# Draft Impact Assessment, The Home Office

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|---|---|
| **Title:** Draft impact assessment for extending the ban on cold calling to cover consumer financial services and products<br>**IA No:** HO IA 0452 **RPC Reference No:** N/A<br>**Other departments or agencies:** HMT | **Date:** 02/08/2023<br>**Stage:** Consultation<br>**Intervention:** Domestic<br>**Measure:**<br>**Enquiries:** financial.coldcallingban@hmtreasury.gov.uk |
| **RPC Opinion:** N/A | **Business Impact Target:** N/A |

**Cost of Preferred (or more likely) Option** (in 2023 prices)

| Net Present Social Value NPSV (£m) | N/A | Business Net Present Value BNPV (£m) | N/A | Net cost to business per year EANDCB (£m) | N/A |
|---|---|---|---|---|---|

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

Fraud is the largest crime type, accounting for over 41 per cent of estimated crime in England and Wales. Cold calling is unsolicited, direct contact from an unknown caller with the aim of selling a good or service, and is a primary method used by criminals to commit investment fraud. Government legislation is required to counter the use of cold calling to conduct investment fraud, as it disproportionately affects specific age groups in society. A ban on cold calling for all consumer financial services and products will ensure scammers cannot work around the ban by changing the financial products they market.

**What is the strategic objective? What are the main policy objectives and intended effects?**

**Strategic objective:** To reduce the harms and financial losses to the UK from investment fraud conducted via cold calling.

**Policy objectives:** To ban cold calling to cover all consumer financial services and products, with the aim of preventing people from being exploited by this practice. Consumers will know that any unsolicited calls about financial services and products are a scam and will be less likely to engage.

**What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)**

**Option 1:** Do nothing.

**Option 2:** Extend the cold calling ban to cover all financial products and services.

**Option 3:** Extend the cold calling ban to cover all financial products and services, with some exclusions for existing customers.

**Option 4:** Extend the cold calling ban to a narrower scope of financial products and services.

| Main assumptions/sensitivities and economic/analytical risks | Discount rate (per cent) | 3.5 |
|---|---|---|

1. The benefits are dependent on the public being aware of the ban and no longer engaging with financial services cold calls.
2. The extent of fraudulent cold calling is unknown.
3. Criminals may switch to alternative methods of contact or fraud types.
4. The reduction in the number of fraudulent investment cold calls may be limited. In the three months to June 2022, 22 per cent of UK adults said they had been cold called for pensions or investment advice despite the pensions cold calling ban.

**Will the policy be reviewed?** TBC **If applicable, set review date:** TBC

# Summary: Draft Analysis & Evidence    Policy Options 1, 2, 3, 4

**Description:**

**FULL ECONOMIC ASSESSMENT**

| Year(s): | Price Base | 2023 | PV Base | 2024 | Appraisal | 10 | Transition | 1 |
|---|---|---|---|---|---|---|---|---|
| **Estimate of Net Present Social Value NPSV (£m)** | | | | | | **Estimate of BNPV (£m)** | | |
| **Low:** | N/A | **High:** | N/A | **Best:** | **N/A** | **Best BNPV** | **N/A** | |

| **COSTS, £m** | **Transition** Constant Price | **Ongoing** Present Value | **Total** Present Value | **Average/year** Constant Price | **To Business** Present Value |
|---|---|---|---|---|---|
| **Low** | N/A | N/A | N/A | N/A | N/A |
| **High** | N/A | N/A | N/A | N/A | N/A |
| **Best Estimate** | N/A | N/A | N/A | N/A | N/A |

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

No costs have been monetised at this stage due to limited data availability.

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

1. Lost financial gain from better suited financial products for general public.
2. Lost revenue for businesses/financial institutions if they cannot contact new or existing customers.
3. Familiarisation costs to businesses/financial institutions.
4. Costs to businesses/financial institutions in identifying and switching to alternative marketing methods.

| **BENEFITS, £m** | **Transition** Constant Price | **Ongoing** Present Value | **Total** Present Value | **Average/year** Constant Price | **To Business** Present Value |
|---|---|---|---|---|---|
| **Low** | N/A | N/A | N/A | N/A | N/A |
| **High** | N/A | N/A | N/A | N/A | N/A |
| **Best Estimate** | N/A | N/A | N/A | N/A | N/A |

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

No benefits have been monetised at this stage due to limited data availability.

