Title: Implementation of the EU Payment Services Directive II **IA No:** HMT-3464(3) **RPC Reference No:** RPC16-HMT-3464(3) **Lead department or agency:** HM Treasury **Other departments or agencies:** Financial Conduct Authority, Payment Systems Regulator, Trading Standards, Competition and Markets Authority.	**Impact Assessment (IA)** **Date:** 03/07/2017 **Stage:** Final **Source of intervention:** EU **Type of measure:** Secondary legislation **Contact for enquiries**: Public.enquiries@hmtreasury.gsi.gov.uk
Summary: Intervention and Options	**RPC Opinion:** **Fit for purpose**

Cost of Preferred (or more likely) Option				
Total Net Present Value 727.25	**Business Net Present Value** - -1798	**Net cost to business per year** (EANCB on 2017 prices) 187.2	**In scope of One-In, Three-Out (OI3O)?** No	**Business Impact Target Status** NQRP

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

Problem: The original Payment Services Directive (2007/64/EC) (PSDI), which came in to force in 2007, will be modified and replaced by the Payment Services Directive II (PSDII). PSDII will increase competition in the payments market, leading to new services and lower costs for payment transactions across Europe.

Need for intervention: PSDII will be implemented in the UK through secondary legislation and is a maximum harmonising Directive and the Government is required to implement PSDII by 13 January 2018. The Government has formally consulted on its proposed implementation of PSDII.

What are the policy objectives and the intended effects?

The Government's policy objectives: To achieve compliance with PSDII, while minimising the impact on UK industry in terms of their costs, and continuing to protect customers and supporting the development of a wider range of services for customers through innovation and the emergence of new payment methods.

Intended effects: PSDII will lead to a more competitive payments market, by creating a level playing-field between payment service providers, by introducing a range of new regulated activities and requiring firms to be more transparent with customers. The expectation is that this will lead to lower costs to consumers for payment services, a greater range of payment services and will allow consumers to make better informed and cost-effective decisions.

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

The Government has considered three options:
Option 1 – Copy out PSDII's requirements into UK legislation while using available flexibilities to reduce burdens on industry. (The Government's preferred option, as it will achieve compliance with PSDII, enhance competition in the payments market, and minimise the cost to UK industry and consumers).
Option 2 – Copy out PSDII's requirements into UK legislation, without amendment.
Option 3 – Do nothing. In practice, it will not be possible to do nothing as there are legal obligations on the UK.

Will the policy be reviewed? Yes, in the UK and by the European Commission. **If applicable, set review date:** Within 5 years of the legislation coming into force and by January 2023, respectively.

Does implementation go beyond minimum EU requirements?			Yes		
Are any of these organisations in scope? If Micros not exempted set out reason in Evidence Base.	**Micro** Yes	**< 20** Yes	**Small** Yes	**Medium** Yes	**Large** Yes
What is the CO_2 equivalent change in greenhouse gas emissions? (Million tonnes CO_2 equivalent)			**Traded:** n/a	**Non-traded:** n/a	

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

Signed by the responsible Minister: Date: 24/08/17

Summary: Analysis & Evidence — Policy Option 1

Description: Copy out PSDII's requirements into UK legislation while using the flexibilities to reduce burdens on industry

FULL ECONOMIC ASSESSMENT

Price Base Year 2017	PV Base Year 2017	Time Period Years 10	Net Benefit (Present Value (PV)) (£0m)		
			Low: -1,367	**High:** 2,884	**Best Estimate:** 727

COSTS (£m)	**Total Transition** (Constant Price)	Years	**Average Annual** (excl. Transition) (Constant Price)	**Total Cost** (Present Value)
Low	10	1	108	936
High	59		301	2,648
Best Estimate	35		205	1,798

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

Current payment service providers (an estimated 1,552): ongoing costs are expected to be minimal, as the Government has aimed to align its approach to current industry practice where provisions have changed from PSDI.

New PSPs brought into regulation (an estimated 100 - 400): will have to consider whether they are now in scope and will incur transitional (one-off) and annual (ongoing) costs in order to be authorised/registered, or, if seeking to use an exemption, costs for notifying the Financial Conduct Authority. If they are within scope, they will also incur one-off and ongoing costs for making system changes and one-off costs for compliance firm support.

Retailers/merchants (number of firms unknown): can expect some additional costs as a result of the extension of the ban on surcharging, which will increase costs for handling card transactions, if they are currently imposing a payment surcharge to all retail payments. The majority of the cost impact on merchants come from the mandatory ban on the main card schemes.

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

Current payment service providers (an estimated 1,552).

New PSPs brought into regulation (an estimated 100 - 400): firms may also incur additional costs, which will be firm specific, in relation to system changes, changes to business processes and updates to customers.

Consumers (number of consumers unknown): consumers may experience an increase in headline prices for products as merchants seek to compensate for the lost revenues and profits from payment surcharge revenue.

BENEFITS (£m)	**Total Transition** (Constant Price)	Years	**Average Annual** (excl. Transition) (Constant Price)	**Total Benefit** (Present Value)
Low	0		152	**1,280**
High	0		458	**3,820**
Best Estimate	0		302	**2,525**

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

New PSPs brought into regulation (an estimated 100 - 400) will foster competition across the payments market, as a result of new market entrants being brought in to scope of regulation.

Retailers/merchants (number of firms unknown) extending the surcharging ban to all retail payment instruments will create a level playing field between payment instruments and create a much clearer picture for consumers in which they know the full price of the product/service they are purchasing upfront.

Other key non-monetised benefits by ‘main affected groups’		
Retailers/merchants (number of firms unknown) will be able to choose from a greater number of alternative and cheaper payment methods, particularly those offered by newly regulated third party providers and are likely to benefit from lower transaction costs. **Consumers** (number of consumers unknown) will benefit from increased consumer protection as a result of requirements on payment service providers to maintain minimum security and transparency requirements, clear liability thresholds for consumers and service providers for unauthorised payments and greater choice of payment options as a result of the emergence of new payment methods. Consumers can also be confident that there will be no additional charges when they come to use a payment instrument, as a result of the surcharging ban.		
Key assumptions/sensitivities/risks	**Discount rate (%)**	3.5
Gaps in data provided by firms and data that is publicly available, mean that HMT has had to make a number of assumptions in relation to costs. Estimates drawn from the European Commission’s impact assessment have been scaled to provide a cost/benefit for the UK market. Where estimated costs are drawn from previous assessments, these have been adjusted for inflation. For some areas, where a range of data is available across a range of sources, HMT has provided midpoint estimates. As implementation is expected to encourage innovation and competition, the number of new firms that could enter the market is uncertain.		

BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual) £m:			**Score for business impact target £m (qualifying regulatory provisions only)**
Costs: 187	**Benefits: 0.0**	**Net: -187**	

Summary: Analysis & Evidence Policy Option 2

Description: Copy out PSDII's requirements into UK Legislation, without using the flexibilities to reduce burdens on industry

FULL ECONOMIC ASSESSMENT

Price Base Year 2017	PV Base Year 2017	Time Period Years 10	Net Benefit (Present Value (PV)) (£0m)		
			Low: -337,416	**High:** -57,921	**Best Estimate:** --207,168

COSTS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	80		7,158	61,690
High	501	1	39,287	338,671
Best Estimate	290		24,323	209,651

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

In addition to the costs in option 1, key affected groups include credit unions (approx. 484), who would need to adhere to the requirements in PSDII for the first time and small payment institutions (721), who would need to be authorised by the regulator and adhere to additional requirements in PSDII.

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

Current payment service providers (number unknown) issuing low-value payment instruments: may experience administrative costs from additional information requirements. Micro-enterprises would experience a loss of consumer-like protections when conducting transactions and likely incur additional administrative costs.

Consumers (number of consumers unknown): could see a reduction in the breadth of products available and an increase in the cost of some existing, particularly niche, products. Where credit unions are no longer able to provide basic financial services, financially excluded and/or low-income consumers may be particularly affected.

BENEFITS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	0		149	**1,255**
High	0		452	**3,769**
Best Estimate	0		297	**2,482**

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

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

Current payment service providers (number unknown) providing payment services to micro-enterprises may benefit from a small reduction in administrative costs.

Consumers (number unknown) may benefit from some additional protection when using small payment institutions or credit unions as payment service providers, or when using low-value payment instruments.

Key assumptions/sensitivities/risks	**Discount rate (%)**	3.5

Gaps in data provided by firms and data that is publicly available, mean that HMT has had to make a number of assumptions in relation to costs. Estimates drawn from the European Commission's impact assessment have been scaled to provide a cost/benefit for the UK market. Where estimated costs are drawn from previous assessments, these have been adjusted for inflation. For some areas, where a range of data is available across a range of sources, HMT has provided midpoint estimates. As implementation is expected to encourage innovation and competition, the number of new firms that could enter the market is uncertain.

BUSINESS ASSESSMENT (Option 2)

Direct impact on business (Equivalent Annual) £m:			Score for business impact target £m (qualifying regulatory provisions only)
Costs: 21835	**Benefits:** 0	**Net:** -21,825	

Background to PSDII

Background to intervention

1. Facilitating payments within the European Union ("EU") by harmonising the relevant legal provisions has been a priority for the European Commission ("Commission").
2. The revised Payment Services Directive (2015/2366/EU) ("PSDII") was published in the Official Journal of the European Union on 23 December 2015. The Directive entered into force on 12 January 2016 and will replace the first Payment Services Directive ("PSDI"), which came in to force in 2007. The Government is required to implement PSDII in the UK by 13 January 2018, to meet its treaty obligations and avoid the risk of facing infraction proceedings.

Problem under consideration

3. Following the introduction of PSDI, the EU identified a number of shortcomings in its implementation. These stem from limits to the scope of PSDI, the different approaches to implementation of some of the exemptions in Member States, and the emergence of new electronic and mobile payments.
4. This has led to legal uncertainty, and with some of the exempted (and therefore unregulated) Payment Service Providers (PSPs) now competing with the regulated players, there is an un-level playing-field and gaps in consumer protection. The EU has introduced PSDII to resolve some of these issues.

Rationale for intervention

5. PSDII is maximum harmonising European legislation, meaning national governments may not exceed the parameters set in the Directive, except where there is flexibility to do so in the Directive. The aims of PSDII are consistent with our overall approach to the regulation of payment services in the UK.
6. The Government is required to transpose PSDII into UK law from 13 January 2018 to meet its treaty obligations and avoid the risk of facing legal proceedings as a result of infraction. The Government published a consultation document, *Implementation of the revised EU Payment Services Directive II*, from 2 February 2017 to 9 March 2017, on its proposed implementation of PSDII, which was accompanied with draft regulations and a draft impact assessment[1].
7. The consultation aimed to explain the scope of the PSDII, highlight the key provisions of the Directive that have changed from PSDI, and consult on options for implementation, where there is flexibility for Member States. The consultation was aimed at the firms, groups and individuals who engage in the UK payment service market including, though not limited to: banks, building societies, e-money institutions, payment institutions, consumer groups, charities, retailers, and other payment users and interested parties. The Government received over 85 responses to the consultation, primarily from banks, e-money providers, and payment institutions (PIs) as well as merchants, consultancies, and trade bodies. Full analysis of the consultation responses can be found in the Government's summary of responses document, which is available on www.gov.uk.

Policy objective

[1] Implementation of the revised EU Payment Services Directive (PSDII), HM Treasury, February 2017, https://www.gov.uk/government/consultations/implementation-of-the-revised-eu-payment-services-directive-psdii

8. The Government has four objectives driving its approach to transposition, which align with the goals and objectives of the PSDs:

- To **comply with EU law**, as set out above, we are limited in our ability to go beyond, or reduce, the requirements set out in the Directive, except where flexibility is provided for.
- To create a **more competitive landscape** for UK payments, which will deliver better outcomes for consumers through provision of wider ranging and lower cost services and ensuring a level playing field amongst PSPs.
- **Ensuring consumers are protected** by standardising the rights and obligations of PSPs and users of payment services in the EU.
- **Increase market transparency** for both PSPs and users.
- Where possible, we intend to use the flexibilities in PSDII to **minimise the burdens and costs for businesses**.

Scope of PSDI

9. Payment services cover a broad range of activities, including:

- the execution of payment transactions (such as credit transfers, direct debits, or use of a payment card and money remittance);
- the issuance of a payment instruments (such as a debit or credit card); and
- the acquiring of payment transactions (receiving payment instructions on behalf of a payer/payee).

10. PSDI set out the obligations on those providing payment services, and the rights of those using them, principally:

- transparency and information requirements, i.e. the information that must be provided to a user making a transaction; and
- other consumer protections, such as the maximum execution times for a transaction; the refund rights for a user; and the liability between users and firms providing payment services if a transaction is incorrect or fraudulent.

11. PSDI set out six types of institutions, known as PSPs, which must adhere to the requirements of the Directive when providing payment services. Five of these were already regulated by either the Financial Conduct Authority (FCA) or the Prudential Regulation Authority (PRA):

- credit institutions;
- electronic money (e-money) institutions;
- post office giro institutions;
- the ECB and national central banks when not acting in their capacity as monetary authority or other public authorities; and
- Member States or their regional or local authorities when not acting in their capacity as public authorities.

12. PSDI added a new authorisation regime for non-bank PSPs – Payment Institutions (PIs). These firms can provide payment services across the EU on the basis of authorisation obtained in any one EU Member State (commonly known as passporting). The PI regime has a number of additional requirements, including on capital, protection of user funds, and outsourcing.

13. Firms are required to become authorised or registered by the FCA as a PI or e-money institution (EMI)[2] if they are providing or are seeking to provide payment services as a regular occupation or business activity. The types of firms this does not apply to include credit institutions, e.g. banks or building societies (who are authorised under other legislation), exempted providers e.g. credit unions.

Overview of the changes in PSDII

14. The Directive is divided into six titles, which focus on different aspects:

- Title I (Articles 1 - 4): scope
- Title II (Articles 5 - 37): authorisation requirements and competent authority supervisory rules
- Title III (Articles 38 - 60): transparency and information requirements
- Title IV (Articles 61 - 103): rights and obligations for payment services
- Title V (Articles 104 – 106): Delegated Acts and Regulatory Technical Standards
- Title VI (Articles 107 – 117): transitional provisions

15. The provisions that have changed from PSDI, and on which this impact assessment concentrates on, can be split into two categories:

- those which are **maximum harmonising** and which the Government has no scope to deviate from; and
- those which the Government has **flexibility** to choose how it implements.

16. In the **maximum harmonising** areas, PSDII makes three broad types of changes to PSDI. PSDII:

- narrows the exemptions used by some firms, bringing some of them into the regulatory perimeter for the first time;
- imposes additional requirements on regulated firms to protect consumers, including:
  - extending the scope regarding the currency and location of transactions;
  - bringing additional business models into regulation; and
  - increasing security requirements for most transactions.
- introduces an entirely new regulatory regime for account information service providers (AISPs) and payment initiation service providers (PISPs), otherwise known as third party providers (TPPs), to provide services to users by accessing the data and payment functionality of their online payment account (e.g. current account; credit card account; e-money account) and mandates firms who hold individuals' payment accounts to provide these TPPs with access.

17. **Flexibilities:** PSDII carries over the majority of the flexibilities from PSDI, including options to exclude particular types of firm and to reduce the impact of the regulatory regime for small firms.

18. Further details, and the costs and benefits associated with these changes, are detailed from paragraph 46.

19. There are a number of competent authorities for provisions, which include:

- The FCA for regulation and supervision of payment services activities.

[2] E-money is electronically stored monetary value that is issued on payment of funds for transacting payments with someone other than the issuer. Examples include pre-paid cards and electronic pre-paid accounts for use online, such as an e-voucher.

- The Payment Systems Regulator (PSR) for monitoring of compliance of the ATM operators exemption and for the enforcement of the access to payment systems provisions.
- Trading Standards and the Competition and Markets Authority (CMA) for oversight of the ban on surcharging.

