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# 1

# Reforming financial markets - Impact Assessment

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This impact assessment is split into 3 sections:

1. Executive summary
2. Future consultation dates
3. Impact Assessments for individual policy proposals

## 1. Executive summary

What is the problem under consideration? Why is government intervention necessary?

The government intervenes in financial markets to maintain financial stability and ensure they operate efficiently and fairly. Intervention helps address a number of market failures including asymmetries of information between buyers and sellers, high barriers to entry, and externalities which arise when the social costs of failure of financial institutions exceed private costs.

Recent disruption has highlighted serious failures in the global financial regulatory system. In particular, deficiencies have emerged in governance and risk management in the institutional investment chain, quantity and quality of capital and liquidity of assets, and in regulation's ability to minimise systemic risk.

Major financial institutions have failed across the world, and consumer and investor confidence in markets has significantly declined. Longer-term interventions are now needed to ensure a similar disruption cannot occur in future.

### What are the policy objectives and the intended effects?

The policy objectives of the government's proposals are to:

- Strengthen financial regulation to ensure it is fit for purpose and capable of adapting to innovative and evolving markets;
- Reduce the impact of the failure of financial firm and prevent the consequences spreading to the rest of the financial sector and the wider economy;
- Boost consumer trust and confidence in financial markets;
- Improve efficiency and competition in financial markets; and to
- Strengthen regulators and the international regulatory framework.

### What policy options have been considered?

A number of policy options have been explored to address the objectives above, including the option to do nothing. The following impact assessments set out the options that have been explored, likely costs and benefits, the preferred option selected, and the evidence base to support this proposal.

The consultation also proposes a number of areas where we intend to consult at a later stage on proposals for intervention. Section (2) sets out a timescale for this.

## Will the policy be reviewed?

The effectiveness of all the proposals made in this consultation document will be subject to review in the light of consultation responses received. In addition, individual impact assessments set out any timescale for review.

## Summary of costs and benefits

Time period used for present value calculations is 10 years unless otherwise specified.

Policy proposal	Total cost (PV)	Total benefit (PV)	Net benefit (NPV best estimate)
Additional powers for FSA to suspend and fine certain persons	£9m	£31m	£22m
Short-selling powers	£61m	£912m - £9,176m	£4,132 m
National roll-out of money guidance (Time period = 52 years)	£1,374m -£2,659m	£24,662m -27,914m	£24,248m
Consumer education body (Time period = 52 years)	£24m	The benefit of the consumer education body is contained within the overall benefit for money guidance. There will also be additional benefits which are non-monetised at present.	
Collective redress	£452m	£1,549m	£1,097m
Expanding the role of FSCS to facilitate payment to UK customers if foreign banks default.	N/A	£1m	£1m

## 2. Future consultation dates

<b>Recommendation</b>	<b>Consultation date</b>
Consultation on regulations for FSCS to contribute to SRR	By August 2009
Design and functions for a social investment wholesale bank	Summer 2009
Making it easier for building societies to raise money from Treasury bills or other securities issued by a central bank	Summer 2009
Implementation of Building Societies (funding) & Mutual Societies (transfers) Act for IPSs	Summer 2009
Protecting consumers when lenders sell on mortgage portfolios	By PBR
Simpler, more transparent products	By end 2009
Increasing withdrawable share capital limit for industrial and provident societies in line with inflation	By end 2009
Levy for consumer credit firms affected by money guidance scheme	By end 2010
Pre-funding of FSCS	By end 2011

*Source:*

### 3. Impact assessments for individual policy proposals

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Strengthening regulators' enforcement powers	10-11
Establishing stand-alone powers for FSA to take emergency action to restrict short-selling and request disclosures of short-selling	12
Rollout of money guidance	14
Establishment of autonomous consumer education authority	17-20
Collective redress	22-26
Expanding the role of the FSCS to act as an agent to facilitate payment to UK customers if foreign banks default	21

Source:

## Summary: Intervention & Options

<b>Department /Agency:</b> HM Treasury		<b>Title:</b> Impact Assessment of additional powers for FSA to suspend and fine certain persons	
<b>Stage:</b> Consultation	<b>Version:</b> 1	<b>Date:</b> July 2009	
<b>Related Publications:</b>			

Available to view or download at:

Contact for enquiries: Michael Jampel

Telephone: 020 7270 5173

### What is the problem under consideration? Why is government intervention necessary?

Problem: Non-compliance with legally-binding FSA rules, by certain individuals and firms.

Rationale for government intervention: only Government can enforce the law. Consumers will probably not be aware of the non-compliance by firms until it is too late and consumer detriment has been suffered. (There are two ways that the FSA can influence firms to obey the law: increase detection of non-compliance, and increase punishment when it is detected: this addresses the latter as the threat of detection is a lesser deterrent when punishment is insufficient.)

### What are the policy objectives and the intended effects?

Policy objectives: increase deterrence by increasing the potential punishment for non-compliance. (There are no compulsory additional costs to firms from granting these powers to the FSA, as there are no new or additional requirements on firms.)

### What policy options have been considered? Please justify any preferred option.

The existing sanctions, and the potential adverse publicity associated with them, are insufficient to deter non-compliance, as profits can be made and do not have to be surrendered.

When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects? The effectiveness of the proposals will be subject to review in the light of consultation responses received. The FSA also generally undertakes Post-Implementation Reviews.

### **Ministerial Sign-off** For consultation stage Impact Assessments:

*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:



.....Date: July 2009

## Summary: Analysis & Evidence

<b>Policy Option:</b>	<b>Description:</b>
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<b>COSTS</b>	<b>ANNUAL COSTS</b>		Description and scale of <b>key monetised costs</b> by 'main affected groups' Legal challenges to FSA decisions leading to legal costs of £500,000 for firms and £500,000 for FSA
	<b>One-off</b> (Transition)	<b>Yrs</b>	
	<b>£ 0</b>	10	
	<b>Average Annual Cost</b> (excluding one-off)		
	<b>£ 1m</b>		<b>Total Cost (PV)</b> <b>£ 8.6m</b>
Other <b>key non-monetised costs</b> by 'main affected groups' FSA senior management time deciding whether or not to use these enhanced tools.			

<b>BENEFITS</b>	<b>ANNUAL BENEFITS</b>		Description and scale of <b>key monetised benefits</b> by 'main affected groups' Mis-selling may be deterred to the extent that consumers will benefit by between £800,000 and £6,400,000 per year, which gives a mid-point of £3,600,000. This is on the assumption of 1.6 million advised sales per year.
	<b>One-off</b>	<b>Yrs</b>	
	<b>£ 0</b>	10	
	<b>Average Annual Benefit</b> (excluding one-off)		
	<b>£ 3.6m</b>		<b>Total Benefit (PV)</b> <b>£ 31m</b>
Other <b>key non-monetised benefits</b> by 'main affected groups' 0			

<b>Key Assumptions/Sensitivities/Risks</b>	
FSA have undertaken research which is subject to caveats - see below	

Price Base Year 2009	Time Period Years 10	<b>Net Benefit Range (NPV)</b> £	<b>NET BENEFIT (NPV Best estimate)</b> £ 22.4m
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What is the geographic coverage of the policy/option?	UK			
On what date will the policy be implemented?	2010			
Which organisation(s) will enforce the policy?	FSA			
What is the total annual cost of enforcement for these organisations?	£ 40,500			
Does enforcement comply with Hampton principles?	Yes			
Will implementation go beyond minimum EU requirements?	Yes			
What is the value of the proposed offsetting measure per year?	£ 0			
What is the value of changes in greenhouse gas emissions?	£ 0			
Will the proposal have a significant impact on competition?	No			
Annual cost (£-£) per organisation (excluding one-off)	Micro neg	Small neg	Medium neg	Large neg
Are any of these organisations exempt?	No	No	N/A	N/A

<b>Impact on Admin Burdens Baseline</b> (2005 Prices)			(Increase - Decrease)
Increase of	£ n/a	Decrease of	£ n/a
<b>Net Impact</b>			<b>£ n/a</b>

Key: Annual costs and benefits: Constant Prices (Net) Present Value

## Evidence Base (for summary sheets)

[Use this space (with a recommended maximum of 30 pages) to set out the evidence, analysis and detailed narrative from which you have generated your policy options or proposal. Ensure that the information is organised in such a way as to explain clearly the summary information on the preceding pages of this form.]

### Proposals

(1) The power to suspend individuals or firms for misconduct:

At present, the FSA can prohibit a person from undertaking a certain regulated activity if it considers they are not “fit or proper”. The FSA can also vary a firm's permission if they fail the “threshold conditions”. But the FSA cannot prevent an individual or firm from carrying out a particular activity, or selling a particular product, as a disciplinary measure. The FSA estimates that it would consider using this power in approximately 10-20 cases per year.

(2) The power to fine individuals who should have sought approval but did not:

At present, the FSA can either prohibit an individual if they are not “fit and proper” or fine the firm they work for, but cannot fine the individual. The FSA estimates that it would consider using this power in approximately 5-15 cases per year.

### Benefits

The additional powers listed above will improve deterrence of non-compliance by firms. There are two factors the FSA can use to influence firms' behaviour towards compliance: the detection of non-compliance; and the punishment that can be inflicted. These additional powers will enhance the FSA's ability to penalise firms for misbehaviour by:

- (1) ensuring that firms or individuals cannot profit by continuing to operate in markets in which they have already demonstrated non-compliance;
- (2) increasing the likely cost (and deterrent effect) to individuals of operating without permission in financial markets. For example, this would deter "hit and run" non-compliance, whereby profits are made by non-approved persons who then subsequently withdraw from the market;

### Costs

#### Costs to firms

There are no compulsory additional costs to firms of granting these powers to the FSA, as there are no additional requirements from firms as a result, and they will only apply to firms who are non-compliant with the FSA's rules and where such penalties are appropriate.

There is, however, a potential cost to firms if the FSA used these powers incorrectly - there would be incremental costs to firms if FSA was to use new powers in a disproportionate way, or apply them incorrectly to a firm that was compliant. However, this potential cost to firms is mitigated by both the legal appeals process as well as the FSA's existing processes for setting penalties, which consider both the weight of evidence and proportionality.

In addition, if a firm chose to challenge a decision all the way to the courts, it would incur legal fees. The stronger the penalties, the more likely firms are to challenge verdicts. At present, approximately 12 firms a year challenge FSA decisions in the courts. FSA estimate that, two additional challenges might be made per year. If so, and if each challenge costs the firm £250,000 in legal costs (and each also cost the FSA £250,000 in legal costs) the additional cost to firms would be £500,000.

### Costs to FSA

There would be some cost to the FSA in senior management time to discuss the types of cases in which the new powers should be exercised. There would also be some time spent on a case-by-case basis to determine whether the new powers should be used, but this will be relatively minor.

As mentioned above, there may also be additional costs to the FSA if firms more actively challenge its use of these new powers than they currently challenge decisions. For example, if two additional challenges are made per year, and each cost the FSA £250,000 in legal costs, the additional cost to the FSA would be £500,000.

The marginal additional enforcement cost of this measure is estimated at £40,500 (to train FSA staff, etc. The FSA's overall enforcement spend in the 2009-10 Business Plan is £43.4 million.

### Research

The FSA has undertaken some research into the overall deterrent effect of both detecting misbehaviour and setting penalties. This research showed that the extent of non-compliance by firms operating in retail markets rises more sharply as penalties are reduced than if the rate of detection is reduced. Overall, the benefit of improving the FSA's ability to impose penalties on firms will achieve better outcomes for markets and consumers.

Numerical estimates of the deterrence effect are difficult to make with accuracy. The effect partly depends on factors that cannot be accurately measured such as the actual prevalence of "cheating" in a particular market and the desire of firms to cheat.

Research available to the FSA relates to retail financial advice and sales markets. For these markets:

- Where there are very low levels of non-compliance, the deterrent effect is necessarily small. The research suggests that, where fines are currently low, a 10 percentage point increase in the (monetary equivalent value of the) penalty imposed can reduce non-compliance by between 10 and 20 percentage points;
- For markets where there is initially much higher levels of non-compliance, the deterrent effect of higher penalties is more substantial: even when detection of non-compliance is very high (80-90% chance of being caught) a 10 percentage point increase in the penalty imposed can reduce non-compliance by around three-quarters.
- Other research also suggests an average loss of around 5% (5 pence in every pound) for advised sales to consumers. For each sale where mis-selling occurs that is subsequently deterred, we could save consumers from 50p to £4 per £100 spent that would otherwise have been lost to them. If this was applicable to the approximately 1.6 million advised sales made in 2008, these powers would save consumers between £800,000 and £6.4 million per annum.