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

1. Reduced levels of investment fraud against individuals, meaning reduced financial and emotional harms.
2. Lower costs to financial institutions from paying reimbursements to fraud victims.

**BUSINESS ASSESSMENT (Option 1)**

| **Direct impact on business (Equivalent Annual) £m:** | | | | | |
|---|---|---|---|---|---|
| **Cost, £m** | N/A | **Benefit, £m** | N/A | **Net, £m** | **N/A** |
| **Score for Business Impact Target (qualifying provisions only) £m:** | | | | | N/A |

| **Is this measure likely to impact on trade and investment?** | | | | N | | | |
|---|---|---|---|---|---|---|---|
| **Are any of these organisations in scope?** | **Micro** | Y | **Small** | Y | **Medium** | Y | **Large** Y |
| What is the $CO_2$ equivalent change in greenhouse gas emissions? (Million tonnes $CO_2$ equivalent) | Traded: | N/A | Non-Traded: | N/A | | | |

**PEOPLE AND SPECIFIC IMPACTS ASSESSMENT (Option 2)**

| **Are all relevant Specific Impacts included?** | Y | **Are there any impacts on particular groups?** | N/A |
|---|---|---|---|

# Evidence Base (for summary sheets)

## A. Strategic objective and overview

### A.1 Strategic objective

1. In the year ending December 2022 there were 3.7 million[1] estimated fraud offences in England and Wales, and 1 in 15 adults were a victim of fraud. Fraud is a significant threat to the UK, accounting for over 41 per cent of all estimated crime in England and Wales[2].
2. Reports of investment fraud are rising rapidly, increasing five-fold in the last five years, In the year ending March 2018, there were around 4,000 reports of investment fraud to Action Fraud. In 2023, this had increased to almost 24,000, with losses totally £748 million.[3]
3. The Government's Fraud Strategy[4] commits to cutting fraud by 10 per cent from 2019 levels. This proposal is in line with the approach to block fraud at the source, by reducing the number of fraudulent communications that will get through to individuals.
4. A key pillar of this strategy is to regulate to prevent criminals abusing technology. To achieve this, the Government is bringing forward new regulation, including an extension of the current ban on cold calling for pensions[5], to cover all financial and investment products.
5. The strategic objective of this measure is to reduce the volume and harm of fraud, in particular investment fraud, conducted using cold calling to market consumer financial services and products (for example, investments, loans, and insurance).

### A.2 Background

6. "Cold calling" is unsolicited direct communication to customers with the aim of selling a good or service.
7. Currently the Financial Conduct Authority (FCA), the Information Commissioner's Office (ICO) and Ofcom each have powers to regulate cold calls to an extent. Under the existing Privacy and Electronic Communications Regulations (PECR), a caller does not need consent to make live marketing calls to people and businesses if:
    a. the recipient has not objected to receiving live marketing calls from the caller; or
    b. the number is not listed on the Telephone Preference Service (TPS), or the Corporate Telephone Preference Service (CTPS).
8. This policy intends to ban all cold calling for the purposes of intending to sell, or enable the selling of, consumer financial services and products.
9. As this is a consultation impact assessment, the scope of this policy is currently to be confirmed following the findings of the consultation. A broad range of financial services and products and broad definition of cold calling may allow consumers to better identify fraudulent activity. This broad scope will also limit fraudsters' ability to adapt their strategies to claim they are acting outside of the ban.

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[1] Crime Survey for England and Wales: December 2022: https://www.ons.gov.uk/peoplepopulationandcommunity/crimeandjustice/datasets/crimeinenglandandwalesappendixtables
[2] Crime in England and Wales - Office for National Statistics (ons.gov.uk): https://www.ons.gov.uk/peoplepopulationandcommunity/crimeandjustice/bulletins/crimeinenglandandwales/yearendingseptember2022#:~:text=2.-,Overall%20estimates%20of%20crime,ending%20March%202020%20survey%20data.

[3] Data provided by Action Fraud to the Home Office
[4] Tackling fraud and rebuilding trust (publishing.service.gov.uk): https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1154660/Fraud_Strategy_2023.pdf - Page 31
[5] Telephone marketing (ICO): https://ico.org.uk/for-organisations/direct-marketing-and-privacy-and-electronic-communications/guide-to-pecr/electronic-and-telephone-marketing/telephone-marketing/

10. Cold calling enabled fraud represents a significant threat to the UK economy, consumers, and society, with the vast majority of the UK exposed to telecom fraud attempts. In 2022, it was reported that 40 per cent of mobile users were estimated to have received a suspicious call or text in the space of three months (August to October) and rising to 53 per cent for landline users.