Description of options considered

The Government has considered three options:

Option 1 – Copy out PSDII's requirements into UK legislation while using available flexibilities to reduce burdens on industry

20. Option 1 is the preferred option. It employs copy-out wherever possible, but tailors the approach to the UK market where necessary by carrying across the use of flexibilities from PSDI that are still available in PSDII. Option 1 uses two flexibilities that were not available in PSDI.

Option 2 – Copy out PSDII's requirements into UK legislation, without using the flexibilities to reduce burdens on industry

21. Under option 2, the Government would copy out the PSDII unamended into new regulations. This would not reflect the UK's existing regulatory approach and use of flexibilities granted to Member States under PSDI and that continue to be available in PSDII.

Option 3 – Do nothing

22. In our assessment of options 1 and 2, we have taken the hypothetical 'do nothing' scenario to be the counterfactual. In practice, it will not be possible to pursue option 3 and make no changes, as PSDII places legal obligations on the UK.

Approach to analysis of costs and benefits

23. **Overall approach:** we have grouped the description, costs, and benefits of each individual change together, as opposed to setting out all of the costs of the Directive, followed by all of the benefits of the Directive. This is intended to provide a clear and comprehensive overview of how each element of the Directive impacts the overall Equivalent Annual Net Cost to Business (EANCB).
24. To provide a clear way of identifying which provision is being discussed, each provision is numbered and referred to in abbreviated form as either MH (maximum harmonising) or Flex (Member State flexibilities).
25. The costs and benefits for the maximum harmonising elements of the Directive are identical for implementation options 1 and 2 (as they are not areas where the UK has flexibility in its approach).
26. Under option 1, the Government does not provide a cost benefit assessment of the flexibilities that are being carried over from PSDI where there would be no change to the current practice for firms. The impact of changes to our approach to these flexibilities is considered in option 2.
27. In our assessment of costs and benefits for options 1 and 2 we have taken the hypothetical 'do nothing' scenario to be the counterfactual. This would leave PSDI in place. The costs and benefits of options 1 and 2 are therefore restricted to the costs of moving from PSDI to PSDII with the approach set out in each option.

Sources

28. The monetised and non-monetised costs and benefits highlighted in this impact assessment have been drawn from a variety of sources, including:

- the European Commission's impact assessment (IA) on PSDII. This was informed by a Green Paper on integration of the market for cards, internet and mobile payments[3], an assessment of the legal conformity of Member States in transposing PSDI[4] and a study on the impact of PSDI and the application of Cross-border Payments Regulation (EC 924/2009) [5]. These are discussed in further detail below;
- cost assessments of implementation of PSDI, which we have referred to in assessing some of the cost impacts on firms[6];
- engagement and workshops with affected firms and trade bodies (including Payments UK, some credit institutions, the Electronic Money Association, the British Retail Consortium (BRC), the Association of UK Payment Institutions, and the Association of Foreign Exchange and Payment Companies);
- discussion with, and analysis undertaken by, the regulators and other Government departments (the FCA (in particular the consultation on their draft Approach Document[7]), PSR, Trading Standards, CMA, Ofcom, Phone-paid Services Authority (PSA), HM Revenue and Customs and the Department for Business, Energy and Industrial Strategy); and
- targeted stakeholder outreach, following the conclusion of HM Treasury's consultation on the Government's proposed approach to implementation, to collate further information on the direction of travel in the UK market and industry analysis of the impact on firms of implementing PSDII. A range of sources have been referenced, in particular the Payments UK annual statistical report and the BRC's annual payments survey.

The Government's analysis of implementation of each area of the Directive is split in to four sections and draws on four key sources of information and data:

European Commission IA

29. The only IA carried out is the ommission's, which was published in 2013 and informed some of the provisions in PSDII. The Commission's IA is based on two external studies and one Green Paper:

- **Legal conformity assessment** regarding the transposition of the PSDI in the 27 Member States - this is based on the national legislation that was notified to the Commission by Member States.

[3] Green Paper - Towards an integrated European market for card, internet and mobile payments, European Commission, January 2012, http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2011:0941:FIN:EN:PDF
[4] General report on the transposition of Directive 2007/64/EC by the Member States, tipik, August 2011, https://ec.europa.eu/info/system/files/psd-transposition-study-report-31082011_en.pdf
[5] London Economics and iff in association with PaySys Study on the impact of Directive 2007/64/EC on payment services in the internal market and on the application of Regulation (EC) NO 924/2009 on cross-border payments in the Community (February 2013)
[6] Final impact assessment on the implementation of the Payment Services Directive, HM Treasury, February 2009, http://webarchive.nationalarchives.gov.uk/20100407010852/http://www.hm-treasury.gov.uk/d/impact_assessment120209.pdf
[7] Consultation Paper - Implementation of the revised Payment Services Directive (PSD2): draft Approach Document and draft Handbook changes, Financial Conduct Authority, April 2017, https://www.fca.org.uk/publication/consultation/cp17-11.pdf

- **Analysis of the economic impact of the PSDI in comparison to its original objectives** - the report was based on four different sources of information. It examines PSDI, together with its official implementation reports, national legislation and legal opinions on its intended legal, economic and social effects. It uses information on payment services markets and payment services from official statistics, where they were available at national and EU level, PSPs and a data collection exercise on payment fees and charges faced by payment service users. The other main source of information were a number of surveys of key stakeholders (PSPs, competent authorities, users, consumer associations, complaint authorities, businesses and legal experts) who responded to questionnaires.
- ***Green Paper "Towards an integrated European market for card, internet and mobile payments"*** – published in 2012, the Green Paper informed the development of PSDII. Input was also gathered from Member States and industry through relevant retail payments related Commission advisory committees.

30. There are some limitations to the Commission's IA:

- **Does not reflect the final text:** it was produced to inform the initial draft of PSDII and therefore may not be aligned exactly with the final provisions;
- **Limited sources of data:** it typically draws on data from a limited number of Member States and extrapolates this for the wider EU, which may not be representative of the UK market;
- **Focussed on transition:** it typically provides expected one-off costs to firms rather than ongoing costs.

FCA estimates

31. The FCA's draft PSDII Approach Document, which was published on 13 April 2017, updates the number of PSPs expected to be affected. The Approach Document includes a high-level cost benefit analysis (CBA) of the rules the FCA is proposing, as required by the Financial Services and Markets Act 2000 (FSMA).
32. In estimating the number of businesses affected, the FCA base the total number of firms on the regulatory permissions that businesses have, which they expect are likely to be overestimates of the actual number of affected firms. Where possible, we have been able to compare the FCA's estimates to figures provided by industry or the Commission's estimates.
33. For the purposes of this impact assessment, we have referred to the FCA's cost estimates for dispute resolution and increased security and reporting requirements, but have not included these in our estimates on costs to firms to avoid double counting. We have also provided estimates for the notification costs to forms for notifying the FCA if they are benefitting from the limited network exemption or electronic communication network exemption.
34. Additional data sourced from the FCA on authorisation and other compliance costs for firms are referred to in order to assess the impact on firms in this impact assessment, however we do not believe these will lead to double counting of the impact on firms when the FCA publish their final CBA. The FCA's CBA is not expected to consider the impact of provisions where they are not proposing rules under FSMA, for instance this will not assess the cost to firms of requiring to become authorised as a PI.

Industry analysis and business impact

35. In most areas, the baseline used is the Commission's IA. We have taken on board the Regulatory Policy Committee's comments on the draft Impact Assessment and have sought to provide an assessment of how relevant the Commission's estimates are to the

UK market. This assessment has been provided using data sought from trade bodies who have a good overview of particular sectors, for instance Payments UK. The impact assessment also aims to provide a forward look of expected future developments and trends in particular areas of the payment service market, where data is available.

36. Whilst additional data on the impact of the Government's proposed approach to implementation of PSDII was sought through the formal consultation process, limited data was received on the cost or impact on businesses and industry that could be used to inform this impact assessment. Further information and data were requested from key industry stakeholders to inform the estimates outlined below.

37. Given this limited data, we have supplemented our analysis with reports produced by industry bodies to provide qualitative data required to estimate the expected cost to UK businesses of implementing the Government's regulations. Many firms have not yet fully assessed the cost of some aspects of the Directive, but where firms and industry have been able to provide further information, the Government has set out to provide aggregate estimates of the expected impact.

HMT costs assessment

38. The impact on firms has been calculated using data available from the sources above. As there is a high level of uncertainty around the number of firms that will actually seek to become authorised or registered, make use of the exemptions available, or change their business models, and a lack of wider data sources that could be used to inform this impact assessment, the HMT costs assessment provides a best estimate cost to firms. A breakdown of the costs used to produce an EANCB can be found in Annex B).

39. The methodology used for most of the provisions where new firms are being brought into scope of the Directive includes:

- the estimated **number of affected firms** - mostly these are firms either required to become authorised or registered by the FCA, or required to notify the FCA, as a result of utilising an exemption, and
- the estimated **cost impacts**, which includes:
    - **Authorisation/registration fees** required by the FCA[8] – these are based on the current fees but may be subject to change when the FCA publish their final Approach Document in Q3 2017.
    - **System changes** required to ensure the safeguarding of funds (disaggregation of funds may be required by newly regulated PSPs who may not already have the system capabilities to do this). We have referred to the PSDI impact assessment, which made the following assessment of costs for 2,667 PIs to safeguard client funds[9]. Industry could, however, choose to safeguard all user funds regardless of the thresholds.
    - **Minimum initial capital requirements** - these vary according to the type of PSP and the only way we are currently able to estimate the minimum capital requirements is to use the minimum levels required by firms as set out in the Directive. Other methods of calculation are dependent on firm size (which is unknown) or firm overheads (also unknown). Further details on the methods of

[8] These are based on estimated average annual fees for authorised payment institutions, which will depend on the size of the firm. Different fees apply if firms choose to provide additional services as EMIs.

[9] Figures adjusted using year on year inflation data, UK consumer price inflation: Jan 2017, Office for National Statistics, February 2017, https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/jan2017#consumer-prices-index-cpi

calculation can be found in Annex A. For the purposes of this impact assessment, we have used the minimum levels set in PSDII.

For ease within this IA, we have generally taken the central estimate of the number of firms and varied the costs impacts to provide the high and low figures.

Transition costs (one-off)

Authorisation/registration costs, including:

- small payment institution - £500
- authorised PIs or EMIs – between £1,500 to £5,000 (depending on the type of payment service the firm intends to carry out)

System changes ranging from:

- £40,000 (£47,550) to £200,000 (£237,751)[10]

[A full breakdown of the changes to estimated costs based on changes to inflation can be found in Annex A.]

Minimum capital requirements: Firms are required to hold, at the time of authorisation, initial capital of of the amounts set out below. For existing firms, this is capital that firms will already hold, as opposed to being required to hold additional capital. We provide ranges from low (0%), medium (50%) and high (100%) for newly regulated firms and estimate a midpoint total.

PIs

100% - €125,000 (£102,500)[11]

50% - £51,250

0% - £0

PIS

100% - €50,000 (£41,000)[12]

50% - £20,500

0% - £0

Cost of compliance firm support:

Type of firm	Authorisation (with compliancy firm support)
Small payment institution	£2,000 - £10,000
Payment institution	£12,000 - £15,000
Small e-money institution	£15,000
E-money institution	£15,000- £18,000

Annual costs (ongoing)

[10] Figures adjusted for inflation using year on year inflation data, UK consumer price inflation: Jan 2017, Office for National Statistics, February 2017, https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/jan2017#consumer-prices-index-cpi
[11] Source, average EU-GBP 2016 exchange rate of 0.82, Eurostat
[12] Ibid

Annual fees - varies depending on whether firms are registered or fully authorised (where it then also scales depending on their size), including:

- small payment institutions – fixed fee of £433;
- authorised PIs (on the basis of relevant income): a minimum fee of £433 up to £100,000 of income, then £0.1647 per £1,000. The latest FCA figures indicate that the average annual fee for authorised PIs is between £4,694 to £141,813, depending on the size of the firm[13];

System changes ranging from:

- £35,000 (£41,606) to £85,000 (£101,044)

Risks and assumptions

40. **Uncertainty of estimates:** Due to lack of data and quantitative estimates. To mitigate this, we have supplemented the original information with that received from further discussions with stakeholders and consultation respondents, where possible. Up-to-date data will not be available until later in the year (the FCA expect to publish their final Approach Document in Q3 2017).

41. The Government estimates that the number of authorised and registered PSPs could increase by approximately 100 - 400 firms.

42. Particular uncertainty exists around:

- how firms adjust their business models in response to the narrowing of exemptions to stay outside the regulatory perimeter;
- the range of costs that we expect will vary according to size of business (small, medium and large);
- divergent approaches that may be taken by firms in taking forward the provisions;
- the FCA indicate that the number of firms is likely to be overestimated as they are based on regulatory permissions rather than the type of regulatory activity businesses are undertaking[14]. We have attempted to estimate the number of firms that may be affected in particular sectors below;
- whether firms choose to enter the payments market (and therefore be regulated) in order to offer new account information services (AIS) and PIS; and
- final obligations relating to the European Banking Authority's (EBA) Regulatory Technical Standards (RTS) on strong customer authentication and secure communication.

Mitigations

43. Given the limitations of the Commission's estimates and the FCA's CBA, we have supplemented this baseline with other sources to ensure the impact assessment is tailored to the UK market. These include:

- Consumer Rights (Payment Surcharges) Regulations 2012 impact assessment;

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[13] FEES 4 Annex 11 Periodic fees in respect of payment services, electronic money, and regulated covered bonds, FCA handbook, https://www.handbook.fca.org.uk/handbook/FEES/4/Annex11.html

[14] Whether firms who were previously able to benefit from the exemption are still able to will depend on the particular circumstances of each firm and will depend on the type of payment service they are offering and whether this forms part of their regular occupation or business activity as defined by the FCA in their draft Approach Document.

- industry analysis and reports on the expected impact of PSDII (these are largely qualitative);
- industry analysis and reports on the payment services sector (these are largely qualitative); and
- official statistics from the Office for National Statistics and Eurostat.

44. Estimates have been scaled, where possible and appropriate, to indicate the UK's likely share of the EU-wide estimate and converted into pounds sterling (based on an average EUR-GBP exchange rate for 2016 of 0.82). The methodology for doing this varies depending on the provision, but assumes that UK firms' share of this cost is approximately equal to its share of EU GDP, or its share of the EU PSP market:
    - UK share of EU GDP estimated to be 15.97% based on Eurostat data. Whilst there are a number of different ways of calculating GDP, we have chosen real GDP as it takes into consideration inflation;[15] and
    - UK share of the EU payments market provides an estimate of the likely number of affected UK PSPs as a proportion of the number of affected PSPs. This seeks to provide an indication of the UK's estimated market share, in the absence of an official estimate of the UK's market share of payment services across the EU and varies across each provision.
45. This impact assessment uses a midpoint best estimate for cost impacts where there is a range of costs as it has not been possible to scale the cost impacts according to the size of business. A breakdown of the cost impacts for each provision, where data is available, can be found in Annex B.

[15] The UK's % of EU GDP calculated using current prices from Eurostat GDP data, http://ec.europa.eu/eurostat/data/database

Option 1 – Copy out PSDII's requirements into UK legislation while using the flexibilities to reduce burdens on industry

Maximum harmonising provisions – changes from PSDI

MH1: Extension of scope – location of transactions and currency

Description

46. Under PSDI, only transactions conducted solely within the EU were in scope. Under PSDII, transactions where a transaction only starts/finishes in the EU (one-leg transactions) are now in scope.

47. Transactions in non-EU currencies (e.g. dollars) are now in scope.

48. All firms engaging in these transactions – an estimated 1,552[16] institutions - are expected to update their systems to meet the requirements for these transactions, including:

- transparency requirements, i.e. the information that must be provided to a user making a transaction; and
- consumer protections, such as the maximum execution times for a transaction; the refund rights for a user; and the liability between users and firms providing payment services if a transaction is incorrect.

