firms are already assumed to be members).

Total cost for a medium firm seeking to join CASS: £0.04million

Total cost for a small firm seeking to join CASS: £0.009million

These are transition costs.

Compliance costs are expected to be minimal given that extra resource is not anticipated and the cost per switch is expected to be low so that, coupled with low expected switch volumes, it will not be significant.

Of the 15–20 firms operating outside CASS we may assume that only one medium firm and one small firm may choose to join CASS, resulting in a total cost to industry of £0.049million.

## **Cost estimate of setting up a separate PAD compliant switching service**

Firms that currently only offer a partial only switching service, or that provide payment accounts that are not part of CASS (and they do not wish to include in CASS), may have to develop a PAD compliant switching service from scratch.

We expect the costs of this to involve:

- Familiarisation with the requirements for a PAD compliant switching service – 8 hours of a Financial Account Manager’s time i.e. £172.96
- Design of service – 40 hours of a Financial Account Manager’s time i.e. £864.80 and 40 hours of an Administrative Officer’s time i.e. £508.40
- Resource to develop required tools e.g. documentation for requesting a switch – 100 hours of Administrative Officer’s time, i.e. £1,271 and 30 hours of Financial Account Manager’s time i.e. £648.60
- Staff training – 3 hours of training for each member of staff handling switch requests i.e. £1,277.55 (based on earlier assumptions of costs for training to CASS members handling switch requests from organisations outside CASS. This figure is based on training within a medium sized firm only)
- Compliance – minimal, assuming that a very limited number of switch requests are made to firms operating outside of CASS

Total cost per firm: £4,743.31

Total cost to industry assuming that nine firms set up a separate PAD compliant switching service from scratch: £42,689.79.

Firms that already offer a switching service outside of CASS will need to re-frame it as PAD compliant. We expect the costs of this to be lower than those for firms setting up a service from scratch. We expect these costs to involve:

- Familiarisation with the requirements for a PAD compliant switching service – 3 hours of a Financial Account Manager’s time i.e. £64.86

- Design of service – 20 hours of a Financial Account Manager’s time i.e. £432.40 and 20 hours of an Administrative Officer’s time i.e. £254.20
- Staff training – 3 hours of training for each member of staff handling switch requests i.e. £1,277.55 (based on earlier assumptions of costs for training to CASS members handling switch requests from organisations outside CASS. Again, this figure is based on training within a medium sized firm only)
- Compliance – minimal, assuming that a very limited number of switch requests are made

Total cost per firm: £2,029.01

Total cost to industry assuming that between 6 and 11 firms will adapt an existing switching service: £12,174.06–£22,319.11

Assumptions on the number of firms implementing changes are based on the fact that 15–20 firms we believe will be in scope currently are not CASS members. Of these, nine are assumed to be required to set up a separate PAD compliant switching service from scratch (as above).

### **Cost estimate of setting up a PAD compliant switching service for currency accounts**

We expect the costs of this to involve:

- Familiarisation with the requirements for a PAD compliant switching service – 8 hours of a Financial Account Manager’s time i.e. £172.96
- Familiarisation and considering of the currency accounts that may be in scope – 40 hours of a Financial Account Manager’s time i.e. £864.80
- Design of service – 60 hours of a Financial Account Manager’s time i.e. £1,297.20 and 60 hours of an Administrative Officer’s time i.e. £762.60
- Resource to develop required tools e.g. documentation for requesting a switch – 100 hours of Administrative Officer’s time, i.e. £1,271 and 30 hours of Financial Account Manager’s time i.e. £648.60
- Staff training – 6 hours of training for each member of staff handling switch requests i.e. £8,160.60 (based on earlier assumptions of costs for training to CASS members handling switch requests from organisations outside CASS. This figure is based on a large firm, as these are more likely to offer a currency account)

- Compliance – minimal, assuming that a very limited number of switch requests are made

Total cost per firm: £13,177.76