11. Businesses can use cold calling to legitimately contact their prospective customers. There is limited evidence on the extent to which legitimate firms can substitute their customer acquisition strategy from cold calling to an alternative method. It is not known to what extent the ban on cold calling may impact firms' profits and their ability to market financial products or to what extent the ban on cold calling will reduce the incidence of investment fraud. The Home Office and HMT are consulting a wide range of stakeholders including the financial services sector to scope the impacts of this ban. In support of this work, the government is publishing a call for evidence alongside this consultation.

12. Although cold calling may be used as a legitimate form of contact by some businesses, cold calling can be used to scam people out of their money and the government does not recognise cold calling as a suitable route for the marketing of financial services and products. The proposal in this consultation is to extend the ban to cover all consumer financial products. The aim of this is to ensure the public know that any unsolicited call or message selling a financial product is from a criminal, so they can avoid incurring financial losses.

### A.3 Groups affected

**This list may be non-exhaustive. The consultation process should help to identify any other affected groups.**

13. Businesses
    - Banks and Building Societies
    - Investment and Asset Management Firms
    - Fintech
    - Credit Unions

14. Individuals
    - Perpetrators
    - Victims and their family, friends, and colleagues
    - General public in the UK

15. Public Sector
    - Criminal Justice System (CJS), including Crown Prosecution Service (CPS), Procurator Fiscal and the Public Prosecution Service
    - Devolved Administrations (DA)
    - Government departments
    - HM Courts and Tribunal Services (HMCTS) (and equivalents in Scotland and Northern Ireland)
    - Law Enforcement Agencies (LEAs) across the UK and members of these agencies.
    - UK intelligence agencies and members of these agencies
    - Information Commissioner's Office (ICO)
    - Financial Conduct Authority (FCA)

## B. Rationale for intervention

16. In the year ending March 2022, Action Fraud, the fraud and cyber reporting service, received victim reports from individuals and businesses representing a financial loss of £4.2 billion[6]. It is likely that actual losses are much higher as the Office for National Statistics estimates only 14 per cent of fraud is reported[7] (however, it is likely a greater proportion of investment fraud is reported, given the higher average losses). Wider societal costs are incurred in emotional harms to victims, victim support costs and preventative spend by business. The Home Office estimates that the total cost to society of fraud against individuals in England and Wales was at least £6.8 billion in 2019-20[8]. The Economic Crime Survey reports that in 2020 around one in five businesses had been a victim of fraud in the previous three years (18%)[9].

17. These figures only represent instances of investment fraud which have been reported. Hence, the actual number of incidents and the corresponding total financial loss from investment fraud and other financial services fraud is likely to be significantly greater.

18. While it is not known how much fraud is attributable to cold calls, according to the FCA, unsolicited investment calls are one of the most common tactics used by investment fraudsters[10]. In the first five months of 2023, around 1,200 cases of nuisance calls and messages relating to investments were reported to the ICO[11].

**Fraudulent Cold Calling and Investment Fraud**

19. Looking at calls alone, landline owners are targeted more often than mobiles, with over half of landline owners having received a suspicious call between August – November 2022. Landline owners also reported being contacted much more frequently than those receiving contact to their mobile, with around 80 per cent of both recorded and live call recipients receiving suspicious calls at least once a month.[12]

20. A study conducted by the FCA reports that, of those individuals who have been contacted by a firm they hadn't heard of in the last 12 months, 40 per cent reported a sharp rise in the volume of unsolicited investment calls.[13]

21. The impacts of unsolicited landline contact are also not evenly distributed. The FCA has reported that over 65s with savings in excess of £10,000 are 3.5 times more likely to fall victim to investment fraud.[14]

22. There is evidence to suggest a small proportion of people are repeatedly overwhelmed by these calls to their landline, with 5 per cent reporting having received them several times a day[15]. Repeat contact can have an impact on wellbeing, especially for those self-defined as vulnerable[16].