However, there are caveats re the research underpinning these calculations:

- Firstly, the research only looks at this issue indirectly. Therefore a number of results from other studies have been combined; but those studies may not be strictly comparable as they relate to slightly different market segments and types of non-compliance;
- Secondly, the research showing the impact of higher penalties on non-compliance also shows that the effect diminishes as the size of the punishment increases. That is, if the size of the current fine is already large, the additional deterrent effect will not be as great (if the punishment is already big enough to force the firm into bankruptcy, increasing the penalty will have little effect). Nevertheless, FSA punishments are clearly not at these levels, and indeed in the area covered by the proposed new powers, FSA punishments are effectively de minimis;

## Specific Impact Tests: Checklist

Use the table below to demonstrate how broadly you have considered the potential impacts of your policy options.

**Ensure that the results of any tests that impact on the cost-benefit analysis are contained within the main evidence base; other results may be annexed.**

Type of testing undertaken	<i>Results in Evidence Base?</i>	<i>Results annexed?</i>
Competition Assessment	No	No
Small Firms Impact Test	No	No
Legal Aid	No	No
Sustainable Development	No	No
Carbon Assessment	No	No
Other Environment	No	No
Health Impact Assessment	No	No
Race Equality	No	No
Disability Equality	No	No
Gender Equality	No	No
Human Rights	No	No
Rural Proofing	No	No

## Summary: Intervention & Options

<b>Department /Agency:</b> <b>HM Treasury</b>	<b>Title:</b> <b>Impact Assessment of short selling powers</b>	
<b>Stage:</b> Consultation	<b>Version:</b> 1	<b>Date:</b> July 2009
<b>Related Publications:</b> FSA discussion paper DP09/1 on short selling		

**Available to view or download at:**

<http://www.fsa.gov.uk>

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**What is the problem under consideration? Why is government intervention necessary?**

Although short selling can promote market efficiency it can, particularly at times of extreme market turbulence, cause inefficiency. FSA evidence suggests short-selling can lead to three market failures: market abuse, disorderly markets (potentially leading to a depositor 'run'), and transparency deficiencies. Each of these potential negative impacts of short-selling represent market failures, and FSA research indicates they tend not to be market self-correcting (see DP09/1) and so require Government intervention.

**What are the policy objectives and the intended effects?**

The proposed objective is to reduce short selling market failures. To do this, the government proposes to take two actions:(a) to grant FSA emergency powers of intervention which are independent of its powers on market abuse. This will allow action to address the full range of market failures described above. (b) To grant FSA powers to make a permanent disclosure regime for short positions in UK stocks.

This proposal creates clear and separate legal powers to impose short selling obligations.

**What policy options have been considered? Please justify any preferred option.**

Direct permanent constraints on short selling were considered but rejected as having far more costs than benefits. The measures proposed are the result of an extensive, ongoing process of consultation by FSA to develop effective policies to ensure the huge benefits to the economy of continued financial stability at the smallest possible cost to market participants. The UK requires these powers to meet emerging European and global standards. The powers of emergency intervention are currently operable under the Code of Market Conduct but this is sub-optimal as it confines them to market abuse.

**When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects?** The effectiveness of the legislation will be subject to ongoing review.

**Ministerial Sign-off** For consultation stage Impact Assessments:

*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:



.....Date: July 2009

## Summary: Analysis & Evidence

<b>Policy Option: Short selling proposals</b>	<b>Description: Changes to FSMA to give FSA clear and explicit powers over short selling.</b>
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<b>COSTS</b>	<b>ANNUAL COSTS</b>		Description and scale of <b>key monetised costs</b> by 'main affected groups' Systems and controls costs would be incurred by short sellers as a one-off cost. Compliance costs would be incurred by short sellers as annual costs in monitoring their short positions, making disclosures to the market, and seeking legal advice. See evidence based for explanation.
	<b>One-off</b> (Transition)	<b>Yrs</b>	
	£ less than £20m	1	
	<b>Average Annual Cost</b> (excluding one-off)		
	£ 4.8m		<b>Total Cost (PV)</b> <b>£ 61m</b>
Other <b>key non-monetised costs</b> by 'main affected groups' FSA consulted on the opportunity cost (e.g. cost of business strategies) that would be incurred through these measures but external stakeholders were unable to quantify.			

<b>BENEFITS</b>	<b>ANNUAL BENEFITS</b>		Description and scale of <b>key monetised benefits</b> by 'main affected groups' Benefits are presented in ranges and based on a number of assumptions, i.e. potential disruption to capital raising events.
	<b>One-off</b>	<b>Yrs</b>	
	£ N/A	1	
	<b>Average Annual Benefit</b> (excluding one-off)		
	£ 106m - £1,066m		<b>Total Benefit (PV)</b> <b>£ 912m - £9,176m</b>
Other <b>key non-monetised benefits</b> by 'main affected groups' The benefit of avoiding wider financial disruption and market disorderliness are not readily quantifiable.			

**Key Assumptions/Sensitivities/Risks** A baseline of the current regime, already existing via the Code of Market Conduct, is assumed. Further detailed assumptions are in the evidence base.

Price Base Year 2009	Time Period Years 10	<b>Net Benefit Range (NPV)</b> £ 851m - £9,115m	<b>NET BENEFIT (NPV Best estimate)</b> £ 4,132m (mid point)
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What is the geographic coverage of the policy/option?			UK		
On what date will the policy be implemented?			Royal Assent		
Which organisation(s) will enforce the policy?			FSA		
What is the total annual cost of enforcement for these organisations?			£ 0		
Does enforcement comply with Hampton principles?			Yes		
Will implementation go beyond minimum EU requirements?			N/A		
What is the value of the proposed offsetting measure per year?			£ n/a		
What is the value of changes in greenhouse gas emissions?			£ n/a		
Will the proposal have a significant impact on competition?			No		
Annual cost (£-£) per organisation (excluding one-off)		Micro	Small	Medium	Large
Are any of these organisations exempt?		No	No	N/A	N/A

<b>Impact on Admin Burdens Baseline</b> (2005 Prices)			(Increase - Decrease)		
Increase of	£ n/a	Decrease of	£ n/a	<b>Net Impact</b>	£ n/a

Key: Annual costs and benefits: Constant Prices (Net) Present Value

## Evidence Base (for summary sheets)

[Use this space (with a recommended maximum of 30 pages) to set out the evidence, analysis and detailed narrative from which you have generated your policy options or proposal. Ensure that the information is organised in such a way as to explain clearly the summary information on the preceding pages of this form.]

### **Market Failure Analysis – What is the problem under consideration and why is Government intervention necessary?**

As noted in Chapter Four, *Strengthening regulatory institutions*, the Government proposes to amend FSMA so that the FSA's powers to take emergency action to place restrictions on short selling and require disclosure of short selling are independent of their powers in relation to market abuse. Legislating on this specific issue clarifies the landscape for firms and ensures that, in 2012 if our market abuse regime does become fully aligned with the rest of Europe, we will retain this power. This approach recognises the dangers of disorderly markets and the risks to financial stability as well as market abuse and would give the FSA more flexibility in the use of its powers.

Government intervention is necessary because the framework is established in primary legislation (the Financial Services and Markets Act 2000) and so can only be altered by the Government.

FSA evidence suggests short selling can lead to three market failures: market abuse, disorderly markets (potentially leading to a depositor 'run'), and transparency deficiencies. These tend not to be self-remedying and hence Government intervention is necessary.

#### **Market abuse**

Short selling can be used abusively to create misleading signals about the real supply or the correct valuation of a stock. It can also be used abusively in conjunction with 'scaremongering' tactics to push down the price of a stock being shorted. Firms whose existence depends on the confidence of their customers and counterparties in the stability of the institution (e.g. financial sector companies) may be particularly susceptible to market manipulation of this kind, especially in a climate of severe market turbulence and uncertainty.

#### **Disorderly markets**

Investors can over-react (e.g. in the context of a general lack of confidence in some financial services stocks), to short selling signals in the market resulting in disorderly markets on the back of excessive price falls. Such volatility reduces the ability of a firm to raise equity capital or to borrow money.

#### **Transparency deficiencies**

Information about the aggregate short position in a single stock could help the market judge the extent to which short selling is driving the price of that stock and the amount of the overhang that would need to be covered at some point by short sellers purchasing shares. Alternatively (or in addition), information about significant short positions of individual investors could be beneficial in shedding light on the individual funds/ participants who were driving trading.

In the absence of mandatory disclosure/reporting requirements this information would normally not be made available to the public because it is private information held by a short seller and it is not normally in his or her interests to disclose (as to do so would incur costs and might subject him/her to the risk of a 'bear squeeze').

## Costs and benefits

A more detailed examination of the costs and benefits of the introduction and existence of a short selling regime and disclosures thereof is contained in the FSA February discussion and June consultation papers.

The proposed policy objective is to reduce short selling market failures. To do this, the government proposes to take two actions:

- (a) To grant FSA emergency powers of intervention which are independent of its powers on market abuse. The emergency power to ban short selling could be invoked where there is an "urgent need" to do so to "maintain confidence in the financial system"(or parts of the financial system). This will allow action to address the full range of market failures described above.
- (b) To grant FSA powers to make a permanent disclosure regime for short positions in UK stocks. The disclosure regime would require reporting of net short positions above a certain threshold (0.5% of the issued share capital of the relevant company or 0.25% if the company is engaged in a rights issue). The disclosure would be made to the market and not directly to the FSA.

This proposal creates clear and separate legal powers to impose short selling obligations.

This Impact Assessment only deals with the proposed widening of the current disclosure regime from financial sector stocks to all UK stocks. The FSA's current regime already requires disclosure of UK financial sector stocks, and permits emergency intervention in the markets to restrict short selling, and that is the appropriate baseline for this Impact Assessment.

We consider it unlikely that these proposals have a significant impact on smaller firms, as they would not hold large net short positions they would need to report.

### Costs

To help estimate compliance costs the FSA carried out a survey of 29 firms with short selling activities and three trade associations. Additionally, it received cost estimates in response to its short selling consultation and discussion papers.

The current cost of complying with the FSA's current disclosure regime is estimated at £72,000 per firm per annum. The FSA's estimates that 400 firms are impacted so the total estimated annual cost of compliance is £72,000 x 400 = £28.8m. The cost to firms of the UK wide disclosure regime is estimated at £84,000 per firm per annum i.e. a total estimated annual compliance cost of £33.6m. The cost differential of introducing the wider disclosure regime is therefore £4.8m.

Based upon the FSA's cost survey, the absolute one-off costs of complying with the wider disclosure regime are estimated at £20 million. However, this is an absolute cost and not relative to the current financial stock regime. It thus represents an upper limit.

### Benefits

In principle, it is difficult to quantify the benefits of a short selling transparency regime. This also applies to the potential cost to industry due to the past disruption that has been caused by short selling. We do not know what the market would look like, were there no short selling disclosure regime. It is not possible to know how many cases of market disruption are prevented because market participants changed their trading strategies due to short selling disclosure rules.

Recognising that such quantification is difficult, any analysis of the benefits can only be based on broad ranges and assumptions. One way of estimating the benefits could be to use the following methodology. Let;

R = extent by which the risk of a disruption to a capital raising event is reduced = 2/3

E = the number of UK capital raising events since April 2008 until April 2009 = 24

C = estimated cost to the economy of a disruption to a capital raising event = £10m - £100m

N = the proportion of capital raising issues that are conducted by non-financial firms = 2/3

Multiplying these together will therefore give us an approximate estimated benefit of the proposed widened disclosure regime:

$R \times E \times C \times N = \text{Benefit}$

$2/3 \times 24 \times (£10m - £100m) \times 2/3 = \mathbf{£106m - £1,066m}$

The remaining question is to examine whether placing these provisions in a different part of FSMA imposes additional costs or benefits. Overall, we consider that there are no additional costs and benefits arising from this exchange. Penalties for firms that chose to engage in short selling ignoring the restrictions and/or disclosure regime that may be in place would go through the FSA enforcement process with no practical change to the sanctions that may be employed. The FSA itself would incur no additional costs, as no additional resource would be needed relative to the baseline (currently one dedicated person already monitoring the temporary short selling provisions). There would be additional compliance costs incurred costs by industry in modifying their systems and controls to deal with regime with a wider scope relative to the baseline. The intention is that the disclosure regime adopted should be one that is applied on as wide an international basis as possible thereby minimising any competitive impact. A number of countries already have temporary regimes of this sort.