49. PSPs will only need to change the procedures for elements of the transaction, which are under their control.

Monetised costs

European Commission's IA

50. The Commission's IA identified the only cost to firms as preparing and changing the information for consumers on their new rights and better protection upon extension. The IA estimates that this could lead to costs in the region of €1.3 million to €2.8 million for all PSPs in the EU (methodology can be found in the Annex A).

FCA estimates: None provided.

Industry analysis and business impact: None provided or identified from the Government's data sources or consultation responses.

HMT costs assessment

51. **Setup costs:** Costs to PSPs are likely to include those associated with migrating non-EU transactions onto the systems they currently use for EU transactions, and so the Commission's figures are likely to be underestimates.

52. **Ongoing costs**: These are not expected to be high as firms already have the necessary technical solutions and procedures in place related to intra-EU currencies.

53. **Transition costs**: We have assumed that UK firms' share of the EU PSP market (1,552 UK PSPs / 9,400 PSPs across the EU[17]) and estimate the cost to UK PSPs to be

[16] Consultation Paper - Implementation of the revised Payment Services Directive (PSD2): draft Approach Document and draft Handbook changes, Financial Conduct Authority, April 2017, https://www.fca.org.uk/publication/consultation/cp17-11.pdf
[17] Impact assessment on Directive 2007/64/EC, European Commission, 2013, http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52013SC0288

between €0.2 million (£0.1 million) to €0.4 million (£0.3 million)[18], or a midpoint total transition costs of £0.2 million.

***Non-monetised costs*:** None provided through consultation or that the Government has been able to source.

***Monetised benefits*:** None that have been identified through consultation or that the Government has able to source.

Non-monetised benefits

54. **Increased consumer protection** for these transactions, as a result of requirements on PSPs to maintain minimum security and transparency requirements, additional refund rights for consumers and clear liability for consumers and PSPs for unauthorised payments.

MH1: Summary of monetised costs and benefits

Transition costs (system changes)	£0.2 million
Annual costs (system changes)	£ negligible

Extension of scope – changes to exclusions

55. In PSDII, three exemptions from PSDI (commercial agents, limited network and electronic communication networks) will be updated.

56. The costs for MH2-4 are broken down as follows:

- The notifications costs are considered separately for each of these changes, as notification costs vary for each exemption and we are able to estimate the number of firms that may be required to notify.
- Any costs specific to a certain measure are considered separately, such as systems changes under MH4.
- The costs of being authorised, registered and regulated, compliance costs, client money costs, maintenance costs and capital requirements are all considered collectively for MH2-4, as we are unable to disaggregate the number of firms impacted by each provision.

MH2: Commercial agent exemption (CAE)

Description

57. The CAE has been narrowed to only exempt agents which act on behalf of either the payer or the payee in the sale/purchase of goods/services and not to agents who act for both sides of a payment transaction.

58. The changes to the exemption will have an impact on a number of "marketplace" platforms, which act on behalf of both the buyer and seller. We are expecting some marketplace/e-commerce platforms and charity fundraising platforms, which typically operate online, to be brought into scope by the narrowing of the exemption.

59. Firms could be impacted in one of three ways depending on their business model and existing authorisations:

[18] Average EUR-GBP 2016 exchange rate of 0.82, Eurostat

- Those who are now **within the regulatory perimeter for the first time** will need to be authorised (or registered if they are small). These firms will newly bear the associated compliance costs of meeting the requirements of the Directive.
- Those who are **already authorised under PSDI in other Member States** due to stricter local interpretations of the Directive. We suspect this is the case for many of the international platforms. These firms are likely to therefore be able to more easily introduce the new systems, but may newly face the ongoing compliance costs for UK transactions.
- **Those who can notify** the FCA that they still benefit from the exemption.

Monetised costs

European Commission's IA

60. **Number of affected firms:** The Commission assumed that between two and five large e-commerce platforms exist in each Member State, and will need to be authorised.
61. **Cost impacts:** None assessed by the Commission that can be used to inform this impact assessment.

FCA estimates

62. **Number of affected firms:**
    - **Becoming authorised**: See HMT costs assessment (MH2-4) from para 84 onwards below.
    - **Number of firms required to notify:** None that can be calculated using available data sources.

Industry analysis and business impact

63. **Number of affected firms:**
    - **Newly authorised:** This is only likely to apply to firms who are primarily operating in the UK. A number of these are fundraising platforms who, while not currently regulated under PSDI, are already meeting some of the authorisation and requirements as they represent good corporate practice. One fundraising regulator estimated that up to 50 fundraising platforms could be affected.
    - **Already authorised elsewhere:** Most of the largest platforms, potentially including Amazon and eBay and other large online retailers including Asos, Uber and Etsy.
64. IMRG Capgemini's e-Retail Sales Index for 2016 forecasts that online retail sales for 2017 will grow by 14% compared to 2016 which showed that online sales exceeded £130 billion in the UK, an increase of 16% from 2015. This suggests that the UK's ecommerce industry will continue to grow as online retailers offer customers new and innovative services to improve the customer experience and as mcommerce (mobile commerce) continues to develop. [19]
65. Recent statistics suggest that the UK makes up the second highest number of e-commerce purchases in Europe.[20] Considering this trend, we expect the number of

[19] E-Retail Sales Index: UK online sales exceed £130 billion in 2016, fuelled by sales growth on smartphones, IMRG Capgemini, January 2017, https://www.uk.capgemini.com/news/uk-news/imrg-capgemini-e-retail-sales-index-uk-online-sales-exceed-ps130-billion-in-2016

[20] UK Online Shopping and E-Commerce Statistics for 2017, Nasdaq, March 2017, http://www.nasdaq.com/g00/article/uk-online-shopping-and-e-commerce-statistics-for-2017-cm761063?i10c.referrer=https%3A%2F%2Fwww.google.co.uk%2F

online marketplace platforms and the number of payment service users using these platforms to continue to grow.

Non-monetised costs**:** None provided through consultation or that the Government has been able to source.

Monetised benefits**:** None identified through consultation or that the Government has been able to source.

Non-monetised benefits: None identified through consultation or that the Government has been able to source.

MH2: Summary of monetised costs and benefits (notifications only)

Transition costs	£ negligible
Annual costs	£ negligible

MH3: Limited network exemption (LNE)

Description

66. Under PSDI, payment services based on a payment instrument that can only be used in a limited way (such as a store card) were exempt. This exclusion has now been narrowed, such that the range of goods and services that can be bought with an instrument and still allow the payment service to qualify for the exemption is now 'very' limited.

67. Some instruments that would have previously been excluded through use of this exemption will now be within scope of PSDII. Where this is the case, the firm will either need to be authorised (or registered) for the first time, outsource the service, or reduce or eliminate provision of this service.

68. Firms wishing to continue using the exemption will need to report to the FCA where the use of the payment instrument exceeds €1 million in 12 months. This is expected to generate small additional administration costs for a wide range of firms that issue payment instruments for use within a limited network, such as store cards, fuel cards, public transport cards, or vouchers for specific services. The FCA has provided its own cost-benefit analysis of this element of the exemption.

Monetised costs

European Commission's IA

69. **Number of affected firms:** The Commission's IA estimated that 156 - 284 firms in Europe may now require authorisation (method in Annex A).

70. **Cost impacts**: the Commission's estimated cost impact for all these firms across the EU was between €57.95 million - €103.50 million (method in Annex A).

FCA estimates

71. **Number of affected firms:**

- **Number of firms required to notify**: 200 firms would continue to take advantage of the exemption and be required to notify the FCA. The FCA has undertaken its own CBA of the requirement to notify if using the exemption. The FCA has consulted on the cost for firms to notify of £300 per firm, however this may be subject to change.

- **Becoming authorised:** Changes to the exemption are expected to affect some marketplace platforms, gift and store card providers, fuel card providers and membership cards.[21] See HMT costs assessment below**.**

Industry analysis and business impact: None provided.

HMT costs assessment

72. **Number of affected firms**: 200 firms.

Transition costs

Notification:

- Total transition costs of: 200 * £300 = £60,000 (£0.06 million)

Non-monetised costs**:** None provided through consultation or that the Government has been able to source.

Monetised benefits**:** None identified from the data sources available or consultation responses.

Non-monetised benefits

73. **Increased consumer protection** for these transactions, including: minimum security and transparency requirements, refund rights and clear liability for unauthorised payments.

MH3: Summary of monetised costs and benefits (notifications only)

Transition costs	£0.06 million
Annual costs	n/a

MH4: Electronic communication network (ECN) providers

Description

74. Under PSDI, providers of ECNs or services can provide certain goods and services, up to given limits, without needing to be authorised or registered. This exemption primarily affects mobile network operators (MNOs) and fixed line operators, provided individual payments do not exceed €50 and the total payments do not exceed €300 per month. Firms are expected to need to either:

   - be authorised (or registered) for the first time, or
   - make the necessary investments in their systems to ensure that they can track the €50 and €300 thresholds so that they are not breached by users, notifying the FCA that they are using the exemption, and providing an audit report at the end of the year evidencing that they remained within the limits.

75. The Government intends for the exemption to cascade to intermediaries that provide phone-paid value added services and facilitate the transfer of money to merchants in a transaction chain. In recognition of the vital role that intermediaries play in the function of ECNs, the Government considers it appropriate to cascade the exemption to intermediaries specifically for services undertaken on those networks. Intermediaries

[21] Consultation Paper - Implementation of the revised Payment Services Directive (PSD2): draft Approach Document and draft Handbook changes, Financial Conduct Authority, April 2017

benefitting from the exemption will need to confirm that only payment transactions for goods and services covered by the exclusion have been processed.

Monetised costs

European Commission IA: None

FCA estimates

76. **Number of affected firms:**

- **Becoming authorised:** See HMT costs assessment (MH2-4) from para 84 below.
- **Utilising the exemption:** 10 MNOs that will be required to notify the FCA. The FCA has consulted on fees of £200 per firm for notifying them.

77. **Cost impacts:**

- **Utilising the exemption**: The FCA has carried out its own CBA of these requirements and do not expect significant additional costs to PSPs through their proposed approach: firms benefitting from the exemption should already be collecting data on subscriber transaction values to establish whether the limits prescribed under PSDII are being exceeded. Costs are thus limited to staff costs for completing the notification form.

Industry analysis and business impact

78. **Number of affected firms:** Five MNOs and at least four fixed line telecoms providers are expected to utilise the exemption.[22] Through formal consultation responses and engagement with MNOs they have stated they will adjust their business models to continue to take advantage of the exemption or discontinue such services rather than seek authorisation. One regulator estimates that a cascade of the exemption could impact around 20 aggregators that distribute funds between telecommunication companies and merchants in a transaction chain.[23]

79. **Cost impacts:** A number of consultation respondents highlighted the disproportionate cost to electronic communication networks (both mobile and fixed) to build a system to track transaction limits in real-time to ensure subscribers are not exceeding the maximum value of payment transactions as set in the Directive. Our understanding from stakeholders is that the UK is the largest provider of voice-based services across Europe but that these services are on a downward trend and it would be disproportionate to bring these services in to regulation in light of the declining provision of such services.

80. One trade association estimated that fixed line providers had a 30% share of the UK premium rate services (PRS) market annual revenues amounting to just over £200 million and estimated that there are approximately 3,000 merchants registered with the regulator - Phone-paid Services Authority (PSA) - to supply services through PRS.

81. Some consultation respondents also estimate that UK ECNs collectively made a £0.5 million margin on users exceeding the €300 monthly limit with estimates of less than 0.5% of mobile customers spending in excess of €300 per month on third party services that are charged to the phone bill. They also estimate that revenues generated by consumer access to PRS over fixed telecoms networks is around £450 million out of £2 billion fixed voice revenue, with current premium voice revenues estimated at £120

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[22] The Communications Market 2016, Ofcom, August 2016, https://www.ofcom.org.uk/__data/assets/pdf_file/0026/26648/uk_telecoms.pdf

[23] Mobile UK consultation submission, March 2017

million per annum, which are falling as identified by the PSA's 2015/16 PRS annual market review.[24].

HMT costs assessment

82. **Number of affected firms**: Five MNOs, four fixed line telecoms providers and 20 intermediaries. An estimated 29 firms expected to benefit from the exemption. In addition, some firms benefitting from the cascade may need authorisation under a different part of PSDII if they are also providing other payment services.

83. **Additional costs for ECN firms using the exemption:** Whilst the Government sought estimated costs from stakeholders on how much it may cost firms to make the necessary changes to systems through the consultation, we were unable to source a credible range of data to provide an estimate. However, taking the indicative software and technological costs in the PSDI impact assessment for disaggregating payments, the Government estimates that system changes could range between £1,000,000 and £7,000,000 in total one-off costs. We expect the costs to firms to be higher than the estimates provided, but we are unable to scale how much of an increase this could be.

Transition costs

Notification:

- £300 * 29 = £8,700 (£0.0087 million)

Software changes, to disaggregate payments of different thresholds

- **One-off costs for installing new software**, to disaggregate payments of different thresholds:

  £47,550 * 29 = £1,378,950 to £237,751 * 29 = £6,894,779

  Midpoint: £4,136,864.50

Total transition costs of: £4.1 million

Annual costs

Software changes, to disaggregate payments of different thresholds:

- **Ongoing technical and maintenance costs**:

  £41,606 * 29 = £1,206,574 to £101,044 * 29 = £2,930,276

  Midpoint: £2,068,425

***Non-monetised costs*:** None provided or identified from the data sources available or consultation responses.

***Monetised benefits*:** None provided or identified from the data sources available or consultation responses.

Non-monetised benefits: None provided or identified from the data sources available or consultation responses.

MH4: Summary of monetised costs and benefits (notifications and system changes)

Transition costs (system changes)	£4.1 million

[24] Annual Market Review 2015-16 PRS: market outlook 2016-17, Phone-paid Services Authority, July 2016, http://psauthority.org.uk/-/media/Files/PhonepayPlus/Research/2016/AMR_PPP_Report2016.ashx?la=en

Annual costs (system changes)	£2.1 million

HMT costs assessment (MH2-4)

84. **Number of affected firms:**

- No clear estimates have been made on number of firms brought into scope. FCA's aggregate estimates indicate that, between 100 to 230 firms could be brought into scope as a result of the changes to the CAE, LNE and ECN exemptions. For the costings below, we have used the mid-poiint (165 firms).

85. **Cost impacts:**

<u>**Transition costs**</u>

Authorisation/registration:

- **One-off application fees**:

  LOW: £1,500 * 165 = £250,000

  HIGH: £5,000 * 165 = £825,000

  <u>MID: £3,250 * 165 = £540,000</u>

- **Compliance firm support**:

  LOW: £12,000 * 165 = £1,980,000

  HIGH: £15,000 * 165 = £2,475,000

  <u>MED: £13,500 * 165 = £2,230,000</u>

Safeguarding of client funds to disaggregate payments of different thresholds:

- **One-off costs for installing new software**:

  LOW: £47,550 * 165 = £7,846,000

  HIGH: £237,751 * 165 = £39,230,000

  <u>MED: £142,650 * 165 = £23,540,000</u>

Capital requirements:

- **Initial capital** we expect these to be existing firms and therefore are not expected to require significant additional capital. We therefore use the 50% calculation below:

  LOW: 0% - £0

  HIGH: 100% - £102,500 * 165 = £16,915,000

  <u>MED: 50% - £51,250 * 100 = £5,125,000 to £51,250 * 230 = £8,455,000</u>

<u>Total transition costs of: £34.8 million</u>

<u>**Annual costs**</u>

Authorisation/registration:

- **Annual fees**:

  LOW: £4,694 * 165 = £775,000

  HIGH: £141,813 * 165 = £23,400,000

  <u>MED: £73,253 * 165 = £12,090,000</u>

Safeguarding of client funds to disaggregate payments of different thresholds

- **Ongoing technical and maintenance costs**:

  LOW: £41,606 * 165 = £6,865,000

  HIGH: £101,044 * 165 = £16,670,000

  MID: £71,325 * 165 = £11,770,000

  Total annual costs of: £23.9 million

MH2, 3, 4: Summary of monetised costs and benefits (excluding notifications)

Transition costs (one-off application fees, compliance firm support, system changes and capital requirements)	£34.8 million
Annual costs (annual authorisation/registration fees and system changes)	£23.9 million

MH5: Extension of transparency requirements to independent ATMs

Description

86. Independent ATM operators will be subject to new obligations to provide customers with information on withdrawal charges prior to the transaction and on the customer's receipt.

