

Policy statement

Statement of policy on our cost benefit analysis framework

January 2025

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Chair's foreword



The payments sector is dynamic and an important contributor to economic growth, with over £100 trillion flowing through the UK payments infrastructure in 2023 alone. We continue to see significant change and developments in the UK, with new companies, business models and technology emerging. In this complex and developing landscape, our role is to ensure UK payment systems continue to meet the needs of businesses and consumers across the country, promote competition and support innovation as drivers of growth and productivity.

To be effective, our interventions must be built on robust, good quality evidence and analysis, so we can develop them in a transparent way. Cost benefit analysis (CBA) has an important part to play in achieving these aims.

CBAs already – and will continue to – help us make effective decisions. They help us articulate the likely outcomes of potential interventions, assess the pros and cons of different options, and drive more effective consultation with our stakeholders. Put simply, CBAs provide a structured way for us to consider whether proposed regulation will create more benefit than cost in an uncertain environment, and contribute to economic growth and innovation.

We think publishing our approach to CBA and the establishment of the Financial Conduct Authority's (FCA) CBA Panel provide additional, welcome layers of transparency. We already engage regularly with the CBA Panel, who provide useful and welcome additional scrutiny. We look forward to continuing that engagement as well as with other stakeholders to ensure that our approach to CBA continues to evolve in line with best practice.

Aidene Walsh
Chair

Chief Economist's foreword



Cost benefit analysis is a well-established and important tool for ensuring our decisions are based on high-quality analysis and evidence.

Our approach to using CBA is rooted in best practice, while taking account of the particular circumstances of payments and our decisions. CBAs structure and explain our analysis to assist robust decision-making throughout the process of developing interventions. We therefore use CBAs where they are valuable – not just where we are legally required to do so.

This statement of policy sets out the broad framework within which we assess the impacts of our regulatory interventions, recognising the risks and uncertainty we inevitably face. We focus on the direction and scale of the difference between benefits and costs of regulatory approaches, with the aim of promoting better outcomes for those using payments systems.

We also explain why we use CBA, when, how, and what CBA involves. Across all these dimensions, we emphasise how crucial it is for CBAs to be a process embedded across the entire policy lifecycle.

We are committed to developing our approach over time, building on experience and improving our analysis and how we communicate it. An important element of achieving this will be continuing engagement with stakeholders, other regulators and the CBA Panel. We will continue to build on the policy approach in this document to develop the methods and techniques we use, supporting effective regulatory interventions.

Matthew Cherry
Chief Economist

1 Executive summary

- 1.1** This statement of policy explains our approach to cost benefit analysis (CBA) and how the CBA framework in this document helps us develop policies with a positive impact.
- 1.2** It is important that we base our policies on appropriate and informed economic evidence. This often means using CBAs, which help us examine whether regulatory action is likely to result in an overall positive impact. We are grateful for the stakeholder responses we received as part of the consultation and to previous comments from the CBA Panel in the development of this document. We have considered these comments and will continue to consider and evolve our best practice over time. Ongoing stakeholder feedback, including regular advice from the CBA Panel, will form an important component of this process.

Why we use CBAs

- 1.3** CBAs can serve several internal and external purposes. Considering the potential impacts is part of the development of our regulatory interventions.¹ The CBA process is not simply about justifying a policy at the end of the process; it is an integral part of the analysis to develop policies. While there may be a final output (the published cost benefit analysis statement) at the end of the process, value may also be derived from the analysis carried out during the development stages, which assists in the wider decision-making process. Within this document, we thus discuss both the CBA process and the output (which sets out a view of the costs and benefits to inform the final decision about the intervention in question and, if appropriate, may comprise a specific CBA document or chapter).
- 1.4** As an economic regulator, considering the economic evidence within a CBA framework is one of the tools that help us make effective and robust decisions. CBAs are an important part of our assessment of whether the improved outcomes can be considered, on balance, to outweigh the expected costs for a proposed intervention. But such analysis is one input into decision-making that needs to be considered among other relevant factors.
- 1.5** CBAs can also help us communicate the economic reasoning behind our proposed interventions to stakeholders.
- 1.6** Our CBAs may compare a range of options for different regulatory actions and at the minimum compare a proposed intervention against the 'do nothing' option.² They allow us to test early assumptions and likely impacts (quantified as much as practicable and proportionate) with stakeholders. Testing our initial economic analysis in this way can help us target information gathering and ensures that final policy positions are supported by consistent, robust and relevant data.