23. There is a rationale for Government intervention based on the following objectives:

    - To reduce the harms and financial losses to the UK public from fraud conducted via cold calling.
    - To follow up on the commitments made in the Fraud Strategy and achieve the Government's target to reduce fraud by ten per cent by 2025.

[6] Action Fraud. Fraud Crime Trends 2020-21. https://www.actionfraud.police.uk/data
[7] Crime Survey for England and Wales: December 2022: https://www.ons.gov.uk/peoplepopulationandcommunity/crimeandjustice/datasets/crimeinenglandandwalesappendixtables
[8] Fraud Strategy: Stopping Scams and Protecting the Public (www.gov.uk): https://www.gov.uk/government/publications/fraud-strategy
[9] Economic Crime Survey 2020 - GOV.UK (www.gov.uk)
[10] Over 55s at heightened risk of fraud, says FCA | FCA
[11] Nuisance calls and messages (ICO): https://ico.org.uk/action-weve-taken/nuisance-calls-and-messages/
[12] Ofcom scams survey 2022: Online fraud and scams (Ofcom): https://www.ofcom.org.uk/research-and-data/online-research/online-fraud-and-scams
[13] Over 55s at heightened risk of fraud, says FCA | FCA
[14] Over 55s at heightened risk of fraud, says FCA | FCA
[15] Ofcom scams survey 2022: Online fraud and scams (Ofcom): https://www.ofcom.org.uk/research-and-data/online-research/online-fraud-and-scams
[16] National Trading Standards Scams Team - Call Blocking.pdf

## C. Policy objective

24. The objective of this proposal is to ban financial services and products cold calling (unsolicited direct marketing relating to financial services and products), without impacting the ability for legitimate financial services businesses to contact consumers that they have a previous relationship with. The policy will also aim to:

    - Fill the gaps that exist in the current prohibitions on cold calling, so consumers will know that no legitimate firm will contact them to market financial services or products, in an unsolicited manner.
    - Ensure enforcement action can be taken against UK firms which continue to cold call consumers to market financial products and services.
    - Ensure scammers have no opportunity to claim they are acting outside the prohibition by changing the financial products they market.
    - Encourage consumers to terminate and report as a scam any financial services cold call that they receive.

25. By banning cold calling for financial services and products, the Government aims to raise awareness of fraud among the general public and allow them to be more confident in knowing when something is a scam. This will make them less likely to engage with fraudulent cold calls, in turn reducing the number of people who may fall victim to investment scams and avoiding the subsequent financial and emotional harms to victims.

26. The government intends for the ICO to act as the enforcement agency, as with the existing ban on pensions cold calling. The ICO would have the power to fine offenders up to half a million pounds.

27. The proposal is in line with the commitments made in the Fraud Strategy, as it aims to reduce the number of people falling victim to fraud and increase the public's confidence in the Government response to fraud. Along with other Government proposals, such as the proposed ban of SIM farms[17], this policy seeks to block fraud at source, reducing the number of fraudulent communications that get through to the public.

28. This impact assessment is supporting a consultation on the proposals to ban cold calling for financial products. The consultation will aim to gather evidence on the scale and impact of cold calling and the potential impacts of the ban, as well as asking what forms of communication and types of financial services should be included in the ban.

## D. Options considered and implementation

29. The government now intends to ban cold calling for all consumer financial services and products. The options for implementing the ban are not yet decided as the consultation invites responses on the scope, activities, persons and products captured in the ban.

30. As such, the following high-level options have been considered in this consultation impact assessment:

    **Option 1: Do nothing**

    Option 1 would entail no government intervention through changes to legislation. The ban on cold calling for pensions would not extend to all financial products and services and the status of such calls would remain unchanged. This option does not meet the government's objectives.

    **Option 2: Extend the cold calling ban to all consumer financial products and services**

[17] https://www.gov.uk/government/consultations/preventing-the-use-of-sim-farms-for-fraud

The Government intends to amend the relevant regulations of the PECR which extend the ban on cold calling to include all consumer financial products and services. A similar ban for pensions was implemented through the Financial Guidance and Claims Act 2018 by amending PECR. This aims to ensure that consumers will know that no legitimate firm will contact them to market financial services in an unsolicited manner. The ban would be enforced by the ICO, by issuing fines to anyone found to have made cold calls.