## Specific Impact Tests: Checklist

Use the table below to demonstrate how broadly you have considered the potential impacts of your policy options.

**Ensure that the results of any tests that impact on the cost-benefit analysis are contained within the main evidence base; other results may be annexed.**

Type of testing undertaken	<i>Results in Evidence Base?</i>	<i>Results annexed?</i>
Competition Assessment	No	No
Small Firms Impact Test	No	No
Legal Aid	No	No
Sustainable Development	No	No
Carbon Assessment	No	No
Other Environment	No	No
Health Impact Assessment	No	No
Race Equality	No	No
Disability Equality	No	No
Gender Equality	No	No
Human Rights	No	No
Rural Proofing	No	No

## Summary: Intervention & Options

<b>Department /Agency:</b> <b>HM Treasury</b>	<b>Title:</b> <b>Impact Assessment of national rollout of Money Guidance</b>	
<b>Stage:</b> Pre-consultation	<b>Version:</b> 1	<b>Date:</b> July 2009
<b>Related Publications:</b> IA of new consumer education of FSA; the Government's long-term approach on financial capability; Thoresen Review; action plan for financial capability.		

**Available to view or download at:**

<http://www.hm-treasury.gov.uk>

**Contact for enquiries:** Anna Deibel-Jung

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**What is the problem under consideration? Why is government intervention necessary?**

There is an 'advice gap': people, in particular those on low to median incomes, do not have access to affordable, impartial, sales-free financial advice, that is tailored to their individual needs and circumstances. Independent financial advice is generally aimed at and used by individuals with above-average incomes.

There is also a need to introduce preventative advice services to help people avoid financial difficulty and unmanageable debt, thereby easing demand for debt advice and other types of crisis intervention in future.

**What are the policy objectives and the intended effects?**

The Money Guidance service will give people the knowledge, confidence and motivation to make sound financial decisions and engage responsibly with financial services. It should raise levels of financial capability in the UK, helping people to avoid financial difficulty and improving wellbeing.

This policy is being tested through a large pilot or 'pathfinder' which is in its early stages. Evidence from the pathfinder will show if policy objectives can be met and will inform final decisions. This IA supports primary legislation to allow for funding from Government and consumer credit firms.

**What policy options have been considered? Please justify any preferred option.**

The independent Thoresen Review was commissioned in 2007 to investigate the feasibility of a national approach to Money Guidance. Its analysis made the case for action and recommended a partnership model (i.e. central coordination and delivery via partner organisations) - this model is the Government's preferred option as it combines strategic coordination and the expertise and reach of advice providers. The Thoresen Review also examined and consulted on alternative models: 'monolithic' (delivery by a single body) and 'decentralised' (delivery via existing providers only).

**When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects?**

Evaluation will provide an evidence base for final and more detailed decisions on rollout. Interim findings available later this year, with evaluation complete in 2010. Ongoing review thereafter

**Ministerial Sign-off** For consultation stage Impact Assessments:

*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:



.....Date: July 2009

## Summary: Analysis & Evidence

<b>Policy Option:</b> Thoresen Blueprint	<b>Description:</b> Delivery via partners with central coordination body
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<b>COSTS</b>	<b>ANNUAL COSTS</b>	Description and scale of <b>key monetised costs</b> by 'main affected groups' Consumers: use of service - £594-988m Financial Services Industry: 50% funding of service - £390-832m Government: 50% funding of service - £390-832m; short-term increase in debt advice funding - up to £7m	
	<b>One-off</b> (Transition) <span style="float: right;"><b>Yrs</b></span>		
	<b>£ 22m</b>		4
	<b>Average Annual Cost</b> (excluding one-off)		
	<b>£ 85m</b>	<b>Total Cost (PV)</b> <b>£ 1,374m - £2,659m</b>	
Other <b>key non-monetised costs</b> by 'main affected groups' Financial Services Industry: costs of increased shopping around by consumers			

<b>BENEFITS</b>	<b>ANNUAL BENEFITS</b>	Description and scale of <b>key monetised benefits</b> by 'main affected groups' Consumers: use of service - £16400m Financial Services Industry: £3612-5514m (less bad debt; reduced distribution costs; increased demand for products) Government: £4650-6000m (less pension credit; increased VAT)	
	<b>One-off</b> <span style="float: right;"><b>Yrs</b></span>		
	<b>£ n/a</b>		
	<b>Average Annual Benefit</b> (excluding one-off)		
	<b>£ 1,100m</b>	<b>Total Benefit (PV)</b> <b>£ 24,662m - £27,914m</b>	
Other <b>key non-monetised benefits</b> by 'main affected groups' Better informed and more financially capable consumers. Government and industry: long-term reduction in funding for debt advice			

### Key Assumptions/Sensitivities/Risks

Costs and benefits are assumptions-based at this stage - the pathfinder will provide evidence base.

Price Base Year 2008	Time Period Years 52	<b>Net Benefit Range (NPV)</b> <b>£ 22,003m - 26,540m</b>	<b>NET BENEFIT (NPV Best estimate)</b> <b>£ 24,272m</b>
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What is the geographic coverage of the policy/option?	UK				
On what date will the policy be implemented?	2010				
Which organisation(s) will enforce the policy?	FSA				
What is the total annual cost of enforcement for these organisations?	£ n/a				
Does enforcement comply with Hampton principles?	Yes				
Will implementation go beyond minimum EU requirements?	N/A				
What is the value of the proposed offsetting measure per year?	£ n/a				
What is the value of changes in greenhouse gas emissions?	£ n/a				
Will the proposal have a significant impact on competition?	No				
Annual cost (£-£) per organisation (excluding one-off)	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 25%; text-align: center;">Micro 150-400</td> <td style="width: 25%; text-align: center;">Small 3-7k</td> <td style="width: 25%; text-align: center;">Medium 8-16k</td> <td style="width: 25%; text-align: center;">Large 507k-1.2m</td> </tr> </table>	Micro 150-400	Small 3-7k	Medium 8-16k	Large 507k-1.2m
Micro 150-400	Small 3-7k	Medium 8-16k	Large 507k-1.2m		
Are any of these organisations exempt?	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 25%; text-align: center;">No</td> <td style="width: 25%; text-align: center;">No</td> <td style="width: 25%; text-align: center;">N/A</td> <td style="width: 25%; text-align: center;">N/A</td> </tr> </table>	No	No	N/A	N/A
No	No	N/A	N/A		

<b>Impact on Admin Burdens Baseline</b> (2005 Prices)		(Increase - Decrease)
Increase of £ 0	Decrease of £ 0	<b>Net Impact</b> £ 0

Key: Annual costs and benefits: Constant Prices (Net) Present Value

## Evidence Base (for summary sheets)

[Use this space (with a recommended maximum of 30 pages) to set out the evidence, analysis and detailed narrative from which you have generated your policy options or proposal. Ensure that the information is organised in such a way as to explain clearly the summary information on the preceding pages of this form.]

### Background

The Government committed to addressing the 'advice gap' (see below for further details) in 2007 in its long-term approach on financial capability and commissioned an independent review, led by Otto Thoresen, CEO of AEGON UK, to investigate the feasibility of a national generic financial advice service. An interim report including a consultation was published in October 2007; the Review reported in March 2008.

The review set out a blueprint for a national 'Money Guidance' service and recommended a large-scale pilot or pathfinder to test this blueprint ahead of national rollout. The Government accepted the recommendation and announced plans for a £12m pathfinder, jointly funded and led with the Financial Services Authority (FSA).

The pathfinder launched in April 2009 in the North West and North East of England and will run until the end of March 2010. The pathfinder service aims to reach between 500,000 – 750,000 people, over the phone, online and face-to-face.

The Government announced at Budget 2009 that the service would be rolled out nationally from 2010, subject to interim findings from the evaluation of the pathfinder demonstrating that the service can be a success.

In HM Treasury's 'Reforming Financial Markets' paper, to which this Impact Assessment (IA) refers, the Government has expanded on the legislative steps required to meet this timetable for national rollout and to avoid a significant break in service following the end of the pathfinder. As this is a new service, the Government will need to take a power via primary legislation to channel Exchequer funds to the service. The Government will also need to take a power to bring consumer credit firms into the funding base for Money Guidance. This IA specifically supports these legislative plans for Money Guidance and should be not regarded as a statement of final plans on the detail of how the service will function. Decisions on when and how the Money Guidance service will be rolled out nationally will be based on lessons and evidence from the pathfinder – an interim report is expected in autumn 2009 and with a full report available in 2010.

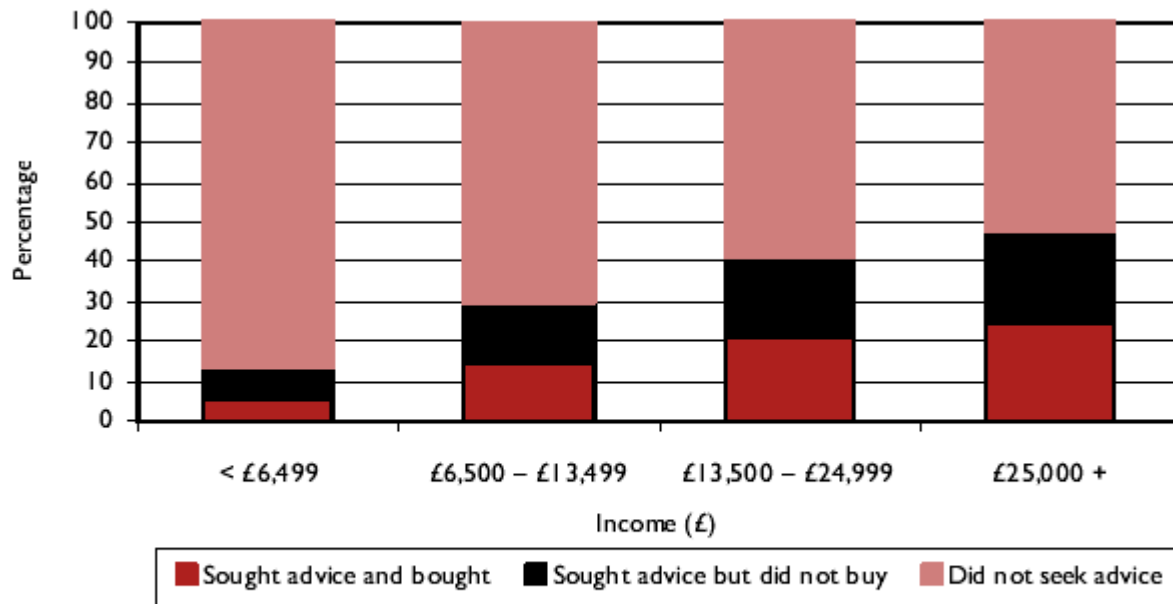
**This IA should be read in conjunction with the IA on proposals for a new consumer education authority.** This new consumer education authority, an independent body linked to the FSA, is expected to take the strategic lead for national implementation of Money Guidance.

### Rationale for Government intervention

#### *Market failure – the 'advice gap'*

There is a gap in the availability and take-up of impartial, affordable, high-quality financial advice, particularly among those on low to median incomes. The Government's long-term approach on financial capability demonstrated that people on lower incomes are less likely to seek financial advice (see below). Under half of all clients to independent financial advisers (IFAs) are on incomes of below £30,000 while this group represents 87% of the population (based on HMT analysis of the 2006 Labour Force Survey).

Excerpt from *Financial Capability: the Government's long term approach (January 2007)* summarising the relationship between income and distribution of advice:



Source: *Financial Services Consumer Panel annual survey of consumers, 2000.*

*Prevention as well as cure*

The Thoresen Review analysis found that 19.2m people in the UK are vulnerable to the consequences of poor financial decision-making, with 7.5m people especially vulnerable. This demonstrated the case for a preventative money guidance service which is available to help and encourage people to make informed financial decisions and avoid falling into financial difficulty.

