Regulator Assessment: Qualifying Regulatory Provisions

Title of proposal: The revised Payment Services Directive (PSD2)

Lead regulator: FCA

Date of assessment: November 2017

Commencement date: 13 January 2018

Origin: Domestic extension of EU legislation

Does this include implementation of a Cutting Red Tape review? No

Which areas of the UK will be affected? Whole of the UK

Brief outline of proposed new or amended regulatory activity

PSD2 is an EU maximum harmonising directive, which has the following high-level aims:

- bring regulation up to date with developments in the market for payment services
- increase innovation and improve market access for payment service providers (PSPs)
- drive down the cost of services
- make payments safer and more secure
- improve consumer protection

We recognise that businesses will incur material costs complying with PSD2. The broader costs have already been considered by the EU Commission and the UK Government as PSD2 is largely implemented through HM Treasury regulations (the Payment Services Regulations 2017(PSRs 2017)). Given that these requirements primarily derive from an EU directive, a number of the changes we are making are classed as Non-Qualifying Regulatory Provisions (NQRPs).

This impact assessment focuses on estimating the costs to businesses resulting from the changes we are making which are Qualifying Regulatory Provisions (QRPs). The costs mainly come from certain changes to regulatory reporting, and there are some other changes which will have a smaller impact. In estimating the impact on businesses, we calculate that the Business Impact Target (BIT) score will be 67.2.

We firstly set out the changes that are NQRPs (I) before outlining the changes which are QRPs (II).

<u>I. Non-Qualifying Regulatory Provisions</u>

Proposal	Exclusion	Why the proposal meets this exclusion
Complaints handling	Exclusion A (EU regulations, decisions and directives)	We are implementing changes to complaints, including setting a maximum 15 days for complaints handling (35 days in exceptional circumstances) for payment services providers and e-money issuers which are set by directive maximum requirements.
Fraud reporting	Exclusion A (EU regulations, decisions and directives)	By setting the form of fraud reporting we are meeting a directive maximum requirement which is implemented in the PSRs 2017.
Limited network exclusion notification	Exclusion A (EU regulations, decisions and directives)	By setting the form of the notification for businesses using the limited network exclusion we are meeting a directive maximum requirement which is implemented in the PSRs 2017.
Electronic communications exclusion notification	Exclusion A (EU regulations, decisions and directives)	By setting the form of the notification for businesses using the electronic communications exclusion we are meeting a directive maximum requirement which is implemented in the PSRs 2017.
Notification of denial of access to account information service provider (AISP) or payment initiation service provider (PISP)	Exclusion A (EU regulations, decisions and directives)	By setting the form of the notification that account providers must make when denying AIS or PIS we are meeting a directive maximum requirement which is implemented in the PSRs 2017.
Notification of refusal or withdrawal of payment account services by a credit institution and related guidance	Exclusion A (EU regulations, decisions and directives)	By setting the form of the notification that account providers must make when withdrawing bank account services to a payment service provider we are meeting a directive maximum requirement which is implemented in the PSRs 2017.
Incident reporting	Exclusion A (EU regulations, decisions and directives)	By setting the form of the notification that payment service providers must make when notifying of major incidents we are meeting a directive maximum requirement which is implemented in the PSRs 2017.
Revisions to the Approach Document	Exclusion A (EU regulations, decisions and directives)	We are updating our guidance to reflect PSD2 and the PSRs 2017.
Consequential changes to the Handbook	Exclusion A (EU regulations, decisions and directives)	We are making necessary changes to our Handbook to reflect PSD2 and the PSRs 2017.
Re-authorisation form	Exclusion A (EU regulations, decisions and	We are creating a new form to reflect the maximum requirements

	directives)	in PSD2 for authorised payment institutions and authorised e-money institutions to be re-authorised.

II. Qualifying Regulatory Provisions

We are introducing the following requirements which are not directly required in the PSD2, and do not fall under other exclusions. These are therefore QRPs.

Complaints reporting

Our Dispute Resolution sourcebook (DISP) rules currently require banks and building societies to report on all complaints. We are now also requiring payment institutions (PIs), e-money institutions (EMIs) and registered account information service providers (RAISPs) to report on payment services and e-money complaints in a new reporting form: "The Payment Services Complaints Return". We will require banks and building societies to complete this new return, in addition to PIs, EMIs and RAISPs, in order to give us a complete picture of complaints in the payment services and e-money markets.