The proposal would minimise the loopholes surrounding cold calling, reducing the ability for scammers to adjust their strategies and evade the prohibition. The proposal will also build trust in the financial services industry and drive consumers towards regulated financial services and products.

**Option 3: Extend the cold calling ban to all financial products and services, with some exclusions for existing customers**

An exclusion from the ban could be created to enable companies to contact individuals who have provided their contact information in a prior transaction or interaction, unless that individual has specified otherwise.

**Option 4: Extend the cold calling ban to a narrower scope of financial products and services**

Under this option there would be a currently undefined, more restricted set of products and services in scope of the ban.

**Non-regulatory options**

Other measures such as the TPS have been previously explored and implemented. This service acts as a “do not call” register for landlines and mobile numbers for unsolicited direct marketing calls. However, as this service operates on a sign-up basis, the onus lies with the individual to take steps to prevent cold calling. Moreover, registering with the TPS does not stop all unwanted calls as some companies will continue to contact individuals despite their preference.

## E. Appraisal

31. Due to a lack of sufficient evidence, there remain uncertainties in relation to the impact of the proposals to businesses. The consultation document will include a call for evidence to collect information and data that may allow for more accurate estimates of the volumes and impacts on businesses.

**General assumptions and data**

32. While efforts have been made to understand the costs and benefits to all affected groups, all costs and benefits are currently non-monetised. Where possible, figures are provided to give a sense of scale. Further evidence is required for a fully monetised appraisal and therefore costs and benefits are qualitatively assessed.

**Appraisal**

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

| Group | Costs | Benefits |
|---|---|---|
| General Public | • Lost financial gain or financial interest on better suited financial products due to legitimate financial product providers being unable to cold call them. | • Reduced investment fraud.<br>• Increased consumer and business confidence in the UK financial services sector.<br>• Reduced wellbeing costs such as anxiety or other harm caused by investment fraud. |
| Public Sector | • Enforcement costs falling on the ICO (Information Commissioner's Office) who will be responsible for enforcing this policy.<br>• Familiarisation costs for the ICO.<br>• The ICO already maintains a service to report PECR breaches. Additional costs as a result of this policy are expected to be low.<br>• Potential costs in running a public awareness campaign. This is currently being scoped. | • If Fraud decreases, there may be CJS and law enforcement savings. |
| Financial Institutions and other businesses | • Lost business due to inability to cold call prospective customers.<br>• Familiarisation costs to understand the new legislation.<br>• Costs of substituting customer acquisition methods.<br>• Costs of assessing if the business is cold calling, depending on the chosen definition. | • Potential cost savings from paying less in reimbursements to victims of investment fraud.<br>• Reduced investment fraud. |

## COSTS

### Set-up costs

### Private Sector

33. There will be familiarisation costs for business. These are costs associated with the time taken by firms to read the new legislation to assess whether any of their activities would fall under the cold calling ban. This may not necessarily be a financial cost to firms. However, the time spent reading the new legislation could have been spent on other productive activities.

34. Businesses who legitimately use cold calling to contact new or existing customers would have to cease the practice and implement viable alternatives. This could include alternative methods of contact or, under Option 3, implementation of processes to obtain customer permissions. There may be resource intensive costs to firms associated with substituting their use of cold calling to other forms of gaining customers. Further, there may be costs to firms to assess whether they are being compliant with the ban.

35. Without more evidence on the scale of usage and alternatives, further assessment is not possible at this stage.

### Public sector

36. There will also be familiarisation costs for the ICO if they are given enforcement responsibilities, as they will need to be familiar with the new legislation. There may be further set-up costs as the ICO implements processes to enforce this ban.

37. The National Economic Crime Victims Care Unit (NECVCU) provide support to victims. Victims of investment fraud can require more a greater level of care, given the potential scale of their losses. If criminals, choose to commit lower harm frauds rather than investment fraud there may be a decrease in the resources required by the NECVCU. The likelihood and size of this cost avoidance is not possible to quantify due to a lack of data.

### Ongoing costs

### Private Sector

38. An unknown number of businesses currently use cold calling to increase revenue. The switch away from cold calling to potentially less efficient methods of customer communication could result in a cost to businesses in the form of lower revenues. Stakeholders from the insurance industry have informed Home Office that telephone calls are an important tool for firms to communicate with individuals with lower digital literacy or limited access to internet services. This has two potential implications. Firstly, insurance firms may be unable to generate the same revenue from other forms of customer communication. Secondly, those with limited access to the internet or digital literacy may struggle to engage with the insurance firms in the absence of cold calling.