Excerpt from *Thoresen Review: The Money Guidance needs of the UK population – a summary:*

	Most Vulnerable 9–11 points	Regular Users 6-8 points	Infrequent users 2–5 points	Occasional Users 0-1 points
No. of UK adults	7.5 million	11.7 million	20.7 million	5.6 million
Vulnerability	Multiple drivers of vulnerability: lack of access to commercial advisers, poor planning ahead, very limited savings or protection, limited financial portfolio and therefore limited knowledge of products, difficulty making ends meet and overindebtedness (almost half). Many who are working have no pension. One in five may have literacy problems and 50% live in areas with high	Vulnerability driven primarily by not being adviser prospects (majority), not being experienced at choosing products, some lack of savings, overindebtedness (one in three). Showing signs of not being good at planning ahead and more than one in three with low scores on making ends meet. However, generally good at keeping track of money and many have some savings.	Vulnerability driven primarily by not being adviser prospects (about two-thirds), not being experienced at choosing products or not keeping track of their money. Results in some overindebtedness (around one third) and some lack of savings but generally good at planning ahead and staying informed. At upper end of scores, some struggling to make ends meet. A small number have literacy	Some lack of access to commercial advice and poor at keeping track of money but otherwise no significant signs of vulnerability. Consequences of subsequent poor financial decision-making unlikely to be significant for many (due to relatively high level of saving). Not at risk due to poor financial capability. No strong evidence of poor decision making.

	levels of multiple deprivation.	One in ten may have literacy problems and >20% live in areas with high levels of multiple deprivation.	problems and one in ten live in areas with high levels of multiple deprivations.	
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The Government has channelled significant resources into crisis advice services to help people with unmanageable debt problems. Friends Provident Foundation analysis estimates that £160-165m a year is channelled to debt advice; Government provides the bulk of this funding with the financial services industry providing around 3%. Demand for debt advice, given the impact of the current economic climate on consumers, is increasing: the Money Advice Trust has indicated a 100% increase in demand for debt advice with 4 million people expected to seek debt advice this year.

A preventative Money Guidance service could help people avoid unmanageable debts in the first place and reduce the demand and therefore funding required for debt advice in the long term.

#### *Raising levels of financial capability*

The Government and the FSA have a shared vision of better skilled, better educated citizens who are equipped and motivated to make appropriate financial decisions with confidence. The Money Guidance service will provide the information but also give people the skills and confidence to manage their money effectively. Increased levels of financial capability should result in consumers making better use of their income, benefiting the individual and the economy as a whole.

*Benefits significantly outweigh costs (see below for cost-benefit analysis)*

#### Preferred policy option and other options considered

In its interim report published in October 2007, the Thoresen Review set out the following different options for the delivery of a national generic financial advice service and sought views on these through consultation.

##### *A 'monolithic' model*

A single national body would deliver all aspects of the service under a single identity. This body would feature a large central organisation and would need to establish a significant footprint throughout the UK. This option is very high cost, including significant infrastructure and staff costs. This option is not preferred as it would introduce an entirely new service where there are already existing providers that could deliver the service.

##### *A 'decentralised' model*

This model would rely on other organisations to provide services directly to consumers. A small central function might run an accreditation scheme as well as lead on public awareness and information activity. Although this option would have low additional infrastructure costs, it is not clear whether this could provide enough strategic direction and coherence to the service, which would act as a strong call to action for consumers. It could result in an uneven provision of Money Guidance missing out some areas and social groups.

##### *A 'partnership' model - preferred*

The Review recommended a partnership model: a central body that has responsible for strategic control of the service including service content and marketing as well as some centrally-led delivery (such as the website) with the bulk of delivery provided by existing organisations. This option is a hybrid of the two other models, combining the advantages of having a central body with strategic control with the advantages of using existing organisations with the capacity and expertise to deliver the service 'on the ground'.

The pathfinder service which launched in April 2009 is built on the partnership model. The pathfinder will provide further evidence on the effectiveness of this model.

## Benefits and costs

### *Benefits*

The Thoresen Review set out the potentially significant benefits of a national Money Guidance service (referred to in the table below as GFA – Generic Financial Advice) to the consumer, financial services industry (FSI), Government (UKG) and the economy as a whole.

Analysis undertaken by Deloitte for the Thoresen Review forecast the costs and benefits of the Money Guidance service – these are summarised below. The figures are expressed in net present value terms at 2008 prices over the time period 2008 – 2060. The Thoresen Review recommended that the costs of the service be divided equally between Government and the financial services industry – this is reflected in the table below.

*Excerpt from Thoresen Review Annex 4: Summary of the Impact of Money Guidance on Consumers, Financial service Industry and the UK Government:*

£ million (2008 prices)	Costs	Benefits
<b>Consumers</b>		
Use of GFA service	£594m to £988m	£16,400m
<b>FSI</b>		
Funding 50% of GFA service	£390m to £832m	
Customers shopping around	Not quantified	
Bad debt reduction		Up to £1,800m
Acquisition costs (advising and selling)		£1,180m to £2,360m
Reputation		£22m to £44m
Reduced cost of regulation		Up to £210m
Increase in demand for products (excl. general insurance)		£400m to £1,100m
<b>Indicative total (excl. impact of shopping around)</b>	<b>£390m to £832m</b>	<b>£3,612m to £5,514m</b>
<b>UKG</b>		
Funding costs of GFA service	£390m to £832m	
Impact on funding of debt agencies	Up to £7m	Not quantified - costs may fall if GFA successful
Pension credit savings		Up to £2,600m
Increased VAT receipts		£1,600m
Tax receipts from savings products		£450m to £1,800m
Other tax/benefit impacts <sup>4</sup>	Not quantified	Not quantified
<b>Indicative total (excl. impact on other tax/benefits)</b>	<b>£390m to £839m</b>	<b>£4,650m to £6,000m</b>
<b>UK economy</b>		
Reduced absenteeism		£344m

Source: Deloitte analysis

<sup>4</sup> Other taxes/benefits includes Housing Benefit, Council Tax Benefit, tax rebates on pension contributions, changes in tax on personal income and changes in Corporation Tax

Consumer benefits arise from individuals being able to manage their money better and the resulting positive effect on their income. Deloitte assumed a number of 'sample' actions

consumers might take as a result of using the service to calculate benefit to consumers, including budgeting to avoid becoming overdrawn, taking out adequate insurance and getting the best deal on a mortgage. Calculation of benefits to the consumer is based on an assumption that around 10% of consumers acting on advice provided by the service and acting on it fully and efficiently. It could also represent a higher percentage of consumers acting less efficiently on the advice. The service can also benefit consumers by helping them to avoid the stress and anxiety caused by financial problems; this in turn leads to a reduction in absenteeism, which benefits the whole economy. Costs to consumers are based on value of individuals' time to use the service and act on the guidance received.

For the financial services industry (FSI), more informed and capable consumers should result in:

- Reduction in the cost of default - as higher levels of consumer understanding of financial products and risks should lead to lower levels of default;
- Reduced 'cost to serve' - including reduced marketing and distribution costs as more capable consumers will not need so much help accessing and choosing financial products and are better able to know what financial products could benefit them;
- Increased propensity to purchase financial products – as Money Guidance creates more confident and capable consumers that are more likely to engage with the industry and take out a wider range of products. The customer base of the industry will increase as those more vulnerable to poor financial decision making, who may have avoided engaging with financial services to any significant extent, will be more likely to take out products; and
- Reputational benefits – better informed consumers who are better able to understand financial products and have sound expectations of product performance should result in increased levels of trust, as consumers are more comfortable with their provider and less expenditure on marketing is required to promote trust and confidence.

The Money Guidance service could prompt increased 'shopping around' by consumers which will have an impact on the industry including increasing competition. This has not been quantified.

The Government could also stand to benefit from increased tax receipts from the increase in financial services product holding and consumer expenditure that will result from consumers making sound financial decisions and their increased financial capability overall.

## Costs

*Excerpt from Annex 4 of Thoresen Review – Annual Costs under the base case:*

	2009	2010	2011	2012	2013	2020	Average 2009-2060
Set-up cost	£16.8m	£2.1m	£1.5m	£1.3m	£0m	£0m	n/a
Ongoing cost	£12m	£37.4m	£47.1m	£52.9m	£48.9m	£41.4m	n/a
<b>TOTAL</b>	<b>£28.8m</b>	<b>£39.6m</b>	<b>£48.7m</b>	<b>£54.2m</b>	<b>£48.9m</b>	<b>£41.4m</b>	<b>£49.7m</b>

Source: Deloitte analysis

The table above shows the set up and running costs of the service, to be split between the financial services industry and Government (see funding section below). Deloitte modelling assumes that the cost of the service would rise steadily as increasing numbers of people use the service as it becomes established. The costs include initial set up over the first four years of the service (note: rollout is now expected to begin in 2010 rather than 2009, as indicated in the table above). Over the long term the real costs of delivering the service falls as demand levels stabilise and the costs incurred by the service consist only of ongoing costs (staff costs, marketing, premises etc.) and the service becomes more efficient.

The 'per user' cost assumed in the base case is set out below. Latest assumptions based on going out to market for pathfinder delivery indicates that the web and telephone costs are slightly lower and face to face slightly higher but not significantly diverging from the base case assumptions. It is too early in the pathfinder to make informed assumptions about channel mix on the basis of pathfinder evidence.

*Excerpt from Annex 4 of the Thoresen review – Average total cost per user under the base case:*

Real cost per user (2008 GBP)	Average	Marginal
Call centre	£21	£18
Internet	£2.10	£0.01
Face-to-face	£34	£32

Source: Deloitte analysis

The high case costs of service delivery assumes that more people access the service, marketing costs are higher and there is a greater increase in real wages compared to the base case.

*Excerpt from the Annex 4 of the Thoreson Review – Annual costs under the High Case:*

	2009	2010	2011	2012	2013	2020	Average 2009-2060
Set-up cost	£22m	£2.8m	£2m	£1.7m	£0m	£0m	n/a
Ongoing cost	£13.8m	£40.7m	£54m	£66.2m	£63.9m	£56.5m	n/a
<b>TOTAL</b>	<b>£35.9m</b>	<b>£43.5m</b>	<b>£56m</b>	<b>£67.9m</b>	<b>£63.9m</b>	<b>£56.5m</b>	<b>£77.8m</b>

Source: Deloitte analysis

The low case estimate costs of service delivery assuming fewer people access the service, lower marketing costs and lower real wage increases.

*Excerpt from Annex 4 of the Thoreson review – Annual costs under the Low Case:*

	2009	2010	2011	2012	2013	2020	Average 2009-2060
Set-up cost	£10.7m	£1.6m	£1.1m	£1m	£0m	£0m	n/a
Ongoing cost	£9m	£24.1m	£31.1m	£37.4m	£35.8m	£29.6m	n/a
<b>TOTAL</b>	<b>£19.7m</b>	<b>£25.6m</b>	<b>£32.3m</b>	<b>£38.4m</b>	<b>£35.8m</b>	<b>£29.6m</b>	<b>£33.4m</b>

Source: Deloitte analysis

## Funding

The Thoresen review recommended that the costs of the Money Guidance service be split evenly between the Government and the financial services industry. For the pathfinder service, costs have been split equally between Government and the FSA (i.e. from the levy on FSA-regulated firms). The review recommended that funding should come from a broad base of financial services institutions including FSA-regulated firms and consumer credit firms licensed by the Office of Fair Trading (OFT).

On the basis of the current differentiated FSA levy structure and the OFT flat-rate licensing mechanism, Deloitte estimated that FSA-regulated firms would provide 98% of the industry share of funds of the service with consumer credit firms, licensed by the OFT, providing the remainder. This reflects the limited scope for increases in the flat fee charged under the OFT's current fee system. If the OFT license fee regime were to change, this assumption may need to be reviewed. The table below from the Deloitte analysis shows an indicative view, based on current levy/licensing mechanisms, of how much might be raised from industry in both the high

and low case scenario and how this could be apportioned across FSA-regulated and OFT-licensed firms.

*Excerpt from the Thoresen review Annex 4 – Funding Distribution:*

	“Low” scenario	“High” scenario
Total to be collected from FSI	£16.7m	£38.9m
Total to be collected from OFT contributor base	£334,000	£778,000
Total to be collected from FSA contributor base	£16,366,000	£38,122,000

Source: Deloitte analysis

### Funding from FSA-regulated firms

The FSA’s national financial capability strategy (including £6m over 2008-2010 for the Money Guidance pathfinder) is currently funded through the FSA levy on FSA-regulated firms. Contributing to the costs of Money Guidance would result in an increase in the FSA fees, which is differentiated across the firm base by size and type of activity. Deloitte report produced the tables below to give an indication of the impact of an increase of the FSA periodic fee on FSA-regulated firms.