Additional reporting to monitor compliance – e-money institutions

We are replacing the existing returns for e-money institutions with one consolidated return containing the elements that are most relevant to our supervisory focus, which we have revised in light of PSD2. We have removed some questions we no longer consider critical to support our supervisory activity, and have added new questions, including on group structure, income, and the scale of e-money issuance activity. We have also included additions to reflect the newly regulated services under PSD2 – account information services and payment initiation services. We also propose to reduce the frequency of some regular reporting we collect from every 6 months to once a year.

Additional reporting to monitor compliance – Payment Institutions and Regulated Account Information Service Providers

As with the regular returns for e-money institutions, we are modifying the existing returns for authorised payment institutions and small payment institutions to reflect our revised supervisory focus. We will ask some additional questions, including those relating to income, the value and volume of payment services activity, and access to payment systems. We are also applying certain parts of the authorised payment institution return relevant to account information services to the new type of regulated business under PSD2 – Regulated Account Information Service Providers.

Controllers and close links reporting

We are requiring authorised payment institutions to submit the annual controllers report and annual close links report that authorised e-money institutions and FSMA-regulated firms currently provide to us.

We are proposing this change to give us a better understanding of who is controlling authorised payment institutions, and whether there are close links which would prevent us from effectively supervising these businesses. This will ultimately support our revised supervisory approach and align the reporting that authorised payment institutions complete with the reporting that authorised e-money institutions complete.

Banking Conduct Of Business Sourcebook (BCOBS) – reflecting changes to the PSRs

We propose changes to BCOBS on the security of electronic payments, unauthorised transactions and misdirected payments. These changes reflect some of the key changes introduced by PSD2. We believe that there is merit in extending these PSD2 provisions to increase consumer protection, and to ensure consumers have a consistent experience across providers of retail banking services.

Registration approach for small Payment Institutions and small E-Money Institutions

We propose to request additional information from prospective small payment institutions and small e-money institutions in registration, and re-registration application forms. This information relates to new requirements under PSD2, such as reporting and complaint-handling requirements. We would also request this information from existing small payment institutions and small e-money institutions when they apply for re-registration.

Which type of business will be affected? How many are estimated to be affected?

The type of business affected varies depending on the proposal, and we outline this in the section below, on costs to businesses resulting from the changes are making.

The categories of businesses that may be affected by our implementation of PSD2 are:

- Payment services providers (such as banks, building societies, payment institutions and e-money institutions) – 1,552
- Certain businesses operating under the limited network exclusion (including some giftcard providers, such as retailers) –200
- Certain businesses operating under the electronic communications network exclusion – 10
- Credit unions and deposit takers exempt from the Payment Services Regulations 2017 - 59

In estimating the number of payment services providers above, we have used the total potential population, based on the regulatory permissions that businesses have. This is likely to overestimate the actual affected population as some credit institutions may not carry out payments activities.

Price base year	**Implementation date**	**Duration of policy (years)**	**Business Net Present Value**	**Net cost to business (EANDCB)**	**BIT score**
2017	2018	10	-115.7	13.4	67.2

Please set out the impact to business clearly with a breakdown of costs and benefits

Complaints reporting

This change will affect payment services providers (which we estimate to be 1552 businesses but in practice will be less because some credit institutions may not carry out payments activities).

The wider costs of this proposal will be different for FSMA authorised firms currently subject to DISP reporting rules (banks and building societies, and non-bank credit card issuers) compared to payment institutions and e-money institutions that are not also FSMA authorised. These payment institutions and e-money institutions are not currently required to report to the

FCA on complaints, though under DISP rules these businesses are already required to collect complaints management information and DISP guidance states that they should retain records of complaints so that these can be used to assist the Financial Ombudsman Service.

There are some initial costs associated with amending management information, changing processes and potentially changing systems and training staff. We have designed our proposals to minimise these incremental costs. These businesses will incur additional on-going staff costs for completing and submitting our complaints return form; there may also be a small record keeping costs for businesses that do not currently retain records.

We expect the costs of providing figures (payments volumes) indicating the size of the firm for contextualisation will be similar across all businesses (accounting for larger businesses incurring proportionately larger costs), and should be minimal payment institutions and e-money institutions should already hold similar data on volumes of business conducted as they are required to report data on volumes of business to the FCA on a regular basis. We also understand that retail banks report their payment volume to industry bodies and payment schemes.