1 By 'regulatory intervention' we mean any action we take using our powers under sections 54 to 58 of FSBRA. The framework we present here applies directly to interventions under sections 54 and 55 of FSBRA. For any action we take using powers set out in sections 56 to 58 of FSBRA, we consider on a case-by-case basis whether the use of CBAs and thus the application of this framework is meaningful and useful.

2 We discuss the appropriate counterfactual, specifically the 'do nothing' option, in paragraph 5.24.

When we carry out CBAs

- 1.7** We often carry out CBAs for our proposed regulatory interventions, whether or not there is a specific legal requirement to do so.
- 1.8** In some circumstances, we may rely on a higher-level appraisal of evidence, rather than developing a specific CBA. This depends on a number of factors, chiefly the proportionality of the resources needed to conduct detailed analysis for a CBA and the extent to which it would materially affect any ultimate conclusions, which may include considerations of the degree of uncertainty around the potential impacts of an intervention.

What we cover in CBAs

- 1.9** Our CBAs follow common principles and take into account best practice. The precise methodology we apply in individual CBAs depends on case-specific factors, including the data available and the nature of the costs and benefits being assessed. We explain the specific methodologies we use within individual CBAs.
- 1.10** Our CBAs explore the likely overall balance of impacts, including potential impacts on innovation and growth, based on appropriate quantitative and qualitative evidence. In general, our primary focus is not to attempt to provide single point estimates for overall net impacts. Instead, we aim to identify the regulatory approaches that are likely to lead to better or more appropriate outcomes for people and businesses using payment systems. Taking account of inherent uncertainties, we look for a course of action whose positive effects are likely to outweigh or justify any negative effects.

How we develop CBAs

- 1.11** Our analysis of the evidence starts at the beginning of the policy cycle and evolves alongside policy development. Early analysis focuses on identifying and describing current market outcomes. Using frameworks such as causal chains, the analysis also considers how regulatory intervention might materially change these market or other relevant outcomes, both positively and negatively. Later, analysis helps us narrow down the potential policy options. Finally, we assess the likely costs and benefits of a preferred policy option. In cases where we need to publish a formal CBA document, it will reflect these stages.
- 1.12** Engagement with external stakeholders, such as the FCA's CBA Panel, is key to our CBA process.³ In addition to communicating our economic reasoning to stakeholders, CBAs can help us test our initial assessments and gather further evidence from stakeholders.

³ The Financial Services and Markets Act 2023 required the FCA to establish an independent CBA Panel, which we must consult when preparing certain CBAs.