*Excerpt from the Thoresen review Annex 4 – Indicative view of FSA firms Money Guidance contributor levels:*

Generic firm type	Tariff data				Annual fees (2007/08)		Indicative GFA contribution p.a.									
	Levy scheme	Fee block	Volume	Units	Description	Value (£)	“Low” scenario (5.70% of periodic fee)	“High” scenario (13.27% of periodic fee)								
Life Company (Group)	FSA	A002	30,000	Number of home finance transactions	FSA periodic fee (£)	£3,395,000	£193,000	£451,000								
	FSA	A003	3,500,000,000	Gross premium income												
	FSA	A003	5,000,000,000	Gross technical liabilities												
	FSA	A004	5,000,000,000	Adjusted gross premium income												
	FSA	A004	50,000,000,000	Mathematical reserves												
	FSA	A013	300	Approved persons												
	FSA	A018	10,000,000	Annual income												
	FSA	A019	50,000,000	Annual income												
	FCS	I001	50,000	Number of relevant accounts					FCS contribution (£)	£744,000						
	FCS	I002	2,000,000,000	Relevant adjusted gross premium income												
	FCS	I004	5,000,000,000	Relevant adjusted gross premium income												
	FCS	I009	300	Relevant approved persons												
	FCS	I016	10,000,000	Relevant business annual income												
	FCS	I017	50,000,000	Relevant business annual income												
	FSCS	A004	5,000,000,000	Relevant Net Premium Income									FSCS contribution (£)	£4,710,000		
	FSCS	A013	300	Approved persons												
	FSCS	A016	5,000,000	PFA Pensions Compensation Levy												
	FSCS	A018	10,000,000	Annual eligible income												
	FSCS	A019	50,000,000	Annual eligible income												
Bank (Group)	FSA	A001	250,000,000,000	Modified eligible liabilities	FSA periodic fee (£)	£8,901,000	£507,000	£1,181,000								
	FSA	A002	500,000	Number of home finance transactions												
	FSA	A003	2,000,000,000	Gross premium income												
	FSA	A003	2,500,000,000	Gross technical liabilities												
	FSA	A004	500,000,000	Adjusted gross premium income												
	FSA	A004	5,000,000,000	Mathematical reserves												
	FSA	A007	100,000,000,000	Funds under management												
	FSA	A009	50,000,000	Gross income												
	FSA	A010	200	Number of traders												
	FSA	A012	5,000	Approved persons												
	FSA	A013	100	Approved persons												
	FSA	A014	100	Corporate finance advisers												
	FSA	A018	50,000,000	Annual income												
	FSA	A019	500,000,000	Annual income												
	FCS	I001	30,000,000	Number of relevant accounts					FCS contribution (£)	£770,000						
	FCS	I002	2,000,000,000	Relevant adjusted gross premium income												
	FCS	I004	500,000,000	Relevant adjusted gross premium income												
	FCS	I005	10,000,000,000	Relevant funds under management												
	FCS	I006	50,000,000	Relevant gross income												
	FCS	I007	10	Number of relevant traders												
	FCS	I008	2,000	Relevant approved persons												
	FCS	I009	100	Relevant approved persons												
	FCS	I010	100	Relevant corporate finance advisers												
	FCS	I016	50,000,000	Relevant business annual income												
	FCS	I017	500,000,000	Relevant business annual income												
	FSCS	A004	500,000,000	Relevant Net Premium Income									FSCS contribution (£)	£1,312,000		
	FSCS	A007	30,000,000,000	Funds under management												
	FSCS	A009	50,000,000	Gross income												
	FSCS	A010	200	Number of traders												
	FSCS	A012	5,000	Approved persons												
	FSCS	A013	100	Approved persons												
	FSCS	A014	100	Corporate finance advisers												
	FSCS	A016	20,000	PFA Pensions Compensation Levy												
FSCS	A018	50,000,000	Annual eligible income													
FSCS	A019	500,000,000	Annual eligible income													

Firm type	Tariff data				Annual fees (2007 / 08)		Indicative GFA contribution p.a.	
	Levy scheme	Fee block	Volume	Units	Description	Value (£)	"Low" scenario (5.70% of periodic fee)	"High" scenario (13.27% of periodic fee)
Larger IFA	FSA	A013	50	Approved persons	FSA periodic fee (£)	£51,000	£3,000	£7,000
	FSA	A018	1,000,000	Annual income				
	FSA	A019	1,000,000	Annual income	FOS contribution (£)	£2,000		
	FOS	I009	50	Relevant approved persons				
	FOS	I016	1,000,000	Relevant business annual income				
	FOS	I017	1,000,000	Relevant business annual income	FSCS contribution (£)	£94,000		
	FSCS	A013	50	Approved persons				
FSCS	A016	35,000	PIA Pensions Compensation Levy					
FSCS	A018	1,000,000	Annual eligible income					
Insurance Broker	FSA	A019	200,000,000	Annual income	FSA periodic fee (£)	£157,000	£9,000	£21,000
	FOS	I017	200,000,000	Relevant business annual income	FOS contribution (£)	£50.00		
	FSCS	A019	50,000,000	Annual eligible income	FSCS contribution (£)	£9,000		
General Insurer	FSA	A003	150,000,000	Gross premium income	FSA periodic fee (£)	£101,000	£6,000	£13,000
	FSA	A003	250,000,000	Gross technical liabilities	FOS contribution (£)	£10,000		
	FSA	A019	0	Annual income				
	FOS	I002	150,000,000	Relevant adjusted gross premium income	FSCS contribution (£)	£4		
	FOS	I017	0	Relevant business annual income				
FSCS	A019	0	Annual eligible income					
Stockbroker	FSA	A002	0	Number of home finance transactions	FSA periodic fee (£)	£245,000	£14,000	£32,000
	FSA	A007	10,000,000,000	Funds under management				
	FSA	A010	5	Number of traders				
	FSA	A012	500	Approved persons	FOS contribution (£)	£80,000		
	FSA	A014	30	Corporate finance advisers				
	FSA	A018	0	Annual income				
	FSA	A019	10,000	Annual income				
	FOS	I005	10,000,000,000	Relevant funds under management	FSCS contribution (£)	£112,000		
	FOS	I007	5	Number of relevant traders				
	FOS	I008	500	Relevant approved persons				
	FOS	I010	30	Relevant corporate finance advisers				
	FOS	I016	0	Relevant business annual income				
	FOS	I017	10,000	Relevant business annual income	FSCS contribution (£)			
FSCS	A007	10,000,000,000	Funds under management					
FSCS	A010	5	Number of traders					
FSCS	A012	500	Approved persons					
FSCS	A014	30	Corporate finance advisers					
FSCS	A018	0	Annual eligible income					
FSCS	A019	10,000	Annual eligible income					
Credit Card Issuer	FSA	A001	2,500,000,000	Modified eligible liabilities	FSA periodic fee (£)	£202,000	£11,000	£27,000
	FSA	A019	150,000,000	Annual income	FOS contribution (£)	£72,000		
	FOS	I001	8,000,000	Number of relevant accounts				
	FOS	I017	150,000,000	Relevant business annual income	FSCS contribution (£)	£20,000		
	FSCS	A019	150,000,000	Annual eligible income				
Building Society	FSA	A001	3,000,000,000	Modified eligible liabilities	FSA periodic fee (£)	£139,000	£8,000	£18,000
	FSA	A002	25,000	Number of home finance transactions				
	FSA	A012	20	Approved persons				
	FSA	A018	1,500,000	Annual income	FOS contribution (£)	£8,000		
	FSA	A019	3,000,000	Annual income				
	FOS	I001	500,000	Number of relevant accounts				
	FOS	I008	20	Relevant approved persons				
	FOS	I016	1,500,000	Relevant business annual income	FSCS contribution (£)	£5,000		
	FOS	I017	3,000,000	Relevant business annual income				
	FSCS	A012	20	Approved persons				
FSCS	A018	1,500,000	Annual eligible income					
FSCS	A019	3,000,000	Annual eligible income					
Fund Manager	FSA	A007	40,000,000	Funds under management	FSA periodic fee (£)	£3,000	£200	£500
	FSA	A009	500,000	Gross income	FOS contribution (£)	£150		
	FOS	I005	40,000,000	Relevant funds under management				
	FOS	I006	500,000	Relevant gross income	FSCS contribution (£)	£65		
	FSCS	A007	40,000,000	Funds under management				
FSCS	A009	500,000	Gross income					
Mortgage Broker	FSA	A018	700,000	Annual income	FSA periodic fee (£)	£3,000	£200	£500
	FSA	A019	20,000	Annual income	FOS contribution (£)	£100		
	FOS	I016	700,000	Relevant business annual income				
	FOS	I017	20,000	Relevant business annual income	FSCS contribution (£)	£6		
	FSCS	A018	700,000	Annual eligible income				
FSCS	A019	20,000	Annual eligible income					
Loan Provider	FSA	A019	15,000,000	Annual income	FSA periodic fee (£)	£40,000	£2,000	£5,000
	FOS	I017	15,000,000	Relevant business annual income	FOS contribution (£)	£50		
	FSCS	A019	15,000,000	Annual eligible income	FSCS contribution (£)	£3,000		
Smaller Life Company	FSA	A004	15,000,000	Adjusted gross premium income	FSA periodic fee (£)	£17,000	£1,000	£2,000
	FSA	A004	300,000,000	Mathematical reserves	FOS contribution (£)	£2,000		
	FOS	I004	15,000,000	Relevant adjusted gross premium income				
	FSCS	A004	70,000,000	Relevant Net Premium Income	FSCS contribution (£)	£200		
Smaller IFA	FSA	A012	2	Approved persons	FSA periodic fee (£)	£3,000	£150	£400
	FOS	I008	2	Relevant approved persons	FOS contribution (£)	£300		
	FSCS	A012	2	Approved persons	FSCS contribution (£)	£500		

Source: FSA data, Deloitte analysis, FSA Fees Calculator

Note: at Budget 2009, Government announced that dormant accounts funds for financial capability would be directed to support implementation of Money Guidance. The government is currently working to assess how much will be available via this funding stream and over what period.

### *Funding channelled to a new consumer education body*

In order to allow for non-FSA levy sources of funding, the Government has proposed that the FSA should establish a new consumer education authority, independent from but linked to the FSA. It will be responsible for consumer education on financial markets and financial services, including the Money Guidance service.

The principal funding stream for the new authority will be from FSA regulated firms, in effect replacing the proportion of the FSA levy which has been to date allocated to fund the FSA's financial capability activity. The Government proposes to provide that the new body will also be able to accept funding from non-levy funding sources for the delivery of Money Guidance, including Government funding and funding from consumer credit firms. This is set out in further detail in the accompanying impact assessment of the consumer education authority.

### *Administrative Burdens*

It is not believed that this policy results in administrative burdens for business.

### Specific Impact Tests

The Government considers that these proposals do not have a significant overall impact on competition. Please see page 23 of the evidence base for further discussion of this.

The Government considers that the costs of these proposals do not have a specific impact on small firms.

The Government considers that these proposals will not have any impact on the workload of the courts or legal aid costs.

The Government considers that these proposals do not have an impact on sustainable development.

The Government considers that these proposals will have no significant impact on the emissions of greenhouse gases or other environmental impacts.

As cited above and supported by recent FSA research (annexed), Money Guidance is likely to support improved financial capability, which has been shown to have significant health and well being benefits.

The Government considers that these proposals will not have a specific impact on racial equality.

The Government considers that these proposals do not have an impact on disability equality.

The Government considers that these proposals do not have an impact on gender equality.

The Government considers that the proposals are compatible with the Convention rights protected under the Human Rights Act 1998.

The Government considers that these proposals do not have a significantly different impact in rural areas.

## Specific Impact Tests: Checklist

Use the table below to demonstrate how broadly you have considered the potential impacts of your policy options.