As part of an ad hoc information request, we issued a survey to all affected businesses in December 2016, in order to inform our estimates of the costs to these businesses – the survey was issued to 375 authorised payment institutions and 729 small payment institutions. 202 authorised payment institutions responded to the survey. We have used these data to estimate costs per business and total costs to this population of businesses. We provide an average cost per business but anticipate that some businesses will have higher or lower costs.

We have separately estimated this proposal to banks and building societies based on a small sample of businesses, provided by a trade body. We were told by a trade body that their members had not yet undertaken full project cost estimates for PSD2, and therefore we only have limited data on the expected costs to banks:

- a small bank estimated initial set-up costs of £35,000 and ongoing annual costs of £22,500.
- a medium sized bank estimated costs of £3,500 and ongoing annual costs of £7,000.
- a large bank estimated initial set-up costs of £500,000 and ongoing annual costs of £200,000.

The estimates from the three banks that provided the trade body with data suggests that smaller banks might incur greater costs than medium sized banks. However, given the small sample size, we are unable to assess whether this might be representative across the wider population.

We would expect costs for building societies to be similar to banks (of similar sizes), as both building societies and banks are subject to the current DISP reporting rule.

To estimate the total costs to banks and building societies, we produce a weighted figure based on the assumption that there 317 small banks and building societies, 18 medium banks and building societies, and 6 large banks and societies. We use the figures provided above as representative figures for each category (small, medium, and large).

Below are the costs we estimated industry would incur in order to comply with our complaints reporting requirements:

Summary of estimated costs		
Business Type	**One-off costs**	**On-going costs**
PIs and EMIs	£668,007	£523,243

Banks/Building Societies	£14,158,000	£8,458,500
Total	**£14,826,007**	**£8,981,743**

We expect that the table above now overestimates the actual costs to banks and building societies resulting from the final complaints reporting form. These estimates were based on the version of the form we consulted on, where we proposed that complaints subject to different timeframes under PSD2 be separated out. This concerned complaints relating to the rights and obligations relating to part six and seven of the Payment Services Regulations 2017 (we define these as "PSD complaints"), and complaints concerning part five of the EMRs (we define these as "EMD complaints").

We were told that a large portion of the costs would result from differentiating "PSD complaints" and "EMD complaints" from other complaints. We were told this would require extensive training for staff and potentially systems changes.

We have simplified the return so that the time in which complaints are resolved only need to be reported under the broader 'complaints about payment services and electronic money' category, and so that 'PSD complaints' and 'EMD complaints' do not need to be separated out. This should have the effect of reducing costs to banks and building societies relative to our estimates.

Additional reporting to monitor compliance – EMIs

This change will affect e-money institutions - 119 businesses – these businesses already report data to us through regular reporting.

The majority of the information we are requesting should already be held by e-money institutions, as they relate to their obligations under the EMRs, the Payment Services Regulations 2009 (and Payment Services Regulations 2017) and our Handbook rules. In some cases the changes we are making are just to update the returns to reflect changes in requirements under the Payment Services Regulations 2017. This includes updates to the questions relating to the own funds that are held to meet capital requirements, as the categories of own funds under the Capital Requirements Regulation (CRR) replace the old categories under PSD. However, in other cases we are asking for new information. Our requirements may result in an increase in compliance costs for e-money institutions, as they will need to collate the information we require and complete the additional questions in the new return.

There may be both initial and on-going costs associated with our proposals. The initial costs could include changes to processes, staff training, and potentially systems changes. The on-going costs may relate to staff time incurred completing the return. The costs to business are likely to vary according to factors such as business size and the systems used.

As part of an ad hoc information request, we issued a survey to 112 e-money institutions in December 2016 to inform our estimates of the costs to industry. Fifteen small e-money institutions and 57 authorised e-money institutions responded to the survey. We have used these data to estimate costs per business and total costs to authorised e-money institutions and small e-money institutions. We provide an average cost per business but anticipate that some businesses will have higher or lower costs.

We asked authorised e-money institutions and small e-money institutions six questions in our survey. To calculate the total cost to the population of businesses we have multiplied the average initial and ongoing costs by the current population of e-money institutions (119).