Monetised costs

European Commission's IA: None provided.

FCA estimates: None provided.

Industry analysis and business impact

87. In the UK, there are currently 10 independent ATM operators.

88. The majority of independent ATM deployer operated cash machines, which in 2016 totalled 39,930 (57% of the total number of cash machines) are already providing customers with information on withdrawal charges through their membership of the UK's largest ATM network, LINK. As a result, we do not expect additional costs for independent ATM operators.[25]

HMT costs assessment

89. The Government does not expect any additional costs for independent ATM operators. Our understanding is that ATM operators already present fees to customers upfront.

Non-monetised costs: None provided from the data sources available or consultation responses.

Monetised benefits: None identified through consultation or that the Government has been able to source.

Non-monetised benefits

90. **Increased transparency** – consumers should be more aware of what they are being charged for withdrawing money from ATMs as this will remove the ability of ATM operators to hide fees, although in practice our understanding is that this is already standard practice.

[25] Payments UK, UK Payment Statistics 2017

MH5: Summary of monetised costs and benefits

Transition costs	£ negligible
Annual costs	£ negligible

MH6: ‘Open access’ provisions - Account access for third parties

Description

91. PSDII introduces entirely new “open access” or “open banking” provisions which are designed to allow “third party” firms to provide services to users by accessing the data and payment functionality of their online payment account (e.g. current account; credit card account; e-money account).

92. The regulation of “third party” payment services for the first time under PSDII recognises recent changes to the payments market where such services are becoming increasingly popular with users. A Finextra white paper on the impact of PSDI also found that there was appetite among third parties for them to be given legal certainty and so it is expected that new players are likely to seek to enter the market.[26]

93. As these activities are not currently regulated payment services there are only limited amounts of consumer protection in place (related to more general consumer and data protection legislation). Requiring that firms offering these services be registered or authorised, depending on the service being offered, and therefore meet certain security, risk management, transparency and other standards, will ensure that users are protected and treated fairly.

94. To achieve this, PSDII:

- extends the scope of regulated activity to include two new types of payment services, bringing firms providing these services into the regulatory perimeter for the first time; and
- imposes new obligations on existing firms providing online payment accounts to facilitate the necessary access.

Extension of scope – Account Information Services and Payment Initiation Services

95. The two new types of services that will now be regulated as payment services are:

  - o Account Information Services (AIS) – at a customer’s request, third parties will be able to obtain transaction information from the online payment accounts the customer holds; and
  - o Payment Initiation Services (PIS) – at a customer’s request, third parties will be able to trigger a payment operation that is normally available to a customer

96. **Types of firms affected**: The types of activities which are expected to be classified as AIS and/or PIS include:

- dashboard services that show aggregated information drawn from a number of online payment accounts;
- income and expenditure analysis, including affordability and credit rating or credit worthiness assessments performed on data drawn from an online payment account; and

[26] Preparing for PSD2: Exploring the business and technology implications of the new Payment Services Directive, Finextra, March 2016, https://www.ingwb.com/media/1609662/preparing-for-psd2_vroegh.pdf

- expenditure analysis that alerts users to consequences of particular actions, such as breaching their overdraft limit.

97. Where firms wishing to engage in these activities have not already been providing payment services, they will need to become authorised (or registered) for the first time. All firms then providing these new services will need to adhere to the requirements of the PSDII. In addition, firms providing PIS will need to hold professional indemnity insurance or a comparable guarantee against their potential liabilities

Additional obligations – providing access to firms wishing to offer AIS or PIS

98. **Types of affected firms**: Regulated PSPs (account information service providers – ASPSPs) providing payment account services online must give other authorised firms wishing to provide the new AIS or PIS access to their customers' online payment accounts in order to provide their services to the user. ASPSPs will not have to provide access to any TPP that holds neither registration nor authorisation.

99. Payment accounts include:

- current accounts;
- credit card accounts;
- instant access savings accounts; and
- e-money accounts.

100. ASPSPs will be required to ensure their systems provide non-discriminatory access to third parties and will need to develop online authentication and communication procedures that are consistent with Regulatory Technical Standards (RTS) to be drawn up by the European Banking Authority (EBA). The FCA sets out further detail on blocking TPPs for fraud in their Approach Document.

Monetised costs

European Commission's IA

101. **Number of affected firms**: The Commission's IA identified a number of existing market participants in a number of European countries, including the established presence in Germany and the Netherlands. The Commission expect a large majority of the 20 third party firms already operating in the market in eight Member States will ask for a license to comply with the rights obligations under PSDII, which accords with discussions with potential third party firms in the UK.

FCA estimates

102. **Number of affected firms**: The number of AIS/PIS firms requiring authorisation or the number of AISPs needing to become registered is estimated at 50 – 200, based on trade body membership and industry engagement.

Industry analysis and business impact

103. **Number of affected firms:**

- **New entrants into the market**: It is estimated that there are currently around 30 AISPs, based on trade body membership, and up to five PISs in operation in the UK.[27] One trade body estimates a 500% increase in the number of authorised/registered firms after the first year of Directive being in force.

- **Existing PSPs starting to provide AIS/PIS**: We expect a significant number of firms wishing to offer AIS and PIS will already be providing other payment services and therefore already regulated. However, over time this figure is expected to rise markedly as firms develop their business offering and as the sector develops
- **ASPSPs**: Regulated PSPs providing payment accounts online are expected to include the majority of credit institutions and a subset of EMIs and PIs – at least 460 firms.

104. A PwC study on PSDII, conducted in the first quarter of 2016, suggests that 88% of consumers across the EU use third party providers for online payments, which suggests that, although they are not common in the UK, this is an aspect of digital banking service that will see significant growth in the future.[28]

HMT costs assessment

105. **Number of affected firms:** The Government expects that in reality, a smaller number than the estimated 50 – 200 AIS/PIS firms are likely to seek authorisation or registration, with the expectation that there will be a gradual rise in the number over the coming years. A conservative estimate is that the market may double in size from its current point (based on trade body membership, noted above), suggesting that there could be at least 30 AIS and around five PIS in operation. As already noted, we expect the number of firms providing these services overall to be much higher, but that many will already be regulated as they currently provide other payment services. The Government estimates that as many as 105 AIS and 18 PIS firms could seek authorisation/registration, based on a midpoint between:

    - A potential doubling of the current number of known market players – 60 AIS and 10 PIS and
    - A potential 500% increase in the number of authorised/registered firms, the Government estimates that the number of AIS firms will be and PIS firms - 150 AIS and 25 PIS.

106. **Cost impacts:**

    <u>**Transition costs**</u>

    Authorisation/registration (AIS and PIS)

    - **One-off application fees**:

      LOW: £1,500 * 175 = £262,500

      HIGH: £5,000 * 175 = £875,000

      MID: £3,250 * 175 = <u>£568,750</u>

    - **Compliance firm support**:

      LOW: £12,000 * 175 = £2,100,000

      HIGH: £15,000 * 175 = £2,625,000

      MID: £13,500 * 175 = <u>£2,362,500</u>

    Capital requirements (PIS only):

    <u>LOW: 0% - £0</u>

    <u>HIGH: 100% - £41,000 * 25 = £1,025,000</u>

[28] Catalyst or Threat? The strategic implications of PSD2 for Europe's banks, PwC, July 2016, https://www.strategyand.pwc.com/reports/catalyst-or-threat

MID: 50% - £20,500 * 25 = £512,500

Total transition costs of: £3.45 million

Annual costs

- **Annual fees**:

  LOW: £4,694 * 175 = £821,450

  HIGH: £141,813 * 175 = £24,817,275

  MID: = £27,253 * 175 = £12,819,362.50

Non-monetised costs

107. **System changes**: PIs providing online payment accounts may incur additional administrative burdens and costs of system changes as a result of being required to ensure these can be accessed by TPPs. These are likely to be reduced as a result of the development of an Open Banking Standard, required by the CMA. Firms may also incur costs in relation to increased security requirements, which will be specified by the European Banking Authority. Any additional costs involved are likely to vary depending on the complexity of a firm's business offer (i.e. the range of payment accounts available) and the complexity of its existing IT systems. There is insufficient data to provide quantitative estimates of these costs but we do not expect significant IT changes by newly regulated firms.

108. Some system change costs are likely be reduced by coordinated development of an Open Banking Application Programming Interfaces (API) Standard, which the Competition and Markets Authority (CMA) has now required nine banks across Great Britain and Northern Ireland – working with other ASPSPs and current and potential "third party" providers – to deliver, and would meet these requirements. ASPSPs are permitted to continue the current mechanisms for allowing TPP access to customer account information through direct access, also known as "screen scraping" (where TPPS use a customer's login details, with their consent, to access an account) until the EBA's RTS comes in to force. We therefore expect the cost to ASPSPs for allowing TPP access to be negligible.

109. The open banking APIs provides the technological capability for ASPSPs to share customer information securely with TPPs in a standardised way that will enable secure communication and identification between firms. The CMA make clear that this API Standard will need to align with PSDII, requiring banks to deliver it by January 2018 when PSDII comes into effect.

Monetised benefits

European Commission's IA

110. The Commission's IA assessed that opening access to information on the availability of funds and a consumer's payment account to AIS and PIS upon consent of the account holder, would result in a downward pressure on merchants' transaction costs as the result of increased competition from new entrants. This will vary depending on the extent of market entry and the relative market share gained by these new entrants and the current level of transaction costs in the Member State considered. The merchants with less negotiating power, including the smaller ones, are also expected to benefit from additional payment solutions to meet their needs. The resulting decrease in their costs should be in part transferred to customers.

111. **EU benefit impact**: Based on the population of Member States and the percentage of the population making purchases on the internet on each Member State, the Commission's IA calculates that on average almost 165 million Europeans made

purchases on the internet in 2011 (this excludes data from the Czech Republic). More recent Eurostat data from 2015 showed that the UK had the highest proportion in the EU (83%) of individuals buying or ordering goods or services over the internet in the 12 months preceding December 2016.[29]

112. By extrapolating the fees applied for a transaction on the internet with a credit card or with a third party service provider in the Netherlands to the number of internet transactions in Europe, the Commission estimated that savings generated for retailers/businesses by the use of PIS instead of credit card could range from €863 million to a maximum of €3,520 million per annum. Based on an average expenditure per internet user in 19 Member States and the average amount of a transaction in an online shop of €110 in the Netherlands, the Commission estimated that on average an internet user makes around eight purchases on the internet per year.

113. The fees applied for a transaction on the internet with a credit card or with a third party service provider in the Netherlands were used as a benchmark, as the market was competitive for credit cards and the market for PIS is well developed. In the Netherlands, the fees for a transaction on the internet with a credit card range from €1.65 to €3 and the fees for a transaction on the Internet with the third party range from €0.35 to €1.

FCA estimates: None provided.

Industry analysis and business impact

114. **Retailers** – principally those offering goods and services online – are likely to benefit from lower transaction costs arising from AIS and PIS providers contributing to increased competition and innovation that leads to new, cheaper payment methods.

115. **Third parties wishing to provide AIS and PIS** to consumers will benefit from being able to access customers' online accounts on the terms set out by PSDII in order to provide AIS and PIS. This will allow them to grow existing services and bring new business models to market more easily and at lower cost.

116. **New entrants into the market**: As the provisions are expected to lead to new entrants into the market, it is currently difficult to estimate how many firms will benefit. Interest from existing and potential third party firms, as well as growing use of TPP services, suggests that this aspect of digital banking will see significant growth in the future.

117. **Online retail trends**: An independent study by RetailMeNot and the Centre for Retail Research[30] for 2016-17 shows that the European online retail market is dominated by the UK, Germany and France, which together are responsible for £152 billion (75.1%) of online sales across 11 European countries. The UK has the highest online market share of £67.38 billion (17.8%) forecast for 2017, an increase from 16.8% in 2016 and an expected growth rate of 11.5%for 2016/17. By comparison, the total value of online retail sales and growth rate for Europe is £230.62 billion and an expected growth rate of 14.2%.[31] The upward trend of online retail growth suggests that the potential for growth in PISs will also increase by a significant amount as retailers seek ways of diversifying their customer service offering.

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[29] E-commerce statistics for individuals, Eurostat, December 2016, http://ec.europa.eu/eurostat/statistics-explained/index.php/E-commerce_statistics_for_individuals
[30] The study from RetailMeNot is based on data from government statistical sources and analysts, telephone interviews with 100 major retailers from all types of business (20%+ of national retail sales), and interviews with 1,000 consumers in each of the nine countries (9,000 in total).
[31] Online Retailing: Britain, Europe, US and Canada 2017, Centre for Retail Research, http://www.retailresearch.org/onlineretailing.php

HMT benefits assessment

118. **UK payments market**: The assumption regarding the similarity to the Netherlands card market is a reasonable approximation, given that both are competitive payments markets with high levels of online retail use with card payments. However, the use of the cost of credit card payments as the current baseline is likely to result in an overestimation of the benefits because:

- they are more expensive than debit card payments, which are more prevalent in the UK, accounting for around 53% of the total value of UK retail sales in 2016 debit cards were used to make 12 billion purchases in the UK to a value of £487 billion – growing by 14% in volume, whereas credit and charge cards were used to make 2.7 billion purchases to the value of £154 billion, according to Payments UK[32]. Additional data from the UK Cards Association, shows that 21% of all retail spending is now online[33];
- forecasts for the number of debit card payments by UK cardholders is forecast to reach 18 billion payments in 2026 to an estimated amount of £753 billion and the credit and charge card purchase volumes are expected to grow to 3.7 billion in 2026, with a total spend of £189 billion; and
- the cost of credit (and debit card) transactions has fallen over time, including since the Commission's IA was published. While an exact equivalent estimate of the transaction fees is not available, one can be estimated based on the average transaction value for UK retailers (£84.74) according to Payments UK[34] and the average cost to handle a credit or charge card transaction, according to data from the BRC, of £0.16[35], which is significantly below the transaction fee range used by the Commission of €1.65 (£1.35) to €3 (£2.46).

119. **UK benefit impact**: A rough indication of the potential benefits to merchants that might accrue to the UK can be calculated by assuming that the UK's share of the total EU benefits calculated by the Commission would be broadly proportional to its share of EU GDP (15.97%). This would suggest a range of benefits of £110 million to £450 million per annum (a midpoint of <u>£280 million</u>).

120. We expect that the UK will see benefits in the upper end of the indicated range. This is based on the scale of use of e-retailers in the UK (noted above) and the higher average transaction value at UK e-retailers, which suggest that the UK share of the value of internet transactions is likely to be higher than its share of EU GDP. This also takes into consideration interest from existing and potential third parties of providing AIS and PIS in the future (discussed above).

121. We do not expect benefits to emerge as a result of the provision of PIS until after the first year of the Directive coming in to force, as this is not currently a developed market in the UK. For the purposes of this impact assessment, we have modelled the benefits as accruing linearly from year 2 (starting at £0 in year 1) such that the benefits in year 10 reach the £280m figure stated above.

