

Implementation of the EU Payment Accounts Directive

HM Treasury

RPC rating: fit for purpose

Description of proposal

The UK is required to implement the Payments Accounts Directive (2014/92/EU) ('PAD') by 18 September 2016. The PAD sets out common regulatory standards that member states are required to meet in order to improve the comparability of fees related to current accounts (payment accounts that are used for day-to-day transactions), facilitating switching of those accounts, and ensuring access to accounts with basic features.

The Government is legislating to ensure that these standards are fully implemented in the UK. This will be achieved by using a copy-out approach to transposition wherever possible, but tailoring the approach to the UK market where necessary. The main elements of the legislation are summarised below.

- Provide a definition for "payment accounts" to help payment service providers determine which of their accounts the regulations must apply to, including current accounts. This will effectively reduce the scope of the Directive so that a smaller number of firms and products will be affected than under a pure copy out approach.
- Using the discretion available in the Directive, the legislation will maintain the existing switching service, the Current Account Switching Service (CASS), ensuring that only minimal changes are needed to achieve compliance with the Directive.
- Ensure that credit institutions offering basic bank accounts maintain existing UK policy objectives] on fee-free banking. This represents a higher standard than that required by the Directive.

Impacts of proposal

The requirements affecting UK current account providers are described below. :

Identifying which accounts will be affected and updating their customer information booklets.

HM Treasury estimates that there are approximately 100 active bank and building society account providers in the UK, in addition to a further 5 -10 payment service providers that offer similar products, such as e-money current accounts. The IA explains that these firms are already required to identify which of their products are

current accounts so additional costs will be minimal. These firms will also now be required by the PAD to use standardised terms in their customer information documents relating to their current accounts. Evidence from the consultation suggests that updating customer information would cost firms in the range of £0.25 million (for small firms) to £4 million (for large firms). Overall, HM Treasury estimates that the industry will face a cost of £91 million over a ten year period (in present value terms) for adapting their customer information.

Complying with switching requirements.

HM Treasury estimates that around 99% of the UK's current account market (40 of the 105 - 110 firms) are members of CASS. Existing CASS members would incur no additional costs from complying with the switching requirements in PAD. However, these 40 CASS members are expected to incur total costs of £1.88 million (in present value terms) to process a switch request from a non-CASS member firm. Firms that are outside CASS may incur costs from offering a switching procedure required by PAD. HM Treasury estimates that 65-70 firms that are in scope of PAD but are not CASS members will reframe their existing switching service to a PAD compliant service, at a total cost of £120,000 (in present value terms).

The provision of basic bank accounts.

PAD requires firms in scope to offer basic bank accounts to a larger number of consumers than at present and allows these firms to charge a fee if consumers do not comply with the terms of their contract. The IA explains that, in December 2014, a voluntary agreement was reached with the banking industry that will see an end to the unfair practice of charging fees to basic bank account holders in the UK from the end of 2015. In transposing PAD therefore, HM Treasury intends to ensure that basic bank accounts continue to be delivered fee-free in line with this agreement and UK market and domestic policy objectives. Because the agreement pre-dates this proposal and will be in force prior to the implementation of PAD, the Department does not expect any additional costs as a result of this element of the proposal.

The IA explains that the regulators are expected to incur costs as a result of this proposal.

Under the proposal, the Money Advice Service (MAS) will be required to operate a comparison website. HM Treasury estimates this will incur a one-off cost of between £0.2-0.8 million and on-going annual costs of between £0.1-0.2 million. The MAS is funded by the Financial Conduct Authority (FCA) using a levy charged to industry. The Department has, therefore, correctly considered this cost as a cost to industry. The IA explains that the FCA will incur costs relating to supervising firms' compliance

with PAD requirements. However, as supervision will be done using existing systems, the cost is not expected to be significant.

Quality of submission

The Department has identified the main impacts to business expected from the proposal and uses proportionate approach to monetising the impacts using information from its consultation with industry and data from the relevant regulators.

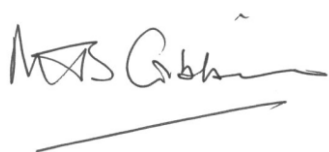
While the preferred option (paragraphs 156 – 160) minimises adjustments to the existing regulatory framework and takes advantage of derogations to implement the Directive, an aspect of it relating to basic bank accounts represents a higher standard than that required by the Directive. However, because this higher standard pre-dates the implementation of the Directive, HM Treasury considers it to be out of scope of 'One-in, Two-out'. This is in line with past interpretations of paragraph 1.9.9.ii of the Better Regulation Framework Manual. Nevertheless, the IA would have benefited from an assessment of the likely costs and benefits if the higher standards were not maintained.

Initial departmental assessment

Classification	Out of scope (European)
Equivalent annual net cost to business (EANCB)	£10.86 million
Business net present value	‑£94.94 million
Societal net present value	‑£94.94 million

RPC assessment

Classification	Out of scope (European)
EANCB – RPC validated	£10.86 million
Small and micro business assessment	Not required (European)



Michael Gibbons CBE, Chairman