Below are the estimated costs to industry of complying with our e-money institution returns:

Summary of estimated costs		
Business Type	**One-off costs**	**On-going costs**
E-Money Institutions	£453,899	£285,800

It is important to note that as part of the proposals we have decreased the frequency of returns from semi-annual to an annual basis, which will reduce the costs and labour burden on businesses.

Additional reporting to monitor compliance – Payment Institutions and Regulated Account Information Service Providers

This change will affect 1092 businesses; payment institutions already report data to us in regular returns.

The majority of the information we are requesting should already be held by e-money institutions, as they relate to their obligations under the EMRs, the Payment Services Regulations 2009 (and Payment Services Regulations 2017) and our Handbook rules. In some cases the changes we are making are just to update the returns to reflect changes in requirements under the Payment Services Regulations 2017. This includes updates to the questions relating to the own funds that are held by authorised payment institutions to meet capital requirements, as the categories of own funds under the Capital Requirements Regulation (CRR) replace the old categories under PSD. However, in other cases we are asking for new information. Our requirements may result in an increase in compliance costs for e-money institutions, as they will need to collate the information we require and complete the additional questions in the new return.

There may be both initial set up costs and ongoing costs associated with the proposals. The initial costs could include changes to processes, staff training, and potentially systems changes. The ongoing costs may relate to staff time spent collating and submitting the return.

As part of an ad hoc information request, we issued a survey to 375 authorised payment institutions and 729 small payment institutions in December 2016 in order to inform our estimates of the costs to industry. 202 authorised payment institutions and 325 small payment institutions responded to the survey.

We have used these data to estimate costs per business and total costs to authorised payment institutions and small payment institutions. We provide an average cost per business but anticipate that some businesses will have higher or lower costs.

We asked payment institutions six questions in our survey. To calculate the total cost to the population of payment institutions we have multiplied the average initial and ongoing costs for authorised and small payment institutions by the respective populations (371 authorised payment institutions and 721 small payment institutions). There are currently no registered account information service providers and so there are no costs to be estimated for these businesses. Below are the estimated costs for industry of complying with our proposals:

Summary of estimated costs		
Business Type	**One-off costs**	**On-going costs**
Payment Institutions	£3,775,028	£2,392,326

Controllers and close links reporting

This change will affect authorised payment institutions - 371 businesses.

We expect that authorised payment institutions would already hold information about their controllers, and about their close links. An obligation to notify us if there are any significant change likely to affect the conditions for authorisation, including the close links do not prevent effective supervision, exists under the Payment Services Regulations 2017.

Given this information should already be held, the only costs as a result of our proposals will be completing the reports.

Our estimates for the costs for authorised payment institutions take into account the estimated number of data entries businesses will be required to complete before submitting the returns. These calculations also take into consideration the cost of time and labour when filling out these returns. We estimate there will be 10 data entries that cost £1 each per report (initially) and £5 each per report (ongoing). In order to estimate these costs we used the costs per data entry multiplied by the number of authorised payment institutions. Below are the estimated costs for industry of complying with our requirement:

Summary of estimated costs		
Business Type	**One-off costs**	**On-going costs**
Authorised Payment Institutions	£3,710	£18,550

Banking Conduct Of Business Sourcebook (BCOBS) – Security of electronic payments

This change, and the other BCOBs changes, will impact credit unions and deposit takers that conduct business that is not regulated by the Payment Services Regulations 2017. We expect that only a very small number of deposit takers will be allowing payments in a limited way such that it would be subject to BCOBS rather than the Payment Services Regulations 2017 – we assume that this includes 5 building societies and that no banks fall under this category. Credit unions are exempt from the Payment Services Regulations 2017. We expect that 54 credit unions that conduct transactional activities will be affected by the BCOBS changes. This gives us a total estimated affected population of 59 businesses.

We are adding a rule and accompanying guidance to BCOBS to clarify our expectations in relation to security of electronic payments which are outside the scope of the Payment Services Regulations 2017. This change is intended to enhance protection for consumers making electronic payments, and improve confidence in the market.

We expect that businesses that already allow for electronic payments will have developed secure systems to meet our general rules and guidance on systems and controls (including those in SYSC 6.1.1 and SYSC 7.1.1), and those businesses which intend to allow electronic payments would as a matter of course be developing systems.