39. Through stakeholder engagement with the insurance industry, Home Office has been informed that a minority of insurance firms do use *Prospect Marketing Calls.* These calls are defined as *"An outbound call to an individual with whom the caller has no existing relationship seeking to market a product or service".* This stakeholder was unable to comment on the extent to which the proposed ban would impact legitimate business due to the uncertain scope of the policy at this stage. The impact on the insurance industry would depend on the eventual scope of cold calling and financial products captured by the ban. Under Options 2, 3 and 4 these calls may no longer be possible.

40. Due to its wide scope, it is likely Option 2 carries the highest costs to businesses as more of their activities will be in scope. The narrower Option 4 is therefore expected to carry lower costs as less business activity is likely to be captured.

### Public Sector

41. The ICO is likely to be the organisation responsible for enforcing the proposed ban. There will likely be costs to the ICO of maintaining a reporting service, though these are expected to be low.

Preliminary estimates from the ICO are around an additional 6,000 complaints per year under option 2. For context, the ICO current receives 100,000-130,000 complaints per year under the PECR each year. The ICO estimates that the proposed ban will result in relatively low investigative and enforcement costs. This figure has not been included in the net present social value as it is an initial estimate, rather than the result of well-evidenced analysis.

42. There may be costs to run a public communications campaign to communicate the change in legislation to the public. The method and extent of a communications campaign is still in the scoping stages, as highlighted in the accompanying consultation document (chapter 5).

**General public**

43. Banning cold calling to sell financial products may prevent legitimate firms or sole traders from communicating with prospective customers who would benefit from their offer. The prospective customers may then miss out on financial products which are better suited to them, or which may have yielded better financial returns. This loss represents a potential cost to the general public.

44. This potential cost is evidenced by information provided by an anonymous stakeholder in the financial industry. A minority of firms in the financial industry will call existing and prospective customers where there might be benefit in taking an action, for example because a better product is available to them. A ban on cold calling all prospective customers to sell financial products would likely have a greater cost to the general public relative to Option 3.

**BENEFITS**

**Set-up benefits**

45. No set-up benefits are expected.

**Ongoing and total benefits**

**General Public**

46. Cold calls are a common method used by investment fraudsters[18] and the main benefit of this measure is an expected decrease in investment fraud and the corresponding socio-economic harms[19]. If consumers are aware that no legitimate firm would contact them to market financial services or products, it is less likely they will engage and potentially fall victim to a scam.

47. The Home Office has engaged anonymous stakeholders in the financial services sector on the impact on fraud of the proposed ban. A number of firms agree that a ban would likely reduce the incidence of investment fraud. One stakeholder provided Home Office with the following notable tactics used by fraudsters which may be frustrated by the proposed ban:

- **Ghost broking:** A common type of insurance fraud to sell fraudulent “discounted” insurance policies typically over the phone.
- **Other fraudulent insurance tactics**: These include cold calls targeting the elderly and vulnerable people, fraudulent life insurance policy calls, and unauthorised individuals purporting to be independent financial advisers who charge high fees for their advice.

48. Furthermore, any reduction in investment fraud which may result from any of the do-something options may have a positive impact on consumer and business confidence in the UK. This may result in increased consumer spending and increased business investment in the UK.

49. The benefits of the policy are expected to be greatest under Option 2, which uses wider definitions for cold calling and financial investments and products. Options 4, which narrows the scope of the ban, is expected to have a lesser impact.

[18] Understanding victims of financial crime - A qualitative study with people affected by investment fraud (fca.org.uk)
[19] Reduced levels of fraud experienced by the public would reduce the level of emotional harms that victims suffer, lost time working and financial losses.

50. It should be noted that the realisation of benefits to the public is contingent on high public awareness of the ban. It is unlikely criminals will stop cold calling as a result of the ban and the public must be aware that the call is unlawful which should make them less willing to engage.

**Public Sector**

51. If investment fraud does decrease under any of the do-something options, there may be a decrease in law enforcement costs and criminal justice system costs. The extent to which investment fraud may decrease is unknown and so these potential benefits have not been monetised.

**NPSV, BNPV, EANDCB**

52. No costs or benefits have been monetised. This section gives an assessment of the harm arising from investment fraud and provide analysis demonstrating financial loss avoided in a number of investment fraud reduction scenarios.