Non-monetised benefits

<u>*Third parties providing AIS and PIS*</u>

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32 Payments UK, UK Payment Statistics 2017
33 UK Card Payments Summary 2016, UK Cards Association, http://www.theukcardsassociation.org.uk/wm_documents/UK%20Card%20Payment%20Summary%202016%20FINAL.pdf
34 ibid
35 Payments Survey 2016, British Retail Consortium,

122. Consumers will benefit from the expected expansion in AIS and PIS services available, along with the additional consumer protection that will stem from existing firms being authorised, including higher security and transparency requirements, refund rights, maximum liability for unauthorised payment transactions, and ban on surcharging for some payment instruments.

123. **Liability**: Extending the rights and obligations of PSDII to AISPs and PISPs and defining the management of liability between third parties, ASPSPs and consumers will provide a legal certainty for all parties, as well as payment users.

124. **Competition**: New AIS firms are expected to compete with established PSPs leading to increased competition across the payments market, though the implications for the range and cost of services is difficult to quantify.

125. **Additional security**: Consumers will benefit from the higher security requirements for all electronic transactions, which includes two factor authentication, which is expected to reduce the opportunities for fraud. Detailed requirements will be set out by the EBA, with certain lower risk transactions likely to be exempted to maintain proportionality.

MH6: Summary of monetised costs and benefits

Transition costs (one-off application fees and compliance firm support)	£3.45 million
Annual costs (annual authorisation/registration fees)	£12.8 million
Transition benefits	£ unquantifiable
Annual benefits (in year 10)	£280 million

MH7: Dispute resolution

Description

126. All PSPs will have to adhere to the new maximum processing time for the resolution of customer complaints of 15 days. PSPs should have existing dispute resolution systems in place in order to be able to deliver this, but there will be some adjustment and ongoing administrative costs for some PSPs if they are required to speed up their existing processes.

Monetised costs

European Commission's IA: None provided.

FCA estimates

127. Firms currently handle complaints under FCA dispute resolution (DISP) rule time limits (eight weeks) and will need to make changes to reflect the new processing times. The FCA currently requires banks and building societies to report on all complaints and is proposing to extend this to PIs and EMIs in order for them to monitor compliance with the new time limits for complaint resolution. However, firms are required to collect complaints management information for other purposes. The FCA estimate expected costs to include:

- **Training/retraining of complaint handling staff** and on-going staff costs, if necessary, to increase response times and to complete complaint forms to submit to the FCA;
- **System changes** to differentiate between payment services and other complaints, such as those covered by the E-money Directive; and
- Cost associated with changing complaint communications and customer's **terms and conditions**.

128. The Government's understanding is that the FCA do not expect costs to be significant through their proposed implementation approach, which means banks and building societies will only need to differentiate complaints where complaints are not resolved within 15 business days. It is expected that PSPs are already required to differentiate between different types of complaints, however the costs to banks and building societies and payment institutions and e-money institutions is likely to be different as a result of the existing requirement to report on complaints under DISP.

129. **Costs for all PSPs**: The FCA provides further details in its CBA, but estimates the following costs for PSPs (these have been subject to further consultation with industry, which will inform their final Approach Document):

- Total cost for all PIs and EMIs (1,291) - initial costs of £668,007 and ongoing costs of around £0.5 million; and
- Total cost for all banks and building societies (341) – initial costs of £14,158 and ongoing annual costs of around £8 million.[36]

Industry analysis and direction of travel: None provided or identified from the data sources available or consultation responses.

HMT costs assessment

130. The Government has not undertaken any further analysis in addition to that undertaken by the FCA. We expect that the estimated impact will be updated when the FCA publishes its final Approach Document in Q3 2017.

Non-monetised costs: None provided through consultation or that the Government has been able to source.

Monetised benefits: None identified through consultation or that the Government has been able to source.

Non-monetised benefits*:* None identified through consultation or that the Government has been able to source.

MH7: Summary of monetised costs and benefits

Year 1 costs	n/a
Ongoing costs	n/a

MH8: Increased security requirements

Description

131. PSPs must adopt specific security requirements to protect the confidentiality and integrity of the users' personalised security credentials, including 'strong customer authentication' using two-factor authentication for electronic transactions and dynamic linking for remote electronic transactions for certain transactions. Precise requirements regarding these standards, including exemptions, will be set out by the EBA in RTS.

Monetised costs

European Commission's IA: None provided.

[36] Implementation of the revised Payment Services Directive (PSD2): draft Approach Document and draft Handbook changes, Financial Conduct Authority, April 2017, https://www.fca.org.uk/publication/consultation/cp17-11.pdf

FCA estimates: None provided.

Industry analysis and direction of travel: None identified from the sources available or provided in consultation responses.

HMT costs assessment

132. It is not possible to provide a quantitative estimate of the cost of these changes until these RTS are finalised. As the RTS draft is still being finalised, we are not able to cost the impact this will have on firms. The FCA is expected to provide some additional data in their CBA when the requirements have been finalised.

133. PSDII states that the RTS will apply 18 months after adoption of the RTS by the Commission and is unlikely to come in to force until April 2019. This is intended to provide new firms with a transition period. This means that ASPSPs are required to provide access to account services in articles 65 to 67 of PSDII from January 2018, and the security and communications standards in the RTS are not mandatory until the end of the "transitional" period.

Non-monetised costs

134. The expectation is that many already regulated PSPs will already have in place formal security policies and procedures to assess security risks and processes for the internal reporting of security incidents as part of their existing compliance and information security functions.

135. Under PSDII, there will be more specific requirements on what these will need to look like, which may require regulated PSPs to assess their current procedures and potentially introduce amendments to their business processes. These will have a substantive impact both internally (in setting up the appropriate compliance functions and operations) and also in a firm's user experience.

Monetised benefits**:** None identified through consultation or that the Government has been able to source.

Non-monetised benefits: None identified through consultation or that the Government has been able to source.

MH8: Summary of monetised costs and benefits

Year 1 costs	£ unquantifiable
Ongoing costs	£ unquantifiable

MH9: Increased reporting requirements

Description

136. All PSPs will be required to comply with additional regular and ad hoc reporting requirements set out in PSDII, further to those already required by PSDI. These include requirements to regularly report to the FCA and submit notifications in the event of incidents. This includes incident reporting, assessments of operational and security risk mitigation measures and annual reporting of statistical data on fraud.

137. PSPs will be required to establish and maintain effective incident management procedures, including for the detection and classification of major operational and security incidents. They would also need to report to the FCA on their security risk assessment and notify them of any major incidents without delay.

Monetised costs: None provided through consultation or that the Government has been able to source.

Non-monetised costs

European Commission's IA: None provided.

FCA estimates

138. The FCA's intended approach on fraud reporting requirements from PSPs is expected to only seek data on the highest fraudulent transaction values and not add significant costs to PSPs as it is expected that the data that will be requested will already be held by many PSPs.

139. The FCA's CBA does not provide quantified estimates on the expected costs to firms, but they expects costs to vary depending on the current payments fraud data firms are already collecting. Costs are therefore likely to be limited to ongoing staff costs related to the collection of data and submission of forms to the FCA.

140. Depending on the size and extent of changes to operational and incident management, and whether the changes can be incorporated into existing reporting, and given the EBA are still developing some of the exact requirements in their regulatory technical standards, the costs are not possible to quantify and the associated costs may vary considerably.

Industry analysis and business impact: None identified or provided.

HMT costs assessment

166. The Government understands that many already regulated PSPs under PSDI already have in place formal security policies and procedures to assess security risks and processes for the internal reporting of security incidents, which firms may be required to introduce amendments to their business processes. For instance, in relation to fraud reporting, according to the FCA, many bank PSPs already collect data to feed in to industry-wide statistical reporting for UK banks and so we would expect firms to onward report some of this data.

***Monetised benefits*:** None idenitified through consultation or that the Government has been able to source.

Non-monetised benefits: one identified through consultation or that the Government has been able to source.

MH9: Summary of monetised costs and benefits

Year 1 costs	£ unquantifiable
Ongoing costs	£ unquantifiable

Flexibilities under PSDI

141. A number of flexibilities are not described under option 1, as they are continue the same approach as adopted under PSDI. As such, the costs and benefits are 0. This includes the following flexibilities:

- Exempting particular firms, including credit unions
- Exempting Small Payment Institutions (SPIs)

- Providing additional protections for micro-enterprises
- Reducing the requirements for low-value payment instruments and e-money
- Providing favourable provisions for terminating framework contracts

142. Where there are changes to flexibilities from those under PSDI or new flexibilities, the Government has provided an assessment of the expected impact of its proposed approach below.

Flex1: User's liability for unauthorised use of payment instruments

Description

143. Under PSDI, the UK applies a lower maximum liability for users of £50, rather than the default €150. The maximum is now falling under PSDII to €50, with flexibility for Member States to reduce the liability faced by payers who have been grossly negligent but not fraudulent.

144. The Government proposes to set the maximum liability at the new rate set by PSDII at £35 for greater practicality, rather than reduce it further.

Monetised costs

HMT costs assessment

145. **Cost impacts**: The majority of PSPs are understood not to impose a liability on consumers in cases of gross negligence and as such the impact of this change is expected to be negligible. As this reflects current UK practice, the Government estimates that there will be no impact on firms as a result of this change.

146. FCA analysis supports this conclusion, which refers to statistics from the Office for National Statistics from September 2016. Updated statistics show that, whilst incidents of fraud are most common among bank and credit accounts and more likely to result in initial loss to the victim, in 85% of these incidents the customer received a full reimbursement, typically from their PSP.[37]

147. Fragmentation in implementation: If the Government were not to set a conversion for the new €50 liability limit there could be some costs incurred by PSPs in changing the limits to reflect potential fluctuations in the exchange rate. This would also lead to divergent approaches to the conversion by PSPs causing confusion for customers.

Non-monetised costs

148. The majority of PSPs are understood not to impose a liability in cases of gross negligence and as such the impact of this change is expected to be negligible.

Monetised benefits: None identified through consultation or that the Government has been able to source.

Non-monetised benefits

149. This approach would provide greater protection for consumers and takes in to consideration potential fluctuations in the exchange rate and guards against the risk of moral hazard.

Flex1: Summary of monetised costs and benefits

[37] Crime in England and Wales: year ending Sept 2016, Office for National Statistics, April 2017, https://www.ons.gov.uk/peoplepopulationandcommunity/crimeandjustice/bulletins/crimeinenglandandwales/yearendingdec2016

Year 1 costs	£ negligible
Ongoing costs	£ negligible

New or previously unutilised Member State flexibilities

150. Key flexibilities that are available in PSDII, which the Government is choosing to use in its in implementation of the Directive, include:

Flex2: Ban on surcharging, including an extension to all retail payment instruments

Description

151. Under PSDII, retailers will no longer be able to charge consumers to use payment instruments for which interchange fees are regulated under the Interchange Fee Regulation (IFR) ((EU) 2015/751). This includes the majority of consumer debit and credit cards.

152. Not all retailers currently surcharge and, where they do, the Consumer Rights (Payment Surcharges) Regulations 2012 limits this to the cost borne to the retailer when making the transaction, although we understand there are difficulties in enforcing this. The regulations ban excessive payment surcharges being charged to consumers, while allowing traders to recover the fees directly charged to businesses for taking payments from consumers.

153. Following its consultation, the Government is using the flexibility to extend the ban on surcharging to a broader range of payment instruments that are not currently regulated under the IFR and is extending it to all retail payment instruments. The ban will now extend to other cards such as three-party schemes, e-money, and new payment methods that may emerge in the future, such as PIS.

Monetised costs

European Commission's IA

154. **Cost impacts**: A study undertaken by London Economics and iff in association with PaySys, across nine EU countries, including the UK, which informed the Commission's IA, suggested an initial total cost of surcharging – borne by consumers – of at least €731 million annually EU wide.[38] The aggregate value does not indicate how much relates to 'true' surcharging, when merchants recover the costs of specific payment instruments and pass on these savings to consumers through retail prices, and how much corresponds to extra revenues from retailers (illegally) surcharging over the costs of payment instruments and/or not passing on the savings generated to consumers through retail prices.

FCA estimates: None provided.

Industry analysis and business impact

155. The Consumer Rights (Payment Surcharges) Regulations were introduced in 2013, which now ban excessive payment surcharges being charged to consumers, while allowing retailers to recover the fees directly charged to businesses for taking payments from consumers. The regulations do not prevent retailers from applying payment

[38] Study on the impact of Directive 2007/64/ec on payment services in the internal market and on the application of regulation (EC) No 924/2009 on cross-border payments in the community, London Economics and iff in association with PaySys, February 2013, http://ec.europa.eu/finance/payments/docs/framework/130724_study-impact-psd_en.pdf

surcharges but the amount is required to be limited to the fees directly charged to a business as a result of the consumer using a particular method of payment.

156. **Cost impacts**: Based on market research carried out by the HM Treasury in 2011, cited by the Department for Business, Innovation and Skills (BIS) in their consultation stage impact assessment on the ban on above cost payment surcharges published in September 2012, the total value of card payment surcharges (both at cost and above cost) in the UK in 2010 for debit and credit cards was estimated to be £473 million across a range of sectors.[39]

157. **Cost to retailers for handling card transactions**: The British Retail Consortium's (BRC) 2015 payments survey identified a decline in the cost to retailers of handling credit and debit card transactions. They predict further cost reductions as the full impact of the IFR takes effect as benefits of the reduction of interchange fees are being passed on to merchants from acquirers, and in turn to customers.[40]

158. According to BRC's latest data on average transaction costs, since 2013 these have decreased by 35% on debit cards and 60% on credit cards. BRC state that merchant service costs (which include interchange as a major element) accounted for more than 96% of the total costs incurred in the acceptance of any type of card by retailers. In 2015, the costs for the handling of debit and credit card transactions amounted to c£122 million for debit cards and c£37 million for credit cards.[41]

159. Earlier data from the BRC's 2014 payments survey identified the total cost to retailers to process debit and credit cards of over £616 million, of which interchange fees comprised around 90% (£554 million). The BRC estimated a total annual cost of interchange fees for all UK retailers of approximately £1 billion.[42]

160. **Types of affected firms**: BIS estimated that the direct one-off costs of a ban on payment surcharges would be borne by the merchants that impose payment surcharges. No direct costs on card networks, acquirers or PSPs were identified. The direct costs to merchants would include making system changes to disaggregate their pricing by identifying and removing payment surcharges.

161. **Impact on consumers**: The impact assessment assumed that merchants would likely compensate the lost revenues and profits from payment surcharge revenue through a change in their pricing structures such as a rise in headline prices, or through other non-payment related charges, such as administration fees, delivery charges, or optional extras, or by promoting the use of cash. The may also decide to offset this by increasing prices, or by changing the mix of payment instruments they encourage or accept.

162. **Impact on merchants**: The BIS impact assessment also identified that merchants already make frequent systems changes and so any changes to prices could be incorporated in to routine price updates, systems upgrades and maintenance and so the one-off cost of this to firms was considered to be near zero. The results indicated that surcharging practices in 2012 were more predominant than in 2009 and found that 14%

[39] Consultation on the early implementation of a ban on above cost payment surcharges – Impact assessment, Department for Business, Innovation and Skills, September 2012, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/32704/12-1009-consultation-ban-above-cost-payment-surcharges-impact.pdf
[40] Payments Survey 2015, British Retail Consortium, September 2016, https://brc.org.uk/media/103007/brc-payments-survery-2015.pdf
[41] Payments Survey 2015, British Retail Consortium, September 2016, https://brc.org.uk/media/103007/brc-payments-survery-2015.pdf
[42] Payments Survey 2014, British Retail Consortium, July 2015, https://www.google.co.uk/url?sa=t&rct=j&q=&esrc=s&source=web&cd=2&ved=0ahUKEwimxc_Gmd7UAhXHLcAKHVnwBwIQFggvMAE&url=https%3A%2F%2Fwww.barclaycard.co.uk%2Fbusiness%2Files%2F2015_payments_report.pdf&usg=AFQjCNFZoBfWMRsLWFVOBVY_1xZ8FX2_LA

of merchants in the UK applied surcharges on credit cards. Whilst we expect that this figure is lower five years after the regulations have come in to force, we have been unable to source updated figures on the current application of surcharging by merchants.