**Ensure that the results of any tests that impact on the cost-benefit analysis are contained within the main evidence base; other results may be annexed.**

Type of testing undertaken	<i>Results in Evidence Base?</i>	<i>Results annexed?</i>
Competition Assessment	Yes	No
Small Firms Impact Test	Yes	No
Legal Aid	Yes	No
Sustainable Development	Yes	No
Carbon Assessment	Yes	No
Other Environment	Yes	No
Health Impact Assessment	Yes	Yes
Race Equality	Yes	No
Disability Equality	Yes	No
Gender Equality	Yes	No
Human Rights	Yes	No
Rural Proofing	Yes	No

## Annexes

Financial Capability and Wellbeing, FSA Occasional Paper Series 34, May 2009 (see link below)

<http://www.fsa.gov.uk/pubs/occpapers/op34.pdf>

Thoresen Review reports (interim and final) and annexes (including Deloitte Cost-Benefit Analysis) (see link below)

[http://www.hm-treasury.gov.uk/thoresen\\_review\\_index.htm](http://www.hm-treasury.gov.uk/thoresen_review_index.htm)

## Summary: Intervention & Options

<b>Department /Agency:</b> <b>HM Treasury</b>	<b>Title:</b> <b>Impact Assessment of new Consumer Education Authority linked to the FSA</b>	
<b>Stage:</b> Consultation	<b>Version:</b> 1	<b>Date:</b> July 2009
<b>Related Publications:</b> Thoresen Review of Generic Financial Advice; action plan for financial capability; IA on national rollout of Money Guidance		

**Available to view or download at:**

<http://www.hm-treasury.gov.uk>

**Contact for enquiries:** Anna Deibel-Jung

**Telephone:** 020 7270 6426

**What is the problem under consideration? Why is government intervention necessary?**

The Government is committed to introducing a national Money Guidance service (see IA on Money Guidance). It is important that the service is led by an organisation with a legacy of consumer education activity as well as ensuring appropriate and efficient oversight and funding arrangements for the service. The Government agrees with the Thoresen Review that the FSA is best placed to lead the Money Guidance service. However, there are barriers to the FSA taking on Money Guidance in the long-term, such as its inability to receive multiple funding streams, including Government funds.

**What are the policy objectives and the intended effects?**

To ensure that the organisation leading Money Guidance:

- has the capability and capacity to deliver Money Guidance as well as other consumer education initiatives;
- can receive a range of funding streams and hold a ring-fenced budget; and
- can delegate functions where appropriate to other organisations better placed to deliver.

Establishing a new independent consumer education linked to the FSA would ensure that these objectives can be met clearly and efficiently.

**What policy options have been considered? Please justify any preferred option.**

The FSA and the OFT both have a statutory objective to deliver consumer education and information on personal finance issues. On balance, the FSA is better strategically placed than OFT to take forward Money Guidance, on account of its specific remit to inform consumers about financial markets, its FSA National Strategy for Financial Capability and the opportunity to build on the FSA's MoneyMadeClear brand and products, already being used for the pathfinder. Delivery from within the centre of the FSA would not meet all objectives set out above; a new body linked to the FSA would.

**When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects?** After 1 year of operation; ongoing effectiveness review is planned thereafter.

**Ministerial Sign-off** For consultation stage Impact Assessments:

*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:



.....Date: July 2009

## Summary: Analysis & Evidence

<b>Policy Option:</b> Consumer Body	<b>Description:</b> Consumer education body, independent of the FSA - not part of the main FSA
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<b>COSTS</b>	<b>ANNUAL COSTS</b>	Description and scale of <b>key monetised costs</b> by 'main affected groups' Some marginal new back office costs. Other costs covered by levy on FSA-regulated firms to support financial capability activities (as now) plus expected Money Guidance costs (see Money Guidance IA). No compliance costs as existing levy mechanisms to be used.			
	<b>One-off</b> (Transition)		<b>Yrs</b>		
	£ 1m		1		
	<b>Average Annual Cost</b> (excluding one-off)				
	£ 1m	<b>Total Cost (PV)</b>		<b>£ 23.7m</b>	
Other <b>key non-monetised costs</b> by 'main affected groups'					

<b>BENEFITS</b>	<b>ANNUAL BENEFITS</b>	Description and scale of <b>key monetised benefits</b> by 'main affected groups' <b>SEE MONEY GUIDANCE IA FOR DETAILS OF EXPECTED BENEFIT FROM THE POLICY - £24,662m - £27,914m</b>			
	<b>One-off</b>		<b>Yrs</b>		
	£				
	<b>Average Annual Benefit</b> (excluding one-off)				
	£	<b>Total Benefit (PV)</b>		<b>£ see above</b>	
Other <b>key non-monetised benefits</b> by 'main affected groups' Smooth and efficient running of the Money Guidance service through a single, strategically managed budget and contracting process. The area of financial education is often described as fragmented and lacking a strategic lead - a new body will help address this and raise the policy's profile.					

Key Assumptions/Sensitivities/Risks
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Price Base Year 2008	Time Period Years 52	<b>Net Benefit Range (NPV)</b> £	<b>NET BENEFIT (NPV Best estimate)</b> £
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What is the geographic coverage of the policy/option?	UK			
On what date will the policy be implemented?	2010			
Which organisation(s) will enforce the policy?	FSA			
What is the total annual cost of enforcement for these organisations?	£ N/A			
Does enforcement comply with Hampton principles?	Yes			
Will implementation go beyond minimum EU requirements?	N/A			
What is the value of the proposed offsetting measure per year?	£ n/a			
What is the value of changes in greenhouse gas emissions?	£ n/a			
Will the proposal have a significant impact on competition?	No			
Annual cost (£-£) per organisation (excluding one-off)	Micro marginal	Small marginal	Medium marginal	Large marginal
Are any of these organisations exempt?	No	No	N/A	N/A

<b>Impact on Admin Burdens Baseline</b> (2005 Prices)			(Increase - Decrease)
Increase of	£ 0	Decrease of	£ 0
<b>Net Impact</b>			£ 0

Key: Annual costs and benefits: Constant Prices (Net) Present Value

## Evidence Base (for summary sheets)

[Use this space (with a recommended maximum of 30 pages) to set out the evidence, analysis and detailed narrative from which you have generated your policy options or proposal. Ensure that the information is organised in such a way as to explain clearly the summary information on the preceding pages of this form.]

### Background

The Government is committed to implementing a national Money Guidance service. It commissioned the Thoresen Review in 2007 to investigate how this might best be delivered. The Thoresen Review's 'blueprint' for the service is being tested through a large-scale pilot or 'pathfinder' which began in April – this is being delivered by the Financial Services Authority (FSA) under joint funding and governance arrangements with the Treasury.

**This Impact Assessment addresses the issue of strategic coordination and oversight of delivery of the Money Guidance service and should be read in conjunction with the Impact Assessment on the rollout of Money Guidance.**

### Policy options

The Thoresen Review recommended that the FSA should take the strategic lead for national implementation of Money Guidance. The FSA is well placed to take on this role on account of its:

- independence;
- leadership of the National Strategy for Financial Capability (which is delivered as part of its statutory objective to informing the public about financial markets);
- experience in working in partnership with other organisations;
- existing consumer information and guidance products under the Moneymadeclear brand (note that the Money Guidance pathfinder is built around the Moneymadeclear resources and website and is being delivered under the Moneymadeclear brand); and
- already levies FSA-regulated firms for financial capability and has a well-established levy mechanism.

An alternative option might have been the Office of Fair Trading (OFT) which also has a statutory objective around consumer education. However, the strategic fit is less strong: the approach of the OFT to date on consumer education, and the focus of its consumer-facing services such as Consumer Direct is more remedial, aimed at helping people assert their consumer rights and seek redress, than educational and preventative. The OFT also lacks the FSA's specific focus on financial services and the FSA's extensive existing suite of consumer education projects and products as well as the experience of delivering the Money Guidance pathfinder.

### *Preferred policy option*

The Government concurs with the Thoresen Review's recommendation but has identified a number of issues which could undermine the effectiveness and efficiency of the service if run from within the FSA:

- Money Guidance represents a major additional delivery requirement for the FSA;
- the FSA cannot accept non-levy funding streams for Money Guidance as this may be seen to compromise its independence;
- Money Guidance budgets would not be ring-fenced within the FSA; and
- the FSA cannot delegate its functions to any other organisation which could cause difficulties in outsourcing delivery to partners.

The Government therefore has proposed in its 'Reforming Financial Markets' paper, to which this IA is annexed, that a new independent consumer education authority, linked to the FSA in the same way as the Financial Services Compensation Scheme and the Financial Ombudsman Service, should be established. This allows all of the advantages of FSA leadership of Money Guidance while addressing the barriers set out above.

This body would lead the national implementation of Money Guidance and take over the activity currently led by the FSA's financial capability division. It is intended that the body will become a focus for consumer education on financial services and financial markets.

The body will take over the existing FSA National Strategy for Financial Capability, which is expected to be funded on the same basis as now, i.e. via FSA-regulated firms. The body will have the power to levy FSA-regulated firms for financial capability, taking this function over from the FSA. It is expected that this levy will continue to be collected by the FSA, imposing no additional compliance burdens on the industry. The levy on FSA-regulated firms will continue to be the principal funding source for the new body.

For Money Guidance, the body will in addition have the power to levy consumer credit firms as well as receive Government funding and a funding stream from dormant accounts (please see IA on Money Guidance for further detail on this).

### Costs

The costs cited on page 31 include only additional running costs for the new body, as the financial capability division of the FSA, and the accompanying proportion of the FSA levy which funds the running costs of this division, will in effect be 'transplanted' to the new authority. The costs of Money Guidance set out in IA on Money Guidance cover running costs associated with the project. Therefore, the additional costs of a one off £1m transition costs and £1m a year thereafter cover only any new 'back office' costs incurred – these could be lower if efficiencies and economies of scale can be achieved.

### Benefits

A new consumer education authority linked to the FSA could:

- give delivery of Money Guidance due priority and ensure that appropriate capability, capacity and strategic focus is available;
- receive multiple funding streams, including, for Money Guidance, Government funds, consumer credit funds and Dormant Accounts, making for a single, strategically coordinated and efficient budget and contracting process;
- levy to fund consumer education and hold a ring-fenced budget; and
- give greater profile for the consumer education agenda and address claims that the consumer education landscape is fragmented and inefficient.

Compared to running Money Guidance from within the FSA, this option avoids costs of managing non-levy funds separately which we estimate would cost an additional £1m a year as well as £1m to establish, assuming 3 different teams are required to manage revenue from consumer credit firms, Government and dormant accounts. This is a conservative estimate of staff costs and could increase if there are a large number of contracts to procure and manage.

Experience of the pathfinder, where procurement, finance and policy staff in the Treasury have spent a significant proportion of time managing the Government's £6m funding stream separately, shows that this could be a major issue when scaling up to national rollout.

Differences in procurement approach, security requirements etc. between Government and the FSA have added complexity and resource cost.

### Administrative Burdens

It is not believed that this policy results in administrative burdens for business.

### Specific Impact Tests

The Government considers that these proposals do not have a significant overall impact on competition.

The Government considers that the costs of these proposals do not have a specific impact on small firms.

The Government considers that these proposals will not have any impact on the workload of the courts or legal aid costs.

The Government considers that these proposals do not have an impact on sustainable development.

The Government considers that these proposals will have no significant impact on the emissions of greenhouse gases or other environmental impacts.

The Government considers that these proposals do not have a significant impact on health and well being.

The Government considers that these proposals will not have a specific impact on racial equality.

The Government considers that these proposals do not have an impact on disability equality.

The Government considers that these proposals do not have an impact on gender equality.

The Government considers that the proposals are compatible with the Convention rights protected under the Human Rights Act 1998.

The Government considers that these proposals do not have a significantly different impact in rural areas.

## Specific Impact Tests: Checklist

Use the table below to demonstrate how broadly you have considered the potential impacts of your policy options.

**Ensure that the results of any tests that impact on the cost-benefit analysis are contained within the main evidence base; other results may be annexed.**

Type of testing undertaken	<i>Results in Evidence Base?</i>	<i>Results annexed?</i>
Competition Assessment	Yes	No
Small Firms Impact Test	Yes	No
Legal Aid	Yes	No
Sustainable Development	Yes	No
Carbon Assessment	Yes	No
Other Environment	Yes	No
Health Impact Assessment	Yes	No
Race Equality	Yes	No
Disability Equality	Yes	No
Gender Equality	Yes	No
Human Rights	Yes	No
Rural Proofing	Yes	No

## Summary: Intervention & Options

<b>Department /Agency:</b> <b>HM Treasury</b>	<b>Title:</b> <b>Impact Assessment of consumer redress mechanisms</b>	
<b>Stage:</b> Consultation	<b>Version:</b> 1	<b>Date:</b> July 2009
<b>Related Publications:</b>		

Available to view or download at:

Contact for enquiries: Brian Garcia

Telephone: 020 7270 5219

### What is the problem under consideration? Why is government intervention necessary?

Current redress mechanisms are not entirely adequate where a large number of consumers suffer detriment in a similar way. That is why some cases that might be actionable on a group basis are settled individually by the Financial Ombudsman Service or the courts. The take up of collective action has been modest, despite regular mis-selling and other scandals. The number of complaints referred to FOS is expected to rise to 150,000 in 2009-10 and continue to rise during the current economic downturn. Up to 40% of these cases have similar characteristics.