**Discussion of harms resultant from Investment Fraud**

53. Investment fraud is one of the most harmful fraud types. In the YE March 2023, investment frauds reported to Action Fraud averaged a financial loss of £33,000. Beyond the financial losses there are also wider harms and costs:

- Costs in anticipation: These are costs which are spent in defence from the fraud. For example, call blockers to prevent nuisance calls.
- Costs as a consequence: These are costs which are imposed on the victims and wider society as a result of the fraud. Beyond the financial harm this could include emotional harm felt by the victim, victim support costs and potential lost output if the victim took time off work.
- Costs in response: The costs of the police response to the fraud and any criminal justice system costs.

**Value for money**

54. A value for money assessment is not possible at this stage because it has not been possible to monetise the expected costs and benefits of this policy. A scenario analysis is presented below to provide a sense of scale for the potential financial losses avoided.

**Scenario Analysis**

55. The key benefit which this policy seeks to achieve is a reduction in the incidence and harm of investment fraud. The extent to which the volumes and harm of investment fraud may be reduced due to this policy is currently unknown. If the policy does prove to be successful in reducing the harms of investment fraud the potential benefits may be very significant.

56. The loss to investment frauds reported by individuals and businesses to Action Fraud in 2022/23 was £748.4 million. To provide a sense of scale, the following percentage reductions would have meant prevented losses of:

| Per cent reduction in investment fraud | Prevented losses to UK individuals and businesses |
|---|---|
| 1% | £7,500,000 |
| 5% | £37,400,000 |
| 10% | £74,800,000 |
| 25% | £187,100,000 |

57. Please note the following caveats and assumptions relating to the above scenario analysis:

- The above figures are illustrative to provide a sense of the potential scale of the benefits which would result from specific reductions in investment fraud.

- This analysis assumes that the investment fraud prevented by this ban would have been carried out via cold calling.
- For simplicity, this analysis assumes that each instance of fraud prevented results in a uniform financial cost avoided. This means for a one per cent reduction in investment fraud volumes will result in a one per cent reduction in financial loss to businesses and the general public.
- The Home Office is not able to estimate whether this policy will result in the benefits modelled above.
- This analysis assumes that the level of investment fraud will persist at the same level reported by both Action Fraud for 2022/23 until the ban comes into effect.
- There is no displacement effect whereby fraudsters will substitute their use of investment fraud with any other type of fraud. In practice, criminals will switch to other fraud types meaning this is likely an overestimate.
- The figure provided by Action Fraud only represent those instances of fraud which are reported. These figures do not represent unreported fraud. As such, the benefits reported under each scenario may be underestimated.
- These figures only represent financial losses to individuals and businesses. They do not represent wider economic and social costs, for example physical and emotional harms resulting from investment fraud.

**Place-based analysis**

58. This measure will impact all UK-based companies equally and therefore will follow the geographical distribution of UK businesses.

59. Victims of fraud are spread mostly evenly across the country. According to the Crime Survey for England and Wales, adults in the East of England, Southeast of England and London are most likely to be victims of fraud (8.1%, 8.8% and 7.5% victimised respectively) and adults in the Northeast of England are the least likely to be victims at (3.8% victimised)[20].

**Impact on small and micro-businesses**

60. It is currently unclear how this measure will impact small and micro businesses (SMBs). The Government has not seen evidence to suggest that SMBs make more use of investment-related cold calling than larger companies.

61. The consultation includes a call for evidence which may provide evidence for the impact on SMBs.

## F. Proportionality

62. Due to the lack of available data and evidence on how this measure may affect investment-related cold calling, no analysis was possible for this impact assessment. Where possible, data has been provided to give a sense of scale.

63. The consultation includes a call for evidence which the government will use to develop the evidence base and understanding of impacts going forwards.