163. **Sector impacts**: BIS' study showed that the largest monetary value of the surcharge were in the travel/hotel/hospitality sector in the UK, reflecting a relatively high surcharge rate and a high incidence of surcharging. This was reflected in the number of consultation responses received from the respective sectors in relation to whether the ban on surcharging should be extended.

164. **Travel sector** - Evidence following a super-complaint received by the Office of Fair Trading (OfT) in March 2011 confirmed excessive payment surcharging was high across the transport sector and estimated that consumers spent around £300 million on payment surcharges in 2010 in the airline sector alone.[43] The same report also noted that the evidence provided in the Which? super-complaint, as well as OfT survey evidence from 2007, indicated that surcharging outside travel markets is fairly limited.

165. Many travel agencies and tour operators process high volumes of payment transactions on low margins, consultees highlighted. In particular, the potential adverse impact on smaller firms who would not be able to absorb the additional costs if they are unable to surcharge was raised. This could result in some firms restricting the availability of payment instruments where they are unable to charge the cost of these instruments, particularly for higher value transactions.

HMT costs assessment

166. **Impact on merchants**:

- **Impact on revenues**: Merchants that currently surcharge would be expected to see a direct effect of a reduction in revenues as a result of not being able to benefit from surcharging in order to recover the costs of accepting card payments.
- **Increase in prices**: Ultimately acceptance charges, the higher for the use of non-regulated cards would increase the costs for airlines and could result in a general increase of ticket prices, impacting all airline customers.
- **Greater negotiating power**: Merchants will have greater scope to be able to negotiate prices for offering retail payment instruments to their customers. Those firms providing these instruments will need to absorb the costs of accepting certain payment instruments, or stop accepting that particular payment instrument altogether.

167. **Impact on consumers**: How merchants respond in such a situation will depend on the state of competition of the sector in which they operate and whether the surcharge reflected the costs faced by merchants when accepting a card payment, or was at least in part a source of profit for merchants.

168. **Cost impacts**: Since the IFR has come in to force, the Government recognises that, in some instances, the costs of processing cards regulated under the IFR has increased, rather than decreased.

169. Although it is not possible to provide a precise quantitative estimate of the direct or indirect cost to retailers of ceasing surcharging, BIS' expectation was that retailers

[43] Payment surcharges: Response to the Which? super-complaint, Office of Fair Trading, July 2012, http://webarchive.nationalarchives.gov.uk/20140402142426/http://www.oft.gov.uk/shared_oft/super-complaints/OFT1349resp.pdf

would fully pass on the majority of the costs to consumers through higher prices, just as they would other routine costs of doing business.

170. The BIS estimate of the total value of card payment surcharges of £473 million is now likely to be a significant over estimate of the direct cost to businesses of ceasing surcharging for a number of reasons:

- it included both at cost surcharging and above cost (now illegal) surcharging – the latter is now expected to have fallen as a result of firms adhering to the Consumer Rights (Payment Surcharges) Regulations; and
- the cost to retailers of accepting cards is expected to have fallen, following the implementation of the IFR, which capped multilateral interchange fees and which the OfT estimated made up to 80% of the cost of overall merchant service charges.

171. Taking the BRC's average transaction costs for debit and credit cards, we can assume an average decrease in the cost of transactions of around 48% and therefore estimate that the value of card payment surcharges is £227 million.

172. Whilst the Commission's IA does not provide disaggregated data by country, based on the UK's share of EU nominal GDP (15.97%) the Government estimates that this could amount to £95 million annually.

173. Our best estimate of the costs to merchants is a midpoint between the Commission's estimated cost of surcharging and BIS' estimates of the total value of card payment surcharges of £161 million (we have used the above £95m and £227m figures as the high and low estimates in our analysis).

Extending ban to other retail payment instruments

174. **Number of affected firms**: we estimate that 5% of the total number of credit and charge cards issued in 2015 were other retail cards (not Visa or MasterCard) would now come in to scope of the surcharging ban when the ban is extended to all retail payment instruments. Of the total number of annual payments made per adult (ages 16+) in 2015, we estimate that 26% of payments were made by debit card, 6% by credit card and just over 1% by other payment methods (this includes store cards, prepaid cards and PayPal)[44]. Due to a lack of data, we have assumed (as a central estimate), that 5% of those credit card purchases are with other providers. This means that, of all card payments:

- Debit card purchases: 79%
- Credit and charge card purchases under mandatory ban: 17%
- Credit and charge cards under extension of ban: 0.9%
- Other payment instruments (store cards, prepaid, PayPal): 1%

175. **Cost impacts**: We have been unable to source data on the extent to which cards and other payment instruments in scope of the extended ban are surcharged more/less than the cards surcharged by the mandatory ban. As such, our central estimate is that they are surcharged to the same extent (likely a fair reflection: we would expect merchants to surcharge all card payments, or none at all to avoid customer confusion).

176. Our central estimate of additional cost from extending the ban therefore becomes:

£161 million (cost of mandatory ban) * 1.9% (extra cards and payment instruments now covered)

= £3 million

[44] UK payments statistics 2016, Payments UK, June 2016

177. However, we also know from BRC data that the the average cost of transactions for these payment instruments is higher than for those covered by the mandatory ban (c2.5x higher for other cards, and 1.24x higher for non-card payments).

178. We therefore increase the cost estimate of £3 million to reflect these higher average costs faced by merchants (to note, this doesn't necessarily mean higher charges, it could just reflect the use of these payment instruments for higher value goods and services):

£3 million * (proportion of additional that is cards (0.9%/1.9%) * 2.5) = £3.55 million

£3 million * (proportion of additional that is non-cards (1%.1.9%) * 1.24) = £0.92 million

179. We therefore estimate <u>total costs to merchants of extending the ban on surcharging to be £4.5 million</u>, bringing the total cost to <u>£165.5 million</u> (we have used the proportions between the initial high and low figures (£95m : £161m : £227m) to weight these additional figures for the additional cost incurred by extending the surcharging prohibition.

180. As we expect, most merchants make regular updates to their systems, we do not expect the impact of ceasing surcharging on all retail payment instruments to add any implementation costs to merchants.

Non-monetised costs

181. **Impact on consumers**: The Government expects retailers to react to this by recouping some of the cost of receiving card payment transactions through other mechanisms, such as an increase in prices. Consumers are likely to see a portion of the surcharging amount passed through as savings.

Monetised benefits

182. We would expect the costs for merchants will either result in consumers paying less for their goods and services (because they no longer pay for their payment instruments), or merchants will shift the incidence of the cost back towards consumers through generally higher prices. As such we would expect the Net Present Value of the surcharging to equal the ban:

cost to merchants (- costs merchants pass on in higher prices) = benefit to consumers

Non-monetised benefits

183. **Level playing field and greater competition**: Extending the ban on surcharging would create a level playing field for consumers by preventing merchants surcharging for some payment types and not for others. The payment instruments the Government is proposing to extend the ban to are a source of competition to the cards covered by the ban - MasterCard and Visa (who make up c96% of the total cards market). For this reason, we have chosen not to extend the ban to commercial cards[45] as these operate in a different space to retail payment methods. Respondents to HM Treasury's consultation who argued strongly in favour of extending the prohibition to all payment instruments did so on the grounds that it would increase competition by providing a level playing field for all. The ban will improve competition in the card payments market. In particular, the emergence of new forms of payment provision, such as PIS, should incentivise merchants to consider whether to accept the cost of a particular payment

[45] These include corporate cards issued to employees for business expenditures and the procurement card, for purchasing office equipment and supplies or services.

instrument, rather than simply pass it straight through to the consumer. By increasing competition in the retail cards market, merchants will also have greater ability to steer consumers towards using more efficient and cheap means of payments.

184. **Increased consumer awareness**: Extending the ban reduces the potential for creating a confusing environment, where consumers do not understand why some instruments are charged and others are not. By providing greater transparency, consumers will be better informed of the full price of the product/service they are purchasing upfront confident that there will be no additional charges when they come to pay.

185. **Increased consumer protection**: Some respondents to HM Treasury's consultation cited the current negative experience of surcharging for consumers could also be a reason for a wider prohibition, and that a prohibition on surcharging for all payment instruments this would be more enforceable than a partial ban, which would help to further protect consumers. This will improve the current position in which merchants are able to pass on costs (but the consumer has no easy way of assessing what these are).

Flex2: Summary of monetised costs and benefits

Transition costs	£ negligible
Annual costs	£166 million

Flex3: Information for the payer and payee (monthly statements)

Description

186. Under PSDI, as an alternative to providing information on a transaction-by-transaction basis, PSPs were able to choose to provide or make available to users information on their payment transactions (e.g. statements) on a medium, which cannot be altered (e.g. PDF), which customers then agreed to by accepting the terms and conditions set out in a framework contract with the PSP.

187. Amended wording of article 57 would mean that when acting as payers (customers) now need to choose to receive monthly statements. Where a payer does not choose, the default requirement would be for a PSP to provide, without undue delay, transaction-by-transaction notifications.

188. The Government intends to mandate, as a default, that users are provided with a monthly statement on a durable medium by PSPs, thereby avoiding the default scenario of transaction-by-transaction notifications. Recognising that this may not be how all individuals wish to receive information on their payment transactions, the Government intends to also allow PSPs to include in their framework contracts a clause which enables allows for consumers to explicitly choose whether they wish to change how they receive their statement.

Monetised costs

European Commission's IA: None provided.

FCA estimates: None provided.

Industry analysis and business impact

189. **Cost impacts**: Estimates from one trade body indicate that the number of accounts that would require a change ranged from 7 – 10 million individual accounts. One large PSP indicated that the change would result in 40 - 48 million extra paper statements per annum.

HMT costs assessment

190. Through the consultation process, the Government asked for consultee views on whether the Member State option (to require that PSPs provide information on their transactions to payers and payees at least once a month, on paper or on another durable medium) should be exercised.

191. Utilising the flexibility, which would require PSPs to provide a statement on a durable medium at least monthly, would remove the requirement for PSPs to provide information after every transaction and provides flexibility for consumers to choose whether they want to have their statements made available or provided on a non-durable medium. This also provides PSPs with greater flexibility to maintain current practices for customers.

192. **Cost impacts:**

- **PSPs**: The cost impact varies greatly depending on the size of the PSP and would affect millions of customer accounts. PSPs would be required to update their terms and conditions with customers, however our expectation is that most PSPs regularly review the terms and conditions they apply to customer's accounts. As a result, we do not expect any additional costs to be incurred by PSPs.

Non-monetised costs

European Commission's IA: None provided.

FCA estimates: None provided.

Industry analysis and business impact

193. **Current trend**: Many respondents to HM Treasury's consultation were of the view that customer choice should determine the frequency and format of statements provided. The Government's understanding from engagement with industry and analysis of the responses received to HM Treasury's consultation suggest that very few customers wish to increase the frequency with which they currently receive payment information and many choose to receive statements online, as demand for paper monthly statements reduces. Currently, it is estimated that the majority of customers choose to receive information on a monthly basis.

194. In practice, most PSPs already allow customers to request more or less frequent statements through a variety of means, for example, in-branch, by telephone and online. This was confirmed through responses to HM Treasury's consultation which highlighted that, as PSPs, their contracts already cover options for customer choice regarding statements, and highlighted concerns about the costs that a requirement for monthly statements would introduce.

Monetised benefits: None identified through consultation or that the Government has been able to source.

Non-monetised benefits

195. **Impact on users**: Users will have the choice over whether they wish to have the statement actively provided or just made available on request, whether they wish to receive it in an alternative manner which allows the information to be stored and reproduced, and whether they wish to receive it more frequently than monthly.

196. **Impact on PSPs**: This provides PSPs with flexibility to choose how they provide transaction information to consumers and would not require all PSPs to change current agreements with customers to transaction-by-transaction notifications.

Flex2: Summary of monetised costs and benefits

Transition costs	£ negligible
Annual costs	£ negligible

Assessment of other impacts

Consumers/users

197. Costs to consumers may arise from changes to the prices and services offered by PSPs as a result of compliance with the regulations. While the exact nature of this is difficult to estimate, we do not expect a notable increase in prices or reduction in range of services on offer.

198. PSDII's provisions are largely in favour of the consumer and so any costs borne are expected to be indirect as a consequence of PSPs changing their business models or terms and conditions to comply with the Directive's provisions.

Small and micro business assessment (SaMBA)

199. Option 1 will allow the UK to continue to exempt small payment institutions from being authorised under the Directive. As this continues the current treatment, there is no impact on costs or benefits to firms or users.

200. The SPI exemption can be used where a firm executes less than €3 million of transactions per month and none of the persons responsible for the management or operation of the business has been convicted of offences related to money laundering, terrorist financing, or other financial crimes. Firms using the exemption must still be registered with the FCA and cannot benefit from passporting into other Member States. They can, however, choose to become authorised if they wish.

201. Micro-enterprises would continue to benefit from additional protections (compared to larger businesses) through treatment as consumers, with additional information provided to them as part of their transactions.

Wider Society

202. The UK's lead competent authority would continue be the FCA, with a limited role also expected for the Payment Systems Regulator, for Trading Standards and the CMA. We expect that there would be additional costs to each organisation in light of additional supervisory responsibilities, with the majority of any increase falling on the FCA as the lead competent authority.

203. Additional costs to the FCA would arise in relation to an increase in the population of regulated firms due to narrower exemptions and new types of payment institutions (AISPs and PISPs), as well as additional reporting requirements for existing firms. The FCA is an independent regulator and will publish its own cost-benefit analysis as part of its consultation on guidance on its enforcement of PSDII.

204. Trading Standards and CMA already have co-current roles in relation to the enforcement of the Consumer Rights (Payment Surcharges) Regulations 2012, as such the additional costs associated with cases related to the ban on certain forms of surcharging is expected to be minimal.

205. HM Treasury has not identified any wider impacts resulting from this proposal, including on our responsibilities under the Equalities Act 2010 and does not believe these measures will impact upon discrimination or other prohibited acts, equality of opportunity

or good relation towards people who share relevant protected characteristics and others under the Act.

Option 2 – Copy out PSDII's requirements into UK legislation, without using the flexibilities to reduce burdens on industry

206. This option would impose all the costs and benefits of option 1, as well as the costs and benefits of not using the flexibilities that were used in PSDI and continue to be available in PSDII. The analysis below considers the additional costs and benefits over and above option 1.

Member State flexibilities

Flex4: Do not exempt particular firms, including credit unions

Description

207. Article 2(5) of PSDII allows Member States to exercise a flexibility to waive all or parts of the Directive for certain institutions. If the Government did not exercise the flexibility, the following institutions would be required to be regulated:

- National Savings Bank, including National Savings and Investments; and
- Municipal banks and credit unions.

Monetised costs

European Commission's IA: None provided.

FCA estimates

208. **Existing regulation**: Credit unions are already required to be registered under the FCA's Banking: Conduct of Business sourcebook. In addition, the PRA requires credit unions to hold minimum levels of capital and a minimum prescribed ratio of liquidity, as set out in the Credit Union Rulebook, at all times[46].

Industry analysis and business impact

209. **Number of affected firms**: There are 491 credit unions in the UK providing basic banking services, typically to the financially excluded.[47] The application of payment services requirements for the first time to these firms would impose a large cost as they would need to become authorised for the first time and then meet the ongoing obligations of PSDII.

HMT costs assessment

210. **Becoming authorised**: 491 credit unions. We have not been able to assess the number of municipal banks this would affect but the number is in decline and we do not expect a significant number of these firms to be affected by being brought into scope. The impact of being brought into scope will be similar to that of credit unions.