With regards to credit unions, we are also aware that a number of credit unions are part of the Governments Credit Unions Expansion Project which aims to modernise and grow the credit unions industry. As part of this, coordinated systems, including a banking app, which includes similar levels of password protection as other banking apps, have been developed to help credit unions modernise.

As businesses are already ensuing high-levels of security for electronic payments we expect costs to businesses to be negligible. Businesses that wish to begin offering electronic payments will incur costs developing relevant systems regardless of this proposal, and this requirement is unlikely to impose additional costs.

Below are the estimated costs for industry:

Summary of estimated costs		
Business Type	**Initial costs**	**On-going costs**
Credit Unions and deposit takers in respect of businesses exempt from the PSRs 2017	£0	£0

Banking Conduct Of Business Sourcebook (BCOBS) – Unauthorised transactions

This change, and the other BCOBs changes, will impact credit unions and deposit takers that conduct business that is not regulated by the Payment Services Regulations 2017. We expect that only a very small number of deposit takers will be allowing payments in a limited way such that it would be subject to BCOBS rather than the Payment Services Regulations 2017 – we assume that this includes 5 building societies and that no banks fall under this category. Credit unions are exempt from the Payment Services Regulations 2017. We expect that 54 credit unions that conduct transactional activities will be affected by the BCOBS changes. This gives us a total estimated affected population of 59 businesses.

We are amending our rules in BCOBS 5.1.12R to decrease the maximum losses banking customers are liable for in the event of an unauthorised transaction from £50 to £35, aligning with the Payment Services Regulations 2017. We are also clarifying the circumstances where the customer is not liable for those maximum losses.

We make these changes so that consumers have consistent levels of protection across different providers and products.

We believe that this change is unlikely to result in significant costs to businesses. This is informed by the CBA we conducted when amending our rules in 2009 on the liability for losses in respect of unauthorised transactions. Additionally the ONS found that 83% of victims of bank and credit account fraud already receive a full reimbursement from their financial services provider.

In the limited number of cases where a business would not have otherwise provided full reimbursement to a customer and an unauthorised transaction occurs, there will be a transfer of £15 from the affected business to consumer.

In order to estimate the initial costs to businesses we estimate there will be 1 employee that deals with unauthorised transactions per affected credit union. Similarly, we estimate there will be 5 employees that deal with unauthorised transactions per affected building society. We make this assumption on the basis that these affected businesses are relatively small and do not have a significant customer base. We assume each employee(s) will spend 1 hour familiarising themselves with the new requirement and changing processes. We assume that this employee is paid £13 an hour. This would give us an estimated cost of £13 per credit union and £65 per building society, which we then multiply by the estimated number of businesses affected (54 credit unions and 5 building societies respectively).

In order to estimate ongoing costs, we first seek to estimate how many unauthorised transactions involve credit unions and building societies. There are approximately 1,854,697 unauthorised transactions a year. The estimated combined share of the payments market of credit unions and building societies that are affected by the changes is 0. 8%. We estimate the payments market share for credit unions by firstly multiplying the number of credit union members (1887714) by the proportion of credit unions that can perform payment activities (11%), and then dividing this by the financial population of the UK (41443900). For building societies we divide the number of members for the businesses we expect to be affected (108839) by the financial population (41443900).

Using the combined market share we estimate there are 14,161 unauthorised transactions involving credit unions and building societies that will be affected by the changes. This is only an approximation and we expect that actually the number of unauthorised transactions that are affected will be lower given that less electronic payments are typically made than via other payment services businesses. We then take into account the ONS data cited above, which would indicate that 17% of consumers do not receive a full reimbursement where an unauthorised transaction occurs. We estimate there are 2,407 affected cases annually of customers not being fully reimbursed where an authorised transaction has occurred (which as we have noted is likely a slight overestimation). Using this figure and the £15 transfer gives the estimated on-going costs to industry below:

Summary of estimated costs		
Business Type	**One-off costs**	**On-going costs**
Credit Unions and deposit takers in respect of businesses exempt from the PSRs 2017	*£1,027*	*£37,231*

Banking Conduct Of Business Sourcebook – Misdirected payments

This change, and the other BCOBs changes, will impact credit unions and deposit takers that conduct business that is not regulated by the Payment Services Regulations 2017. We expect that only a very small number of deposit takers will be allowing payments in a limited way such that it would be subject to BCOBS rather than the Payment Services Regulations 2017 – we assume that this includes 5 building societies and that no banks fall under this category. Credit unions are exempt from the Payment Services Regulations 2017. We expect that 54 credit unions and 5 building societies that conduct transactional activities will be affected by the BCOBS changes. This gives us a total estimated affected population of 59 businesses.