## G. Risks and unintended consequences

[20] Nature of fraud and computer misuse in England and Wales - Office for National Statistics (ons.gov.uk): https://www.ons.gov.uk/peoplepopulationandcommunity/crimeandjustice/articles/natureoffraudandcomputermisuseinenglandandwales/yearendingmarch2022

64. The following risks and potential unintended consequences have been identified which may affect the extent to which the ban may successfully reduce the incidence of investment fraud:

- **Limited public awareness of the ban.** A key aim of the proposed ban is to make it clear to the public that if they are contacted in an unsolicited manner to be sold a financial product or service, they are likely being targeted to be scammed. There is a risk that the general public will be unaware of the legislative changes and will not change their behaviour when being targeted. If this risk materialises, there may be little reduction on the levels of investment fraud. Research by the Pensions Regulator and the Financial Conduct Authority found that in August 2019, despite the pensions cold calling ban in January 2019, 23 per cent of 2000 respondents would engage with a cold call from a company asking about their pension plans[21].

- **Limited reduction of the number of fraudulent calls.** It is possible that criminals will continue to cold call customers even if a ban is in place. The ban on pensions cold calling has not had a significant impact on the number of calls received; in June 2022, 22 per cent of UK adults said they had been approached by phone, text or email offering free pension advice, a free pensions review, investment opportunities or a tax refund in the last 3 months. This is compared to 19 per cent in October 2020.

- **Negative impact on legitimate business.** Due to a lack of data it is not possible to quantify the extent to which legitimate businesses, such as banks, use cold calling as a means of selling financial products. There is a risk that firms who do use cold calling as a method of customer acquisition will be prevented from doing so henceforth. If these firms are unable to substitute cold calling with another form of marketing, this may hinder their ability to do business. This, in turn, may reduce their revenue and profit levels whilst imposing costs to substitute to another form of contact.

- **Displacement to other fraud types.** If criminals switch away from cold calling for investment fraud, they may carry out other fraud types. This risk has also been identified by an anonymous stakeholder in the insurance industry. One stakeholder has identified a possible trend for organisations involved in investment scams to subsequently contact customers and offer to make a claim against insurers for a fee, highlighting advance fee fraud as a possible alternative fraud type. However, investment frauds do tend to have significantly higher losses than other most fraud types. A displacement to other fraud types would likely still result in lower financial and economic costs to society.

- **Displacement to other contact methods.** Banning cold calling may mean that criminals simply target people in new ways. This is especially true in the long run, as criminals have a chance to adapt to the changes. The Association of Mortgage Intermediaries (AMI) have also identified this as a risk associated with the proposed ban. This evolution may also change the demographics of those most affected by fraud. For example, if there is a move from telephone calls to social media as a contact method, younger age groups may be more likely to be targeted. There is other government legislation which may help to mitigate this risk, including the Online Safety Bill, which seeks to reduce the levels of harmful content on the internet.

- **Companies cold calling from outside of the UK.** The ban will apply to companies outside the UK; however, it will be difficult to enforce the ban on companies based abroad. Since the majority of the impact is expected to come through the decreased willingness of the public to engage with cold calls, this should not have a significant impact on the benefits.

65. Option 3 presents a potential risk as a result of an exclusion for existing client relationships. Criminals can claim to be making contact on behalf of a business with which the victim already has an existing relationship. As this does not fall in scope of this form of the ban, it is more likely the victim would engage.

[21] https://www.fca.org.uk/news/press-releases/5m-pension-savers-could-put-retirement-savings-risk-scammers

## H. Direct costs and benefits to business calculations

66. The key costs to business are potential lost revenue due to the inability to contact new and, under Options 2 and 4, existing customers.

67. The key benefit to business is cost savings from paying less in reimbursements to victims of investment fraud.

68. Qualitative costs and benefits to business have been described in Section E: Appraisal. However, due to a lack of data, it is not possible to calculate the magnitude of these direct costs and benefits at this stage.

## I. Wider impacts

69. The proposed ban on cold calling to sell financial products and services may disproportionately impact those with limited internet access or digital literacy. These individuals may be more reliant on telephone calls, for example, to engage with financial services providers. A ban preventing firms from cold calling these individuals may significantly reduce the extent to which they can engage with financial markets.

## J. Trade Impact

70. This proposal is unlikely to have any impact on trade.

## K. Monitoring and evaluation plan

71. The Government is aware of some metrics which could help track the efficacy of this measure. For instance, reported incidents of investment fraud to bodies such as UK Finance and Action Fraud and reported incidents of investment-related cold calls to the ICO.

72. These metrics alone cannot isolate the impact of this legislation from underlying trends or other initiatives. The consultation includes a call for evidence which may provide further sources of evidence, enabling a clearer monitoring and evaluation plan going forwards.