211. **Regulatory burden**: Some respondents to the HM Treasury's consultation noted the importance of credit unions providing banking services to vulnerable customers, with many arguing that without an exemption they would not be able to perform this work as effectively. The requirements for becoming authorised could impose a disproportionate

[46] The prudential regulation of credit unions, Prudential Regulation Authority, February 2017, http://www.bankofengland.co.uk/pra/Documents/publications/ss/2017/ss216update.pdf
[47] Consultation Paper – Implementation of the revised Payment Services Directive (PSD2): Draft Approach Document and draft Handbook changes, Financial Conduct Authority, April 2017, https://www.fca.org.uk/publication/consultation/cp17-11.pdf

regulatory burden on the sector, which might result in the sector being unable to offer basic financial services to low income consumers:

- **Operational costs**: The potentially large increase in operational costs could result in some firms having to withdraw products from the market, and others to cease operating altogether, as a result of constraints on the ability of credit unions to offer payment services to their members.

  Credit unions rely on weekly or monthly statements from banks, which set out the inward payments that have been made to the credit union's pooled account before monies are segregated among members. Credit union members are generally well aware of these delays, and continue to use this type of payment service for reasons other than fast payments processing.

- **Conduct of business rules**: Some could struggle to comply with many aspects of PSDII conduct of business rules in Titles III and IV, particularly those pertaining to execution times and value dating. Due to the limited resourcing and staffing of credit unions, payments are typically not processed on a daily basis.

212. **Cost impacts:** There is limited quantitative data available regarding the likely cost to credit unions of being brought into regulation. The Government sought additional data from the credit union sector to contribute to quantitative estimates in the final impact assessment, but did not receive any data that could be used to inform this impact assessment. We estimate the cost of credit unions being brought into scope of the Directive to be:

<u>Transition costs</u>

Authorisation/registration:

- **One-off application fees**:

  £1,500 * 491 = £736,500 to £5,000 * 491 = £2,455,000

  Midpoint: <u>£1,595,750</u>

- **Compliance firm support**:

  £12,000 * 491 = £5,892,000 to £15,000 * 491 = £7,365,000

  Midpoint: <u>£6,628,500</u>

Safeguarding of client funds:

- **One-off costs for installing new software** to disaggregate payments of different thresholds:

  £47,550 * 491 = £23,347,050 to £237,751 * 491 = £116,735,741

  Midpoint: <u>£70,041,395</u>

<u>Capital requirements</u>:

LOW: 0% - £0

HIGH: 100% - £102,500 * 491 = £50,327,500

MED: 50% - £51,250 * 491 = £25,163,750

<u>Total transition costs of: £103.4</u>

<u>Annual costs</u>

Authorisation/registration:

- **Annual fees**:

£4,694 * 491 = £2,304,754 to £141,813 * 491 = £69,630,183

Midpoint: £35,967,468

Safeguarding of client funds:

- **Ongoing technical and maintenance costs**:

  £41,606 * 491 = £20,428,546 to £101,044 * 491 = £49,612,604

  Midpoint: £35,020,575

Total annual costs of: £71 million

Non-monetised costs

213. Due to the limited resourcing and staffing of credit unions and their existing internal processes, credit unions would likely to have to undergo significant system changes and staff training/hiring. The Government does not have sufficient information to estimate the costs this may have on credit unions, which is likely to vary according to the size of the business.

Monetised benefits: None identified through consultation or that the Government has been able to source.

Non-monetised benefits

214. **Additional consumer protection**: Consumers may benefit from some additional regulatory protection if credit unions are regulated as PSPs, although the likelihood of the services provided being able to meet the authorisation and prudential requirements under the Directive are likely to counter this and significantly reduce the provision of these services.

215. Level playing field: A number of respondents to HM Treasury's consultation argued that bringing in to scope credit unions would create a level playing field across all PSPs.

Flex1: Summary of monetised costs and benefits

Transition costs	£103 million
Annual costs	£71 million

Flex5: Do not exempt Small Payment Institutions

Description

216. Under PSDI, SPIs were able to take advantage of the exemption from the prudential requirements (authorisation conditions, minimum capital and client money safeguarding) and register rather than obtain authorisation from the FCA. This would affect firms that:

- are legal or natural persons;
- execute less than €3 million worth of payment transactions a month;
- do not wish to sell, or "passport" their services in other Member States; and
- can prove that none of the persons responsible for managing the business has been convicted of offences relating to money laundering or terrorist financing or other financial crimes.

Monetised costs

European Commission's IA: None provided.

FCA estimates

217. **Number of affected firms**: 721 SPIs currently registered with the FCA.

Industry analysis and business impact: None provided through consultation or that the Government has been able to source.

HMT costs assessment

218. **Becoming authorised:** 721 SPIs. SPIs are limited in scope and scale of their operations often offering niche services, which means they may struggle to afford the cost of becoming authorised PIs.

219. **Prudential requirements**: The additional prudential requirements are likely to result in an increase in administrative costs, which would make it harder for smaller firms to compete with larger firms and for the providers of niche services to stay in business.

220. **Cost impacts**:

<u>**Transition costs**</u>

Authorisation/registration:

- **One-off application fees**:

  £500 * 721 = <u>£360,500</u> (£0.36 million)

- **Compliance firm support**:

  LOW: £2,000 * 721 = £1,442,000

  HIGH: £10,000 * 721 = £7,210,000

  MED: £6,000 * 721 = 4,326,000

Safeguarding of client funds:

- **One-off costs for installing new software**:

  LOW: £47,550 * 721 = £34,283,550

  HIGH: £237,751 * 721 = £171,418,471

  MED: £142,650 * 721 = <u>£102,850,000</u>

Capital requirements:

- **Initial capital**:

  LOW: 0% - £0

  HIGH: 100% - £102,500 * 721 = £73,902,500

  MED: 50% - £51,250 * 721 = £36,951,250

<u>Total transition costs of: £144.5 million</u>

<u>**Annual costs**</u>

Authorisation/registration:

- **Annual fees**:

  £433 * 721 = <u>£312,193 (£0.31 million)</u>

Safeguarding of client funds:

- **Ongoing technical and maintenance costs**:

£41,606 * 721 = £29,997,926 to £101,044 * 721 = £72,852,724

Midpoint: £51,425,325

Total annual costs of: £51.7 million

Non-monetised costs: None provided through consultation or that the Government has been able to source.

Monetised benefits: None identified through consultation or that the Government has been able to source.

Non-monetised benefits

221. **Increased consumer protection:** Consumers may benefit from some additional regulatory protection.

Flex2: Summary of monetised costs and benefits

Transition costs	£144.5 million
Annual costs	£51.7 million

Flex6: Do not provide additional protections for micro-enterprises

Description

222. Micro-enterprises (firms with a turnover of less than €2 million per year and nine or fewer employees[48]) would no longer benefit from articles 38 and 61, which see that micro businesses are treated as consumers (and protected as consumers are).

Monetised costs

European Commission's IA: None provided.

FCA estimates: None provided

Industry analysis and business impact: None provided through consultation or that the Government has been able to source.

HMT costs assessment

223. **Number of affected firms**: 5.3 million micro-enterprises[49] (not all of these firms will be providing payment services). We have been unable to disaggregate the number of micro-enterprises providing payment services.

224. **Cost impacts:** We expect the costs for complying to be similar to that for SPIs:

Transition costs

Authorisation/registration:

- **One-off application fees**: between £1,500 to £5,000

Compliance firm support: £12,500 to £15,000

Safeguarding of client funds:

[48] As defined in Commission Recommendations 2003/361/EC.
[49] Business statistics: Briefing paper, House of Commons Library, November 2016, http://researchbriefings.files.parliament.uk/documents/SN06152/SN06152.pdf

- **One-off costs for installing new software** to disaggregate payments of different thresholds: £47,550 to £237,751

Capital requirements:

- **Initial capital**:

  0% - £0

  50% - £51,250

  100% - £102,500

Annual costs

Authorisation/registration:

- **Annual fees**: between £4,694 to £141,813

Safeguarding of client funds:

- **Ongoing technical and maintenance costs**: £41,606 to £101,044

Non-monetised costs

225. **Charges for information**: Were the use of this derogation not to be carried over to PSDII, some PSPs could agree with micro-enterprises that certain types of information will not be provided. This would risk micro-enterprises being charged for information provision by their PSPs, a factor that might restrict their use of certain payment methods.

Monetised benefits: None identified through consultation or that the Government has been able to source.

Non-monetised benefits

226. **Reduced information requirements**: Firms providing payment services to micro-enterprises would benefit from no longer having to adhere to the same information requirements as when providing services to consumers. This would be a small reduction in administrative costs, though it has not been possible to provide a quantitative estimate of this.

227. **Increased consumer protection:** Consumers may benefit from some additional regulatory protection.

Flex7: Summary of monetised costs and benefits

Transition costs	£ unquantifiable
Annual costs	£ unquantifiable

Flex4: Do not reduce requirements for low-value payment instruments and e-money

Description

228. Under articles 42 and 63, the Government would no longer continue the approach used in implementing PSDI where providers of low-value payment instruments need only provide users with information on the main characteristics of the payment service, which is intended to ensure that requirements for these instruments are proportionate when making low-value payments.

229. The flexibility can be exercised if such instruments are used as part of a framework contract and:

- are used to make individual transactions not exceeding €30; or
- have a spending limit of €150; or
- have stored funds which do not exceed €150 at any time

230. Under this option, the Government would also no longer make use of the flexibility, as under PSDI, which doubles the €30 and €150 threshold to €60 and €300, and increases the limit for prepaid instruments to a stored value of €500 (for intra-UK transactions only).

Monetised costs

European Commission's IA: None provided.

FCA estimates: None provided.

Industry analysis and business impact: None provided through consultation or that the Government has been able to source.

HMT costs assessment

231. **Cost impacts**: No estimate has been made of the costs.

Non-monetised costs

232. **Impact on providers:** The Government would expect providers of low-value payment instruments to offer users additional information, which would increase the cost of providing these services. This would include additional information on each transaction and information beyond the main characteristics of the payment instrument (such as the way in which the payment instrument can be used, liability, and charges levied).

233. **Administrative burdens**: Firms issuing these instruments, particularly e-money and pre-paid card firms, would have to absorb higher administrative costs and would find it harder to compete with firms offering higher-value payment instruments, although we have not been able to make quantitative estimates of this direct impact.

234. **Withdrawal of payment instruments**: Where the business model is affected by additional requirements, this could result in certain instruments being withdrawn entirely, indirectly affecting competition and innovation in the provision of, particularly low-value, payment instruments.

Monetised benefits: None identified through consultation or that the Government has been able to source.

Non-monetised benefits

235. **Increased consumer protection**: Consumers would have better protection, due to the limited risks posed by payment instruments, as a result of additional regulatory protection.

Flex7: Summary of monetised costs and benefits

Transition costs	£ unquantifiable
Annual costs	£ unquantifiable

Flex8: User's liability for unauthorised use of payment instruments

Description

236. Article 74 of the Directive sets the limit of how much liability PSPs and payers bear for unauthorised payment transactions at €50. This is a reduction from the €150 set out in PSDI and from the £50 currently in UK law.

237. Whilst the Government would not exercise the flexibility to set lower limits, we would need to reduce the maximum liability that payment service users are liable for in the event of unauthorised transactions, to meet the new rate set by PSDII of €50 taking into consideration the exchange rate conversion.

Monetised costs

European Commission's IA: None provided.

FCA estimates: None provided.

Industry analysis and business impact

238. **Number of affected firms**: 1,552 PSPs.

239. **Cost impacts**: The majority of PSPs are understood not to impose a liability on consumers in cases of gross negligence and as such the impact of this change is expected to be negligible. As this reflects current UK practice, the Government estimates that there will be no impact on firms as a result of this change.

240. FCA analysis supports this conclusion, which refers to statistics from the Office for National Statistics from September 2016. Updated statistics show that, whilst incidents of fraud are most common among bank and credit accounts and more likely to result in initial loss to the victim, in 85% of these incidents the customer received a full reimbursement, typically from their PSP.[50]

241. Fragmentation in implementation: If the Government were not to set a conversion for the new €50 liability limit there could be some costs incurred by PSPs in changing the limits to reflect potential fluctuations in the exchange rate. This would also lead to divergent approaches to the conversion by PSPs causing confusion for customers.

Non-monetised costs

242. **Cost impacts**: The Government expects costs to be limited to training staff to deal with identifying and processing instances when an unauthorised transaction has occurred and may require firms to update terms and conditions.

Monetised benefits: None identified through consultation or that the Government has been able to source.

Non-monetised benefits: None identified through consultation or that the Government has been able to source.

Flex8: Summary of monetised costs and benefits

Transition costs	£ negligible
Annual costs	£ negligible

Flex9: Do not extend the ban on surcharging to all retail payment instruments

[50] Crime in England and Wales: year ending Sept 2016, Office for National Statistics, April 2017, https://www.ons.gov.uk/peoplepopulationandcommunity/crimeandjustice/bulletins/crimeinenglandandwales/yearendingdec2016

Description

243. Under PSDII, retailers will no longer be able to charge consumers to use payment instruments for which interchange fees are regulated under the Interchange Fee Regulation (IFR) ((EU) 2015/751). This includes the majority of consumer debit and credit cards.

244. Not all retailers currently surcharge and, where they do, the Consumer Rights (Payment Surcharges) Regulations 2012 limits this to the cost borne to the retailer when making the transaction. The regulations ban excessive payment surcharges being charged to consumers, while allowing traders to recover the fees directly charged to businesses for taking payments from consumers.

245. Under article 62, the Government would not use the flexibility to extend the ban on surcharging to a broader range of payment instruments.

Monetised costs

European Commission's IA: None that provide any additional data or information on top of those described in option 1.

FCA estimates: None provided.

Industry analysis and business impact: We expect these to be the same as under option 1.

HMT costs assessment

246. **Cost impacts**: The Government expects the cost impacts to be the same as those described in option 1. Since the IFR has come in to force, the Government recognises that, in some instances, the costs of processing cards regulated under the IFR has increased, rather than decreased.

247. Although it is not possible to provide a precise quantitative estimate of the direct or indirect cost to retailers of ceasing surcharging, BIS' expectation was that retailers would fully pass on the majority of the costs to consumers through higher prices, just as they would other routine costs of doing business.

248. Under option 2, the Government would not extend the ban to other retail payment instruments and our best estimate of the costs to merchants is a midpoint between the Commission's estimated cost of surcharging and BIS' estimates of the total value of card payment surcharges of £161 million.

Non-monetised costs

249. **Impact on card schemes**: If merchants can still surcharge other card payments not regulated by the IFR and non-card payment instruments, consumers could switch away from using them in favour of those instruments which are not surcharged. We do not expect that this would make card schemes – of which - MasterCard and Visa make up c96% of the total market - unviable but it

250. **Fragmentation between card schemes and new market entrants**: With new non-card payment instrument providers likely to enter the market under the PIS, who may potentially charge less than cards, this could put them at a competitive disadvantage by allowing them to be surcharged, when major cards cannot.

251. **Impact on merchants**: Merchants may not be able to steer consumers towards using more efficient and cheap means of payments due to a lack of competition and a smaller range of instruments covered by the ban.

252. **Consumer impact**: May create a confusing environment, where consumers do not understand why some instruments are charged and others are not. The Government expects retailers to react to the ban on surcharging by recouping the cost of receiving card payment transactions through other mechanisms, such as an increase in prices, consumers are likely to see just a portion of the surcharging amount passed through as savings.

Monetised benefits: None identified through consultation or that the Government has been able to source.

Non-monetised benefits: None identified through consultation or that the Government has been able to source.

Flex9: Summary of monetised costs and benefits

Transition costs	£ unquantifiable
Annual costs	£161 million

Flex3: Information for the payer and payee (monthly statements)

Description

253. Articles 57(3) and 58(3) requires PSPs to provide consumers, without undue delay, transaction-by-transaction notifications of their payment information.