### What are the policy objectives and the intended effects?

To deliver a package that promotes the restoration of consumer confidence in financial services by:

- (i) addressing the causes of mass complaints before they occur;
- (ii) developing measures to assess consumer redress by the FSA when mass complaints occur;
- (iii) providing new routes to collective redress in order to deal with claims more efficiently, reduce the time that claimants may have to wait, and reduce the volume of appeals to FOS.

### What policy options have been considered? Please justify any preferred option.

- (i) do nothing - use existing regulatory procedures
- (ii) new regulatory powers to impose collective settlements
- (iii) a new court based representative actions process
- (iv) a new third party alternative dispute resolution process
- (v) a new tribunal service dedicated to financial services group litigation

A combination of (ii) and (iii) offers a proportionate response that can be tailored to differing circumstances with minimal cost

**When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects?** At the next review of the relevant provisions of the Financial Services and Markets Act. No date has been set.

### **Ministerial Sign-off** For consultation stage Impact Assessments:

*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:



.....Date: July 2009

## Summary: Analysis & Evidence

<b>Policy Option:</b>	<b>Description:</b>
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<b>COSTS</b>	<b>ANNUAL COSTS</b>	Description and scale of <b>key monetised costs</b> by 'main affected groups' We assume zero additional costs to firms of dealing with claims that would otherwise be handled individually. We assess the potential cost of claims by consumers who currently suffer detriment but do not complain (est 60,000) based on unit costs under the collective redress system.	
	<b>One-off</b> (Transition) <b>Yrs</b>		
	<b>£ 0</b>		
	<b>Average Annual Cost</b> (excluding one-off)		
	<b>£ 45m - £60m</b>	<b>Total Cost (PV)</b>	<b>£ 451.9m</b>
Other <b>key non-monetised costs</b> by 'main affected groups'			

<b>BENEFITS</b>	<b>ANNUAL BENEFITS</b>	Description and scale of <b>key monetised benefits</b> by 'main affected groups' As many as 45% of cases referred to FOS have common characteristics. We assume this number might be dealt with collectively and add an estimate for those who do not currently complain who might come forward. We estimate average size of claims to range from £500 to £10,000.	
	<b>One-off</b> <b>Yrs</b>		
	<b>£ 0</b>		0
	<b>Average Annual Benefit</b> (excluding one-off)		
	<b>£ 60m - £300m</b>	<b>Total Benefit (PV)</b>	<b>£ 1,549.4m</b>
Other <b>key non-monetised benefits</b> by 'main affected groups' Consumers: more efficient claims handling, reduced waiting times and reduced FOS caseload. Firms: Legal certainty and appeals process.			

**Key Assumptions/Sensitivities/Risks**  
 It is assumed that the quantum of individual redress will not differ materially, whether secured through individual or collective action..

Price Base Year 2009	Time Period Years 10	<b>Net Benefit Range (NPV)</b> £	<b>NET BENEFIT (NPV Best estimate)</b> £ 1,097.5m
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What is the geographic coverage of the policy/option?	UK
On what date will the policy be implemented?	at Royal Assent
Which organisation(s) will enforce the policy?	FSA
What is the total annual cost of enforcement for these organisations?	£ 0
Does enforcement comply with Hampton principles?	Yes
Will implementation go beyond minimum EU requirements?	N/A
What is the value of the proposed offsetting measure per year?	£ 0
What is the value of changes in greenhouse gas emissions?	£ 0
Will the proposal have a significant impact on competition?	No
Annual cost (£-£) per organisation (excluding one-off)	Micro      Small      Medium      Large
Are any of these organisations exempt?	No      No      N/A      N/A

<b>Impact on Admin Burdens Baseline</b> (2005 Prices)	(Increase - Decrease)
Increase of    £ 0                      Decrease of    £ 0	<b>Net Impact</b> £ Negligible

Key:      Annual costs and benefits: Constant Prices      (Net) Present Value

## Evidence Base (for summary sheets)

[Use this space (with a recommended maximum of 30 pages) to set out the evidence, analysis and detailed narrative from which you have generated your policy options or proposal. Ensure that the information is organised in such a way as to explain clearly the summary information on the preceding pages of this form.]

The number of complaints referred to the FOS has risen year on year since it was established in 2001. 31,347 complaints were referred for decision in the first year, compared to 127,471 in the year to March 2009, a fourfold increase<sup>1</sup>. The Ombudsman and the FSA expect the volume of complaints to rise during the current economic downturn, as firms struggle to contain costs and boost capital. FOS expects its caseload to rise to 150,000 in 2009-10<sup>2</sup>. The rate at which FOS upholds complaints in the consumer's favour has also risen from the 30% to 40% range since 2001 to 80% in 2008-09.

There is further evidence that around half of harmed consumers do not complain<sup>3</sup>; and that consumers suffering hardship are least likely to complain and are most likely to give up when they do.

More than half the complaints to FOS each year are concentrated in a small number of products, headed by mortgage endowments and personal pensions plans<sup>4</sup>, and complaints are attributable to only 20 per cent of regulated firms. This suggests that a relatively small number of products and firms, affecting large numbers of customers, are responsible for driving down confidence in the financial services industry, although they may not be the same products and firms every year. For example, in 2008-09 24% of complaints related to payment protection insurance. A significant proportion of complaints therefore have common characteristics that might be addressed through a collective settlement or group action.

### Costs and benefits

The proposed new powers are contingency powers. There are no set up or on-going costs for Government or industry.

The benefits of extending the FSAs powers to secure collective redress are that consumers would not be required to pursue individual claims and the risk of a logjam of applications to the courts or the Financial Ombudsman Service – a recurrent experience in the financial services sector - would be removed.

There will be cost savings for consumers as a result of dealing with a large number of claims through a scheme or group action, but these will depend on the circumstances, and the numbers and complexity, of claims of each case. There will be savings to firms through a more efficient settlement process, and avoidance of court and FOS fees for dealing with individual claims, as well as legal certainty about their liabilities. Again, they are dependent on the individual case. The compensation awarded through this approach would not be a new cost on business, as firms would expect to be paying compensation anyway.

### Benefits quantification

- (i) The number of consumers losing out where there has been a widespread failure, and other remedies have failed, is of the order of 60,000 per year.

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<sup>1</sup> FOS annual reports.

<sup>2</sup> FOS business plan 2009-10.

<sup>3</sup> OFT report: [http://www.offt.gov.uk/shared\\_offt/reports/consumer\\_protection/oft992.pdf](http://www.offt.gov.uk/shared_offt/reports/consumer_protection/oft992.pdf)

<sup>4</sup> In 2008-09 there were most complaints about payment protection insurance and credit card charges.

This is based on the proportion of claims handled by FOS that have common characteristics, around 45% of the caseload.

The unit cost of dealing with claims by FOS is around £500, with an additional cost to firms of complaints handing of a further £500. It is reasonable to assume a saving of £500 per case if cases are settled collectively.

The estimated saving through a reduced FOS caseload is therefore

$$\begin{aligned} & \text{£500} \times 60,000 = \underline{\text{£30 million per}} \\ & \text{year} \end{aligned}$$

- (ii) We include the benefits to consumers who currently suffer detriment but do not complain.

The number of affected consumers is in the region of 60,000.

There is no typical or average amount that may be claimed by such consumers. We estimate the average size of claims with common characteristics to range from £500 to £10,000.

The potential benefits to consumers is therefore in the range:

$$\begin{aligned} & \text{£500} \times 60,000 & = \text{£30 million to} \\ & \text{£5,000} \times 60,000 & = \text{£300 million per year} \end{aligned}$$

## Costs quantification

The legal costs of a FSA scheme of a collective action through the courts will depend on the circumstances of each case.

We assume zero additional costs to firms for the costs of dealing with claims that might otherwise be handled individually by the courts or FOS. These costs are of the order of £500 per case and will be incurred irrespective of the redress mechanism applied.

However, more claims may be generated through a collective mechanism than might otherwise be generated on an individual basis if those who do not currently complain are included.

These potential costs are  $\text{£500} \times 60,000 = \underline{\text{£30 million}}$  per year

The costs of taking action by the FSA or a representative body will depend on the complexity of each case and the length of any proceedings. It is reasonable to assume that they may be in the region of £250 to £500 per case.

These potential costs range from  $\text{£250} \times 60,000 = \underline{\text{£15 million}}$  per year to  $\text{£500} \times 60,000 = \underline{\text{£30 million}}$  per year

There is a risk that a body that brings a representative action will incur costs that may not be recovered. This too cannot be estimated.

## Summary

### Benefits

estimated saving through reduced FOS caseload  $\text{£30 million per year}$   
potential benefits to consumers who do not currently complain:  $\text{£30 million to £300 million per year}$

Total  $\text{£60m to £300m per year}$

## Costs

Additional claims generated	£30 million per year
Costs of collective action or scheme: million per year	£15 million to £30
<b>Total</b>	<b>£45m to £60m per year</b>

The mid-point of costs (52.5m) and benefits (180m) has been used to calculate total (pv) cost and benefit and to give the net benefit calculation.

Human rights: The Government considers that the proposals are compatible with the Convention rights protected under the Human Rights Act 1998.

Competition: The Government considers that these proposals will not bring disproportionate benefits or have a disproportionate effect on competition.

Small firms: The Government considers that the proposals will not have any significant impact on small firms.

## Specific Impact Tests: Checklist

Use the table below to demonstrate how broadly you have considered the potential impacts of your policy options.

**Ensure that the results of any tests that impact on the cost-benefit analysis are contained within the main evidence base; other results may be annexed.**

Type of testing undertaken	<i>Results in Evidence Base?</i>	<i>Results annexed?</i>
Competition Assessment	Yes	No
Small Firms Impact Test	Yes	No
Legal Aid	No	No
Sustainable Development	No	No
Carbon Assessment	No	No
Other Environment	No	No
Health Impact Assessment	No	No
Race Equality	No	No
Disability Equality	No	No
Gender Equality	No	No
Human Rights	Yes	No
Rural Proofing	No	No



## Summary: Intervention & Options

<b>Department /Agency:</b> HM Treasury	<b>Title:</b> Impact Assessment of "Expanding the role of the FSCS and introduction of the single point of contact"	
<b>Stage:</b> Consultation	<b>Version:</b> 1	<b>Date:</b> July 2009
<b>Related Publications:</b>		

Available to view or download at:

Contact for enquiries: David Sly

Telephone: 020 7270 5162

### What is the problem under consideration? Why is government intervention necessary?

In 2008 the FSCS went beyond its formal remit to ensure that eligible claimants in failed banks were fully compensated for their deposits, including those in the UK (Icesave) branch of the Icelandic bank Landsbanki and in the UK bank London Scottish by paying the compensation due from the Icelandic deposit-guarantee scheme and the amounts the Government provided to ensure that eligible depositors in both banks were fully compensated for their deposits. Government intervention is needed as FSCS must be given the necessary power in legislation. It cannot happen by private agreement.

### What are the policy objectives and the intended effects?

The policy objective is to put the ability to make such arrangements on to a proper permanent footing. This would have the effect of making it easier to bring in such arrangements if they were necessary in any future crisis. This would also provide a framework for bringing in a 'single point of contact' system for provided compensation in the event of default of institutions based in EU member states which operate cross-border through branches in other member states.

### What policy options have been considered? Please justify any preferred option.

The options are 'do nothing' and the preferred option, described above. The preferred option is justified by the ability to make such arrangements more efficiently when a proper framework is already in place.

