

<b>Consultation Paper title</b>	<b>Changes to the safeguarding regime for payments and e-money firms</b>
<b>Summary of intervention</b>	Consulting on changes to the safeguarding regime for payments and e-money firms
<b>Feedback date of issue</b>	30/07/2024
<b>CBA Panel reference number</b>	CBAP-0001

## CBA Panel advice

This document sets out the CBA Panel's advice to the FCA on the draft CBA of "Changes to the safeguarding regime for payments and e-money". The CBA was referred to the Panel on 5 July 2024 in accordance with section 1381A of the Financial Services and Markets Act 2000.

It should be noted that:

- The CBA Panel's review is a high-level, independent, expert review of the draft CBA. It does not replicate the FCA's analysis and does not verify data used in it.
- The CBA Panel is not responsible for the content of the FCA's CBAs nor for certifying that they meet the FCA's statutory obligations.
- The CBA Panel's review evaluates the evidence, analysis, and methodology within the CBA rather than the underlying policy.

### Main recommendations

The Panel considered the CBA to be a carefully detailed piece of work that aimed to understand the impact of the policy proposals, and makes the following high-level recommendations:

- **Communication and format.** The CBA is a substantial document. It would benefit from an Executive Summary which clearly and succinctly lays out its main argument and conclusions. It would also benefit from a clearer structuring of its content around a single line of analysis.
- **Market analysis.** The CBA could focus more on high-level analysis of the market in question, and the impact of the proposed policy change on the market. Such high-level analysis would provide greater clarity around the nature and size of likely individual costs and benefits.
- **Sensitivity analysis.** The CBA does not include analysis of how sensitive its results are to variations in its main assumptions and estimates. Such analysis is important to inform consultation by identifying which assumptions are most critical to the expected costs and benefits.
- **Distributional analysis.** The CBA values the costs and benefits of the proposed intervention for consumers and businesses in the same way for both groups. Future CBAs could be improved by developing a consistent method for analysing these two groups differently.

## Summary

Category	CBA Panel comments
<b>The market</b>	<p>The CBA provides a good indication of the harms in the market and the firms in scope. The transparency of rationale given for implementing the end-state proposals is a valuable feature of the CBA and will enable it to provide a clear basis for the public consultation. The analysis of the overall market in which the intervention is proposed could be more comprehensive. In addition, it would be helpful if the analysis extended to consideration of how foreseeable technological innovations and/or existing capabilities of firms currently not active in the market might change the market dynamics in future and/or in response to the proposed intervention.</p>
<b>Baseline and counterfactual</b>	<p>The baseline is that current high-level obligations make it difficult for some firms to identify where their safeguarding practices may fall short of the expectations, justifying the FCA's intervention. It appears that recent insolvencies are the basis of the estimated costs and benefits under the current status quo, despite recent market growth in this sector. The CBA should consider that an increase in new firms raises insolvency risks as well as benefits, while growth in firm size presents an ambiguous impact, balancing more money at risk with potentially reduced insolvency for larger firms.</p>
<b>Evidence and data</b>	<p>The CBA makes good use of evidence but there could be further thinking on how to deal with unrepresentative samples given over-sampling of firms with agents and incomplete response rates (which may vary by types of firms).</p>
<b>Assumptions</b>	<p>Most key assumptions are outlined, but the audit trail for the numbers is unclear, making relationships between them difficult to follow. Clarification on specific assumptions is needed, such as the unlikely scenario that fees will not increase for firms switching from NDSAs (non-designated safeguarding accounts) to DSAs (designated safeguarding accounts), and the rationale for all current shortfalls being returned, even if firms are insolvent. The full list can be seen in the detailed comments below.</p>
<b>Uncertainty</b>	<p>The CBA lacks sufficient sensitivity analysis, which would have allowed the clearer identification of key assumptions driving costs and benefits, such as the types of firms needing to switch and the benefits from returning funds. Instead, it includes hypothetical examples of a large firm's failure, but does not discuss its likelihood. Sensitivity analysis should highlight which assumptions significantly affect cost and benefit estimates and provide a range of estimates</p>

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**Assessment of costs and benefits**

The CBA could be improved by more clarity in the estimation of some of the benefits such as the figure for quicker money returns. Notably, the CBA shows potential double-counting in benefits from returned money by considering both the amount returned and additional welfare benefits. Further, cost pass-through assumptions might lead to lower service quality or market exit, affecting benefits. The potential cost impact of changing third-party providers and authorisation delays is not considered, and standardised safeguarding could boost competition from adjacent sectors.

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