Monetised costs

European Commission's IA: None provided.

FCA estimates: None provided.

Industry analysis and business impact

254. **Cost impacts:** The cost impact varies greatly depending on the size of the PSP but across small, medium and large PSPs we expect costs to be considerable:

- **Number of customer accounts affected**: Across all PSPs, the expectation is that this would affect an aggregate of hundreds of millions of customer accounts.
- **Terms and conditions**: PSPs would be required to update terms and conditions with customers, however our expectation is that most PSPs regularly review the terms and conditions they apply to customer's accounts. As a result, we do not expect any additional costs to be incurred by PSPs.
- **Requirement to notify after each transaction**: PSPs would incur significant costs as a result of being required to send information without undue delay for each transaction each time in paper and digital form estimated to be in the tens of millions. Estimates from industry suggest this could range from £7 to £40 billion for all 1,552 PSPs.
- **Set up costs**: We would also expect system set up costs for most PSPs that would be required in order to amend the frequency of information provision.
- **Complaints handling**: PSPs would need to increase the number of staff and up skill existing staff to handle potential client complaints, particularly considering the number of customer accounts likely to be affected.

HMT costs assessment

255. The only costs available are those p[rovided by industry: £70bn to £40bn, with a mid-point of £24bn.

Non-monetised costs

256. **Cost impacts**: The Government's assessment is that copy-out from the Directive would lead to considerable consumer detriment as a result of having transaction information sent to them if they have not previously received communication from their PSP in this way.

Monetised benefits: None identified through consultation or that the Government has been able to source.

Non-monetised benefits: None identified through consultation or that the Government has been able to source.

Flex10: Summary of monetised costs and benefits

Transition costs	£ unquantifiable
Annual costs	£7 – 40 billion

<u>Assessment of other impacts</u>

Consumers/users

257. The removal of the flexibilities provided by the Directive is expected to result in a reduction in the breadth of products available to consumers and could increase the cost of some existing products. The availability of niche services previously provided by SPIs and of low-value payment instruments would be expected to decline and/or costs to consumers to increase.

258. Where credit unions are no longer able to provide basic financial services, financially excluded and/or low-income consumers are likely to be particularly affected.

Small and micro businesses assessment (SaMBA)

259. The withdrawal of the flexibilities used under PSDI is expected to impose large additional costs on small businesses, through the combination of:

- credit unions and municipal banks now being in scope of the requirements;
- additional administrative burdens for small payment institutions (firms conducting less that €3 million of payment transactions per month) that must now be authorised rather than registered and meet additional prudential requirements;
- Micro-enterprises (firms with a turnover of less than €2 million per year and nine or fewer employees) no longer benefitting from additional information requirements.

260. In the case of credit unions, municipal banks and small payment institutions, firms are believed to have limited staffing and regulatory expertise and would not be expected to be able to adjust easily to the change in requirements. As such, a significant number of these firms would be expected to be at risk of having to reduce their services or even being driven out of business as a result.

Wider Society

261. There would be additional costs and resourcing implications for the lead competent authority, the FCA, stemming from the increase population of authorised firms.

262. HM Treasury has not identified any wider impacts resulting from this proposal, including on our responsibilities under the Equalities Act 2010 and does not believe these measures will impact upon discrimination or other prohibited acts, equality of opportunity or good relation towards people who share relevant protected characteristics and others under the Act.

Implementation timeline

February – March 2017	Consultation on draft regulations
19 July 2017	Publish Government response
19 July 2017	Lay implementing regulations
13 January 2018	Implementing regulations enter into force
13 January 2023	Deadline for HM Treasury's first review report

Summary

263. The Government's preferred option is Option 1: seek to maintain the existing regulatory framework and UK structures, minimising any adjustments required to implement PSDII.

264. Option 1 employs copy-out wherever possible, but tailors the approach to the UK market where necessary by maintaining the:

- Exclusion of particular institutions – including credit unions and municipal banks, National Savings and Investment and crown agents for overseas governments and administrations.

- Exemption for SPIs – firms below a threshold of €3 million need only be registered, rather than authorised.

- Additional protection for micro-enterprises – the provisions on transparency and information requirements are applied to micro-enterprises using payment services in the same way as to consumers.

- Exclusion for low-value payment instruments and e-money – providers of low-value payment instruments need only provide users with information on the main characteristics of the payment service.

265. This is in line with the policy objective to achieve compliance with PSDII while continuing to protect customers in line with innovations in the market and minimising the impact on UK industry in terms of their costs and competitiveness.

266. The Government has consulted on these proposals. The Government has laid legislation, ahead of the date at which PSDII comes into force, in order to give firms time to make the necessary changes.

Annex A

System changes

267. Figures sourced from raw year on year inflation data from the ONS[51]. From the table you can see that we have multiplied the one-off and on-going costs by the average inflation rate each year.

Year	CPI	CPI divided by 100	One-off		On-going	
2008	3.61	0.036	£40,000.00	£200,000.00	£35,000.00	£85,000.00
2009	2.18	0.022	£40,873.33	£204,366.67	£35,764.17	£86,855.83
2010	3.31	0.033	£42,225.56	£211,127.80	£36,947.36	£89,729.31
2011	4.48	0.045	£44,115.15	£220,575.77	£38,600.76	£93,744.70
2012	2.84	0.028	£45,368.76	£226,843.79	£39,697.66	£96,408.61
2013	2.57	0.026	£46,533.22	£232,666.12	£40,716.57	£98,883.10
2014	1.46	0.015	£47,211.83	£236,059.17	£41,310.35	£100,325.15
2015	0.04	0.000	£47,231.50	£236,157.52	£41,327.57	£100,366.95
2016	0.68	0.007	**£47,550.32**	**£237,751.59**	**£41,606.53**	**£101,044.42**

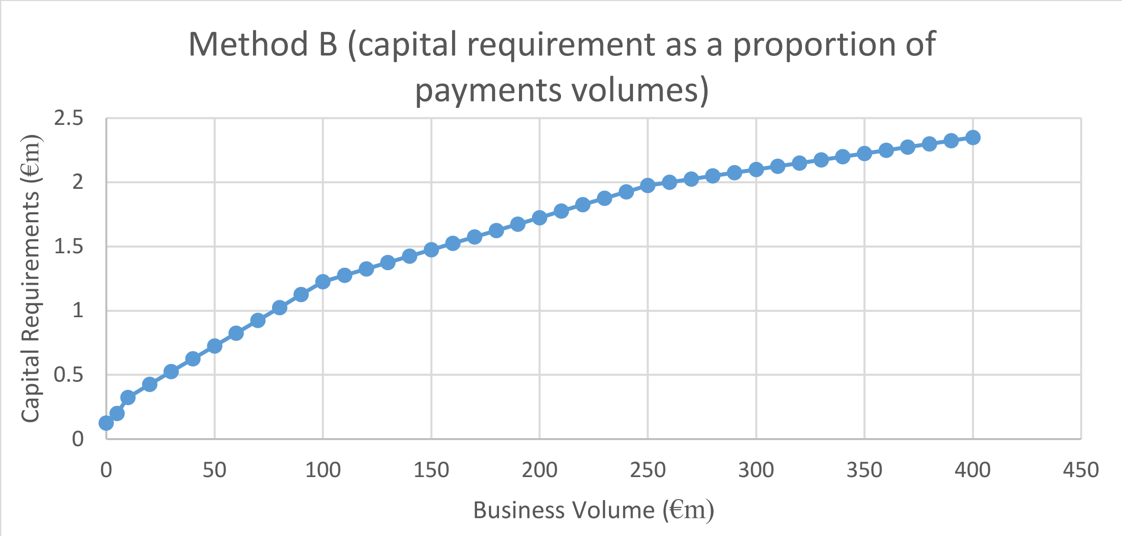
Minimum initial capital requirements

268. A number of impact assessments have made attempts to calculate the initial capital requirements for firms, that we have sought to replicate for the purposes of this IA but have been unable to do so, for instance:

- E-money Directive – The HM Treasury impact assessment on draft E-Money Regulations made assumptions in relation to aggregate capital holdings and average outstanding balances and total financial liabilities for e-money issuers. This would not be possible to calculate for the broad range of firms affected by PSDII.

269. We explored how we might be able to calculate the capital requirements for firms' impact by PSDII, however this would require information about the payment volumes for each of the Directive's provisions, which we are not able to estimate as payment volumes are not disaggregated by type of payment service or PSP. The below chart demonstrates how we could use firms' payment volumes to calculate expected capital requirements:

[51] Figure 2, UK consumer price inflation: Jan 2017, https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/jan2017



MH1: Extension of scope – location of transactions and currency

270. The European Commission's calculation of impact is as follows:

> The cost of changing terms and conditions of PSPs was estimated on the basis that it would require one employee two hours to prepare the necessary documents and under the assumption that this would involve all credit institutions and licensed PIs, roughly 9,400 PSPs (an overestimation). The cost of one working hour in the financial sector, based on the labour cost Eurostat survey, is €37.30. (The most recent labour cost survey from 2012, stated that average labour costs for financial and insurance activities amongst EU counties were €41.2).
>
> The information would also need to be delivered to PSUs. The Commission's IA assumes that the distribution costs would be zero, as the information would normally accompany the account statements sent to payment service users or delivered electronically. The only additional cost would be for printing the information. It is assumed that the information would require one sheet of A4 paper for each consumer account and that for 30% to 70% of the account owners the information will be delivered on paper.

MH2: Commercial agent exemption (CAE)

271. The European Commission's calculation of the costs of the change to the commercial agent exemption is as follows:

> The Commission estimated that between 26 - 70 platforms would need a payment institution license (€125.000) and the necessary own funds (assumption: funds are calculated using method B of the PSDI, the average payment volume (PV) of the payment services provided in the framework of commercial agent exemption is €120 million, which would put the value of commercial agent payment services to consumers at between 2 to 5% of the total estimated value of the EU B2C e-commerce in 2012).
>
> For the administrative costs calculation, it was assumed that the preparation of the necessary documents would take one employee five business days of eight hours and includes the average cost of one hour of work of an employee in the financial services sector of €37.30 (Eurostat labour cost survey 2007). (The most recent labour cost survey from 2012 stated that average labour costs for financial and insurance activities amongst EU counties were €41.2.)

MH3: Limited network exemption (LNE)

272. The European Commission’s calculation of the costs of the change to the limited network exemption is as follows:

The Commission estimated that 156 - 284 new firms in Europe, exempted under PSDI, might require a license. Calculation of own funds were based on method B of the PSDI. It was also assumed that 80% of new entities would have relatively small PVs, averaging €60 million annually and the remaining 20% would have much higher volumes, averaging €240 million annually.

The Commission’s IA also includes an average cost of one hour of work of an employee in the financial services sector of €37.30 (Eurostat labour cost survey 2007). (The most recent labour cost survey from 2012 stated that average labour costs for financial and insurance activities amongst EU counties were €41.2.)

Flex2: Do not exempt Small Payment Institutions

273. The PSDI impact assessment estimated the benefit of the use of the flexibility to offer reduced requirements for small payment institutions, with the assumption that there would be 2,500 such institutions. As the counter-factual in the PSD estimate was full authorisation, which is what would be imposed under option 2, these benefits can be used to estimate the costs under option 2.

Annex B - EANCB breakdown

Option1 - Copy out PSDII's requirements into UK legislation while using the flexibilities to reduce burdens on industry;

MH1: Extension of scope – location of transactions and currency	
Description	**Costs (£m)**
Transition costs	
System changes	**0.2**

MH3: Limited network exemption (LNE)	
Description	**Costs (£m)**
Transition costs	
Notification	**0.06**

MH4: Electronic communication network (ECN) providers	
Description	**Costs (£m)**
Transition costs	
Notification	0.01
System changes	4,1
One-off total	**4.1**
Annual costs	
System changes	**2.1**

MH2-4: LNE, ECN and Commercial Agent Exemption	
Description	**Costs (£m)**
Transition costs	
Authorisation/registration fees	0.5
Compliance firm support	2.2
Safeguarding of client funds (system changes)	23.5
Initial capital	8.5
One-off total	**34.8**
Annual costs	
Authorisation fees	12.1
Safeguarding of client funds (system changes)	11.8
Annual total	**23.9**

MH6: 'Open access' provisions - Account access for third parties	
Description	**Costs (£m)**
Transition costs	
Authorisation/registration fees	0.6
Compliance firm support	2.4
Capital requirements	0.5
Transition total	**3.4**
Annual costs	
Authorisation fees	**12.8**

Flex2: Ban on surcharging, including extension to all retail payment instruments	
Description	**Costs (£m)**
Annual costs	
Cost to merchants	161
Cost of merchants (extending the ban to all retail payment instruments)	4.5
Total	**166**

Option 1: Consolidated one-off transition costs	
Description	**Costs (£m)**
Transition costs	
MH1: Extension of scope – location of transactions and currency	0.2
MH3: Limited network exemption (LNE)	0.06
MH4: Electronic communication network (ECN) providers	4.1
MH2-4: LNE, ECN and Commercial Agent Exemption	34.8
MH6: 'Open access' provisions - Account access for third parties	3.4
Total	**42.6**

Flex2: Ban on surcharging, including extension to all retail payment instruments	
Description	**Costs (£m)**
Annual costs	
Cost to merchants	161
Cost of merchants (extending the ban to all retail payment instruments)	4.5
Total	**166**

Option 1: Consolidated annual costs	
Description	**Costs (£m)**
Annual costs	
MH4: Electronic communication network (ECN) providers	2.1
MH2-4: LNE, ECN and Commercial Agent Exemption	23.9
MH6: 'Open access' provisions - Account access for third parties	12.8
Flex2: Ban on surcharging, including extension to all retail payment instruments	166
Total	**205**

Option 2 – Copy out PSDII's requirements into UK legislation, without using the flexibilities to reduce burdens on industry

Flex1: Do not exempt particular firms, including credit unions	
Description	**Costs (£m)**
Transition costs	
Authorisation/registration fees	1.6
Compliance firm support	6.6
Safeguarding of client funds (system changes)	70.0

Initial capital	37
Total	**103.4**
Annual costs	
Authorisation fees	36
Safeguarding of client funds (system changes)	35.0
Total	**71.0**

Flex2: Do not exempt Small Payment Institutions	
Description	**Costs (£m)**
Transition costs	
Authorisation/registration fees	0.4
Compliance firm support	4.3
Safeguarding of client funds (system changes)	103
Initial capital	37
One-off total	**144.5**
Annual costs	
Authorisation fees	0.3
Safeguarding of client funds (system changes)	51.4
Annual total	**51.7**

Flex6: Do not extend the ban on surcharging to all retail payment instruments	
Annual costs	**Costs (£m)**
Cost to merchants	161

Flex8: Information for the payer and payee (monthly statements)	
Description	**Costs (£bn)**
Annual costs	
Transaction-by-transaction statements	**7 – 40 (24)**

Option 2: Consolidated one-off transition costs	
Description	**Costs (£m)**
Transition costs	
MH1: Extension of scope – location of transactions and currency	0.2
MH3: Limited network exemption (notifications)	0.06
MH4: Electronic communication network (ECN) providers	4.1
MH2-4: LNE, ECN and Commercial Agent Exemption	34.8
MH6: ‘Open access’ provisions - Account access for third parties	3.4
Flex1: Do not exempt particular firms, including credit unions	103.4
Flex2: Do not exempt Small Payment Institutions	144.5
Total	**290.5**

Option 2: Consolidated annual costs	
Description	**Costs (£m)**
Annual costs	
Flex1: Do not exempt particular firms, including credit unions	71

Flex2: Do not exempt Small Payment Institutions	51.7
Flex6: Do not extend the ban on surcharging to all retail payment instruments	161
Flex8: Information for the payer and payee (monthly statements)	24,000
Total	**24,490**