**When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects?** The proposed option would only make possible putting in place compensation arrangements if they were needed in future. It is not possible, therefore, to set a review date

### **Ministerial Sign-off** For consultation stage Impact Assessments:

***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:



.....Date: July 2009

## Summary: Analysis & Evidence

<b>Policy Option:</b>	<b>Description:</b>
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<b>COSTS</b>	<b>ANNUAL COSTS</b>	Description and scale of <b>key monetised costs</b> by 'main affected groups' See following section. This analysis assumes that arrangements to pay compensation are to be made. So it starts from the actual (but unknown) costs of ad hoc arrangements not from the (zero) cost of no arrangements being put in place.			
	<b>One-off</b> (Transition) <span style="float: right;">Yrs</span>				
	£				
	<b>Average Annual Cost</b> (excluding one-off)				
	£		<b>Total Cost (PV)</b>	<b>£ nil</b>	
Other <b>key non-monetised costs</b> by 'main affected groups'					

<b>BENEFITS</b>	<b>ANNUAL BENEFITS</b>	Description and scale of <b>key monetised benefits</b> by 'main affected groups' See following section. There should be: - savings in the cost of running ad hoc arrangements to pay compensation etc - benefits to customers in terms of faster access to compensation.			
	<b>One-off</b> <span style="float: right;">Yrs</span>				
	£		10		
	<b>Average Annual Benefit</b> (excluding one-off)				
	£ 110,000		<b>Total Benefit (PV)</b>	<b>£ 946,845</b>	
Other <b>key non-monetised benefits</b> by 'main affected groups' The proposed option could be seen as a simplification measure all those benefits are in principle captured in the monetised benefits. Any other simplification benefits are likely to be negligible.					

**Key Assumptions/Sensitivities/Risks** Assumptions about: costs for setting up an ad hoc compensation scheme; split between fixed and variable costs; numbers of persons compensated; reduction in payment delays, amounts of compensation and interest rates.

Price Base Year 2009	Time Period Years 10	<b>Net Benefit Range (NPV)</b> £	<b>NET BENEFIT (NPV Best estimate)</b> £ 946,845
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What is the geographic coverage of the policy/option?	Not applicable			
On what date will the policy be implemented?	2010/2011			
Which organisation(s) will enforce the policy?	Not applicable			
What is the total annual cost of enforcement for these organisations?	£ Not applicable			
Does enforcement comply with Hampton principles?	Yes/No			
Will implementation go beyond minimum EU requirements?	Yes/No			
What is the value of the proposed offsetting measure per year?	£ Not applicable			
What is the value of changes in greenhouse gas emissions?	£ Not applicable			
Will the proposal have a significant impact on competition?	No			
Annual cost (£-£) per organisation (excluding one-off)	Micro	Small	Medium	Large
Are any of these organisations exempt?	Yes/No	Yes/No	N/A	N/A

<b>Impact on Admin Burdens Baseline</b> (2005 Prices)			(Increase - Decrease)
Increase of £	n/a	Decrease of £	n/a
<b>Net Impact</b>			<b>£ Negligible</b>

Key: Annual costs and benefits: Constant Prices (Net) Present Value

## Evidence Base (for summary sheets)

[Use this space (with a recommended maximum of 30 pages) to set out the evidence, analysis and detailed narrative from which you have generated your policy options or proposal. Ensure that the information is organised in such a way as to explain clearly the summary information on the preceding pages of this form.]

The FSCS is responsible for paying the compensation provided for in its rules (which are made by the FSA) to eligible claimants. This includes paying compensation to depositors with the UK branches of credit institutions from other EEA states which have joined the ‘top-up’ arrangements allowed under the EC Deposit-guarantee Schemes Directive. But under this directive, the deposit-guarantee scheme in the credit institution’s home member state is responsible for paying all or part of the total compensation to the claimant. So in theory the claimant might have to deal with the FSCS and a foreign scheme (or possibly just with the foreign scheme) to claim compensation. Similarly, if the Government or some other person provides additional compensation above what the FSCS is required to provide, would mean in theory that the Government or that other person had to make entirely separate arrangements. This could be inefficient and costly, and delay payments to those receiving compensation. This could also, therefore, damage investor confidence.

The effect of the proposal is that the FSCS would act as paying agent in new situations on behalf of other organisations who have to pay compensation. These organisations would have to meet all the compensation costs and additional management expenses so there would not be any increase in the levies the FSCS raises from the financial services industry. The assumption is that the FSCS would have lower management expenses (i.e. resource costs) than other ways of paying compensation on an *ad hoc* basis than a separate, deliberately created mechanism to pay compensation.

There are, therefore, no compliance costs arising from this proposal which would fall directly on financial services or other businesses (or on other private sector organisations). Of course, businesses (and others) may be direct or indirect contributors to any compensation that is paid and to the resource costs incurred in making arrangements for compensation payment. But no assumptions can be made about how those contributions would be collected or the compliance burden that might result.

### Detailed assumptions and calculations

This proposal envisages using the FSCS to process the payment of compensation to persons in *ad hoc* cases. The decision to pay compensation – that is set up a scheme or arrangements to pay compensation is assumed to have been taken and the amount of compensation (which would be a transfer payment not a resource cost) is in principle the same in all options. But different options for operating the scheme will have different resource cost implications.

The operation of the scheme will have resource cost and benefit impacts on two distinct groups of persons: (a) the persons who are to receive compensation (“the beneficiaries”) and (b) the persons responsible for the compensation (and who therefore set up the scheme and pay for its operation) (“the operators”).

Clearly, the actual amount of costs and benefits would be affected by the scale of any actual scheme that was put in place i.e. by the numbers of people to whom compensation had to be paid. This cannot be estimated.

#### **(a) The beneficiaries**

There are two potential impacts on beneficiaries:

- reduced form-filling

Unless the beneficiaries are a pre-determined and pre-identified group of people, they will have to make a claim to the paying agent and this will mean completing and submitting a claim form. If a claim form is not required, the resource benefit to the beneficiaries is the same (i.e. £nil) whether the FSCS and another paying agent runs the scheme.

If a claim form would normally be required, there will be a resource benefit to beneficiaries if the FSCS is able to run the special scheme as part of an existing claim process which it would have to run any way (and so dispense with a separate claim). This will be the case where the FSCS is acting as a single point of contact for a non-UK scheme or the UK Government in cases where the it would also have to pay compensation in respect of the same matter to the same beneficiaries.

In all other cases, the beneficiary would simply be submitting a claim form to a different paying agent so there would be no resource benefit.

Where relevant the value of the benefit per beneficiary is given by:

Time taken to prepare and submit form x value of beneficiary's time.

Time taken will probably be between 10 minutes and 1 hour. (This implicitly assumes that the time taken to find and pull together any supporting documentation etc will be the same in both options.)

Assuming the beneficiaries' time is valued at £20 per hour, the benefit where relevant is between £3 and £20 per beneficiary.

- less loss of interest

Once a decision to set up a compensation scheme has been taken, there will be a resource benefit to the beneficiaries to the extent that the payment is paid more promptly in one option than in the other. Because the FSCS is an existing operational scheme, it is likely that it will be able to pay more promptly simply because less time will be needed to make the *ad hoc* scheme operational. FSCS may have to gear up to meet the demands of the *ad hoc* scheme but the organisation itself will not need to be created from scratch.

The size of this benefit will depend on the scale and novelty of the work required. Clearly it will be greatest where a relatively modest expansion of the FSCS is needed and the work fits well with the existing scheme. This will be the case where the FSCS is having to act as a single point of contact for a non-UK scheme (or for the UK Government) that would otherwise have to make the kind of compensation payments that the FSCS normally makes. On the other hand, the benefit would be considerably less if the FSCS was itself having to set up a large organisation to undertake essentially new work.

In any case, the benefit is given by:

Reduction in delay in payment x interest rate x amount of compensation payable.

Assuming the reduction in delay is between 3 and 6 months, the interest rate is 2 per cent and the amount of compensation payable is £10,000, the benefit is between £50 and £100 per beneficiary.

Range of benefits (per beneficiary):

*Worst case* (no reduction in form filling, 3 month reduction in payment delay) - £50

*Best case* (1 hour reduction in form filling, 6 month reduction in payment delay) - £120

Sensitivities:

The estimate of benefit per person is probably most sensitive to the assumptions about payment delay, interest rates and amounts of compensation payable. These calculations overshadow the benefits from reductions in form filling.

The total benefit (both annually and as a present value) obviously depends upon the number of beneficiaries and the number of defaults a year. These cannot be estimated.

## (b) The operators

Setting-up and running a compensation scheme obviously incurs administrative (i.e. resource) costs. (The compensation costs are transfers and will be the same in any option for running the scheme.)

Administrative costs will depend on the size of the scheme (that is the number of beneficiaries) and on when it is used. The cost structure will depend on what is actually done. Setting up permanent arrangements (such as the FSCS already makes for its ongoing responsibilities) will incur set-up costs, fixed costs while the scheme is in place and variable costs when compensation is actually paid. Making special arrangements at the time of a specific need to pay compensation will mean costs are incurred at that time. Comparing permanent and special arrangements will always be difficult since it will be necessary to take a view on the number of occasions when they will be used, on the scale of operation on each such occasion and on the timing of each such occasion. Because of the likely importance of fixed costs, it is very difficult to make any estimate of the potential resource cost or benefit on a per beneficiary basis.

Whether there is a benefit or a cost to the operators of a scheme in an option will depend on whether the option reduces the administrative costs they would have to meet in paying compensation in the case concerned. A benefit is likely to arise if special arrangements could be made by the FSCS on an essentially marginal cost basis. This would probably be the case if the special arrangements required only a modest increase in the size of the FSCS and the new activity fitted with its existing responsibilities. In those circumstances, there could be a significant saving in fixed costs or one-off start-up costs in comparison with the costs of setting up a new organisation from scratch. Logically, if the FSCS was simply setting up a new organisation which would otherwise have had to be set up by another body, there is no reason to suppose there would be any costs or benefits.

Requiring the FSCS to put permanent arrangements in place to operate a single point of contact would generate resource benefits on the operator side if the cost of those arrangements was less than the cost of arrangements a foreign scheme had to make to pay compensation to UK beneficiaries. If, on the other hand, a foreign scheme already had functioning arrangements to deliver compensation in the UK, requiring the FSCS to make such arrangements would imply a resource cost. It is probably unlikely that such arrangements exist so a single point of contact should bring cost savings (as well as the benefits to beneficiaries discussed above).

It would be impossible to require the FSCS to put permanent arrangements in place to meet a possible future *ad hoc* requirement since there would be basis for determining the scale or other requirements for such arrangements.

For the purpose of the IA, it is assumed that:

1. There would be no saving in requiring the FSCS to make special arrangements which could not be linked to current activities. This gives:

*Worst case* - £nil benefit or cost

2. There would be savings (essentially in set-up and fixed costs) if the FSCS is able to carry out additional work using its the existing arrangements at largely marginal cost. This gives:

*Best case* - £50 per beneficiary.

These results are necessarily **very sensitive** to assumptions made about costs and the extent to which FSCS could take on additional work at marginal cost. Assumptions about numbers of claimants and fixed costs are critical.

### Conclusion

*Worst case* - £50 per beneficiary

*Best case* - £170 per beneficiary.

The total benefit will depend on the number of occasions on which *ad hoc* compensation schemes are required and the number of beneficiaries. But if we assume that on average there

will be 1,000 beneficiaries a year and that the benefits are £110 per beneficiary (mid-point of the numbers above), the average annual benefit is £110,000 and the present value (discounted at 3.5% over ten years) would be £946,845. This is a purely illustrative number. Because of the importance of set-up and fixed costs, cost estimates are not scalable. If arrangements actually had to be made to compensate 1,000 people a year (or 10,000 once every 10 years), the actual costs could not be derived on a *pro rata* basis from estimates based on providing for paying compensation to a much larger number of claimants in a single year. Equally, special arrangements would not be made every year – permanent arrangements would have to be made.

#### Specific impact tests

The FSCS is a statutory body. It does not operate on a commercial basis or in competition with private sector undertakings. The proposal would require it to act as paying agent for similar bodies in other countries or for Government. Neither the competition nor small firms tests are therefore relevant. There would be no impact on financial services firms in their capacity as FSCS levy payers.

The beneficiaries would normally be ordinary retail customers of financial services firms. These beneficiaries would therefore include individuals and small businesses. The benefits would accrue to all such customers probably in proportion to the size of their investments. There would be no disproportionate impact on persons of any race, gender or disability.

No other specific impact tests are relevant.

## Specific Impact Tests: Checklist

Use the table below to demonstrate how broadly you have considered the potential impacts of your policy options.

**Ensure that the results of any tests that impact on the cost-benefit analysis are contained within the main evidence base; other results may be annexed.**

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