We have made rules setting out that businesses should co-operate in cases where the customer has provided the incorrect payment routing information when making a payment (misdirected payment). Our rules will ensure that customers can obtain information to help them to recover sums lost through misdirected payments which could not be recovered by the reasonable efforts of their provider.

While the issue of misdirected payments is widely recognised, there is little data on the volume of annual payments that are misdirected. Research carried out by Which? In 2017 suggests that 10% of people interviewed had inadvertently sent money to the wrong account, and that 16% lost some or all of the money, however we do not have full details of how this survey was carried out. Given that available data suggests misdirected payments that are not resolved to the satisfaction of a customer are rare, and are likely to happen less frequently with non-payment accounts where fewer transactions take place, we believe costs imposed on businesses for new requirements will not be significant. Our rules in BCOBs already require businesses to make reasonable efforts to recover the funds; we believe that businesses will already have the relevant information. Businesses will therefore only incur costs of collating and sending the information to customers.

In order to estimate the initial costs to businesses, we use the same estimate which we used for the unauthorised transactions change for the number of employees that will be responsible for misdirected payments – 1 per credit union and 5 per affected building society. We assume these employees will be paid a rate of £13 an hour. We believe this assumption is reasonable given it will be the same population of businesses affected and the nature of the work will be similar. We assume that it will take each employee 4 hours to familiarise themselves with this requirement (given it will require some understanding of what information should be provided to other businesses and to consumers regarding the misdirected payment), and to make changes to processes. This gives an estimated cost per affected credit union of £52 and an estimated cost per affected building society of £260, which we then multiply by the estimated number of businesses affected (54 credit unions and 5 building societies respectively).

In order to estimate the ongoing costs, we seek to estimate how many times businesses will need to take action to meet this requirement. The financial population of the UK is 41,443,900. Taking into account the Which? data cited above (the methodology of which is not known but gives us the most relevant available statistic), we estimate the proportion of payments that are misdirected and not resolved is 1.6%. This would mean there are about 663,102 customers experiencing misdirected payments that are not resolved.

The estimated share of the payments market held by businesses affected by our changes (which includes certain credit unions and building societies) is 0.8% (as we set out in more detail in the section above on unauthorised transactions). Using this assumed market share, we estimate there are 5,063 credit union and building society members experiencing misdirected payments that are not resolved, and that would be affected by the requirement we are introducing in BCOBS. This is an approximation and the actual figure may be higher or lower than this. We do not have specific data that shows how often these members experience a misdirected payment; however we think a reasonable assumption would be that these members experience a misdirected payment that is not resolved once every two years. Therefore, we estimate that there are 2,532 misdirected payments through affected businesses that are not resolved every year.

We assume it will cost businesses £13 an hour in labour to supply consumers with the appropriate information in the case of a misdirected payment, and that each case will take an hour. Using the estimated number of misdirected payments a year involving credit unions and building societies and the estimated costs of businesses supplying this information we produce the expected costs to industry below:

Summary of estimated costs		
Business Type	**Initial costs**	**On-going costs**
Credit Unions and deposit takers in respect of businesses exempt from the PSRs 2017	*£4,108*	*£34,012*

Re-registration approach for small Payment Institutions and small E-Money Institutions

This change will affect small payment institutions and small e-money institutions - 738 businesses.

We do not consider the costs of meeting the underlying requirements set by the Payment Services Regulations 2017 because they are considered by the Treasury's impact assessment. The costs incurred will largely be staff time spent producing and submitting relevant documentation to the FCA.

The costs incurred by businesses should be reduced as we are proposing to take a proportionate approach, given the smaller size of small payment institutions and small e-money institutions. We are requesting less detail from these businesses than we will from prospective authorised payment institutions and authorised e-money institutions.

