 Regulatory Policy Committee	OPINION	
Impact Assessment (IA)	Reform of the consumer credit regulatory framework	
Lead Department/Agency	Department for Business, Innovation and Skills	
Stage	Consultation	
Origin	Domestic	
IA Number	BIS 0389	
Date submitted to RPC	14/02/2013	
RPC Opinion date and reference	21/02/2013	RPC10-BIS-0641(3)
Overall Assessment	AMBER	
<p>The IA is fit for purpose.</p> <p>The IA explains that the preferred proposal of transferring consumer credit regulation to the Financial Conduct Authority will be an IN for the purposes of OIOO. This is because there will be new regulatory costs to business, principally from charges and administration for future authorisation to operate, and compliance. This is a reasonable assessment.</p>		
<p>Identification of costs and benefits, and the impacts on small firms, public and third sector organisations, individuals and community groups and reflection of these in the choice of options</p> <p><i>Options.</i> The IA says on page 1 that the option of enhancing the existing Consumer Credit Act regime would be “...unlikely to deliver the intended effect of greater flexibility.” The IA should demonstrate this more clearly and provide a summary sheet for each option. The IA would also benefit from making it clearer how the estimates in the evidence base, particularly those in the Aggregate Cost Table on pages 17 – 19, are represented in the summary sheet for the preferred option.</p> <p><i>Assessment.</i> The IA should explain more clearly why it assesses the proposal over 11 years rather than 10 years which would be more normal.</p> <p><i>Estimated Costs.</i> The significant and complex nature of the proposal complicates the estimate of costs on business for OIOO purposes. The costs are not just those associated with payments to the regulator. They also include the cost to businesses which, as a consequence of the proposed new regime, may decide to exit the relevant market(s) in which they consider it no longer economic to operate.</p> <p><i>Estimated Benefits.</i> The benefits from the proposal are also complicated to estimate. The IA uses a ‘low’ and ‘high’ estimate. The ‘low’ estimate is based on <i>Consumer Focus</i> data reflecting “<i>The cost of resolving the problem.</i>” (paragraph 57). The IA would be improved if these estimates were compared with the calculation of other estimates of consumer detriment.</p>		

The 'high' estimate is based on a combination of National Audit Office estimates multiplied by an Office of Fair Trading estimate that "...for every 1 Consumer Direct (CD) complaint about financial services, 59.3 problems were not reported to CD." (paragraph 60). The IA would be improved if these estimates were compared with other similar types of estimates, if available.

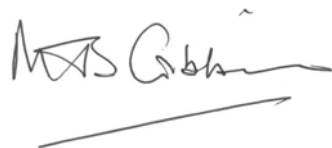
The IA says that the estimates it provides are an indication of the extent of consumer detriment in consumer credit, and this "...is not intended to exactly reflect the way consumer detriment is tackled." (footnote 36, page 13). While this may be a reasonable position to take, the IA does use an estimate of the resolution of current levels of consumer detriment cases as its estimate of benefits of the proposal. This could lead to confusion over exactly how, and to what level, the proposal can be expected to reduce consumer detriment over the next decade. The consultation should be used to help formulate a more robust estimate of the benefits of the proposal.

The IA says that there will be non-monetised benefits from the proposal in the form of reputational benefits to business from a more effectively operating market. The IA would be improved further by discussing in more detail any potential unintended consequences from tightening the regime in this area, and how those would be dealt with in the future.

Have the necessary burden reductions required by One-in, One-out been identified and are they robust?

The IA correctly states that the proposal would be an IN for OIOO purposes. However, the value (EANCB) of this is not straightforward to calculate given that it involves costs to businesses which remain in the market, and to legitimate businesses which exit as a consequence of the proposed changes. It will be important that the consultation is used to contribute positively to strengthening the estimates of all the costs and benefits involved so that an EANCB figure can be validated at the final stage.

Signed



Michael Gibbons, Chairman