We received estimates of costs from a compliance consultant and some trade bodies. We were told that the cost of providing this information will be between £500 and £9,750 for a small e-money institution. We believe that the higher estimate for small e-money institution costs may include the cost of meeting the reporting obligations, which we consider elsewhere in this impact assessment and so may overstate the cost to small e-money institutions of providing us with information at registration. We then take an average figure of these ranges to get an assumed cost of £5,125 per small e-money institution, though as we note we believe this overstates the true cost of providing this information.

We were told that the cost of providing this information will be between £600 and £1,000 for small payment institutions. We take an average figure of these ranges to get an assumed cost of £800 per small payment institution.

To estimate the total cost to industry we multiply the cost per businesses by the relevant populations – 17 small e-money institutions and 721 small payment institutions. We estimate that the total cost to small payment institutions (whole population) will be £576,800, and the total cost to small e-money institutions (whole population) will be £87,125. These are one-off costs we expect to be incurred in 2018.

Summary of estimated costs	
Business Type	**One-off cost**
Small Payment Institutions	£576,800
Small E-Money Institutions	£87,125
Total	**£663,925**

Notification by FSMA-authorised firms prior to conducting account information service or payment initiation service business

FSMA firms are required to notify the FCA if they are currently providing account information services or payment initiation services or intend to, along with a brief description of the services they will provide. We are doing this to improve our understanding of the providers in this new and emerging market. The costs of these rules are minimal as a relatively small number of firms will be required to provide a relatively small. We would expect all the cost of this change will be picked up in familiarisation and gap analysis costs as this is where the bulk of the costs from this requirement are likely to arise.

The change will affect 341 banks and building societies.

Record keeping on account information services and payment initiation services

This rule requires that credit institutions keep records on the volumes of account information services and payment initiation services business they conduct. We have been told by four credit institutions that they would likely already be holding this information required by our record keeping rule as a matter of course. We, therefore, believe costs associated with this proposal will be of minimal significance so did not conduct a formal cost benefit analysis (CBA).

The change will affect 341 banks and building societies.

Gap and familiarisation costs

Firms will incur costs in becoming familiar with the new requirements placed on them and then assessing to what extent their current practices align with the new requirements. We estimate these costs for the requirements which are not directly required in the PSD2.

We estimate these costs for the affected firms by assuming that staff in firms will read the policy documentation. We assume that there are 300 words per page and a reading speed of 100 words per minute. It is further assumed that 20 compliance staff at large firms, 5 compliance staff at medium firms, and 2 compliance staff at small firms read the relevant documentation. Using data on salaries in firms, the hourly compliance staff salary is assumed to be £55 at large firms, £58 at medium firms, and £42 at small firms.

Firms will also have to conduct a review legal text. It is assumed that 4 legal staff at large firms, 2 legal staff at medium firms, and 1 member of legal staff at small firms will review the legal text. It is further assumed that it will take each legal staff member can review 50 pages of legal text per day. Finally, the hourly legal staff salary is assumed to be £64 at large firms, £64 at medium firms, and £42 at small firms.

We expect firms to incur familiarisation and gap analysis costs of around £1.2m.

QRPs policy	No. of pages in CP	No. of pages in legal instrument	Familiarisation and gap analysis costs, £
Complaints reporting	3	10	545,000
Additional reporting to monitor compliance – EMIs	2	18	96,000
Additional reporting to monitor compliance – PIs and RAISPs	2	16	411,000
Controllers and close links reporting	1	1	25,000
BCOBS – reflecting changes to the PSRs (Security of electronic payments, Unauthorised transactions, Misdirected payments)	3	5	18,000
Re-registration approach for small PIs and small EMIs	4	17	105,000
Notification by FSMA-authorised firms prior to conducting account information service (AIS) or payment initiation service (PIS) business	1	1	23,000
Record keeping on account information services and payment initiation services	1	1	23,000

Please provide any additional information (if required) that may assist the RPC to validate the BIT Score.

Links to relevant information:

Directive (EU) 2015/2366 (PSD2)

HMT Implementation of the revised EU Payment Services Directive II: response to consultation and Impact Assessment

Payment Services Regulations 2017

CP17/11: Implementation of the revised Payment Services Directive (PSD2): draft Approach Document and draft Handbook changes

CP17/22: Revised Payment Services Directive (PSD2) implementation: draft authorisation and reporting forms

PS17/19: Implementation of the revised Payment Services Directive (PSD2): Approach Document and final Handbook changes