2 Introduction

Purpose and scope of this statement of policy

- 2.1** We are an independent, sector-specific regulator. Our mission is to ensure that payment systems are accessible, reliable and secure, and represent value for money. We promote competition and innovation and protect the interests of people and businesses that use payment systems.
- 2.2** Our regulatory tools include general and specific directions and requirements, and written guidance.⁴
- 2.3** We want our regulation to be outcome-focused and evidence-led. We act only where intervention is appropriate and proportionate. Economic appraisal – including, where appropriate, in the shape of formal CBAs – assists us in assessing the expected impact of proposed interventions. Considered alongside other evidence-based analyses, a CBA process can help inform our decisions on whether and how to act.
- 2.4** The law requires us to prepare and publish CBA documents in certain areas of our work – namely, before imposing a generally applicable requirement.⁵ We also develop and publish CBAs where informative and proportionate even where it is not a legal requirement. This document sets out a high-level framework for how, when and why we might use CBAs in both scenarios.
- 2.5** Under FSBRA⁶, our statement of policy must include:
- a. the methodology we use in preparing CBAs
 - b. what matters we consider in deciding that costs or benefits cannot be reasonably estimated or that it is not reasonably practicable to make an estimate
 - c. what matters we consider in deciding that the delay involved in publishing a CBA would prejudice the interests of actual or potential users of services provided by regulated payment systems
 - d. how we consider any representations we receive from the CBA Panel about a CBA
 - e. any cases in which the requirement to consult the CBA Panel does not apply.⁷
- 2.6** In addition, our statement of policy may include any other information that we consider helpful to stakeholders.⁸

4 More information about our legal functions and powers is available here: www.psr.org.uk/how-we-regulate/regulatory-framework/

5 Section 104(3) of FSBRA.

6 Section 104H(2) of FSBRA.

7 Section 104H(2) of FSBRA.

8 Section 104H(3) of FSBRA.

- 2.7** This statement of policy sets out our broad approach and the framework we will apply. We may augment this overall approach with supplementary materials periodically. We expect this would not change the policy approach set out in this document but would be providing greater clarity on our approach in specific issues where our experience of undertaking specific CBAs or development of wider best practice means that would be valuable. This approach will also enable us to address issues raised by stakeholders, including recommendations we receive from time to time from the CBA Panel.
- 2.8** When we conduct a CBA, we typically apply the principles set out in this document. However, we consider each case on its own facts, which means that we apply the framework flexibly and may adapt our approach where the facts indicate that it would be appropriate to do so. Should we do so, we will explain our reasons in the relevant CBA.
- 2.9** Table 1 lists the specific requirements set out in section 104H(2) of FSBRA and where we address them in this document.

Table 1: Requirements under FSBRA section 104H(2)

The statement of policy must provide information about:

(a) the methodology adopted in preparing cost benefit analyses	Chapter 5 provides an overview of our usual approach to and methodology on CBAs.
(b) matters to which the Payment Systems Regulator has regard in determining whether section 104(8) applies	Paragraphs 5.14 to 5.17 set out matters we consider in determining whether costs or benefits cannot be reasonably estimated or that it is not reasonably practicable to make an estimate.
(c) matters to which the Payment Systems Regulator has regard in determining whether section 104(10) or (11) applies in relation to the preparation of a cost benefit analysis	Paragraphs 4.10 to 4.15 set out matters we consider in deciding that the delay involved in publishing a CBA would prejudice the interests of actual or potential users and/or that a proposed intervention would result in only insignificant costs.
(d) arrangements to ensure that representations in connection with a cost benefit analysis that are made in accordance with section 104(3)(d) are considered	Paragraphs 6.10 to 6.11 explain how we consider general consultation responses as part of our CBA development. Paragraphs 6.6 to 6.9 set out how we intend to engage with the CBA Panel on individual CBAs.
(e) cases in which the requirement to consult the CBA Panel in relation to the preparation of a cost benefit analysis does not apply	Paragraphs 6.6 to 6.7 explain when we are required to consult the CBA Panel. We do not intend to create additional exceptions to this. Paragraph 6.8 sets out when and how far we might consider going beyond these requirements.

Consultation and engagement

Engagement with the CBA Panel

- 2.10** In February 2024, in anticipation of the formation of the CBA Panel, we published our draft CBA framework, for transparency. At the time, we stated that the document would act as the basis for a draft statement of policy. Publishing a statement of policy on our approach to CBAs was made mandatory by the Financial Services and Market Act 2023 (FSMA 2023), which amended the Financial Services (Banking Reform) Act 2013 (FSBRA).
- 2.11** As required by section 104G(1)(b) of FSBRA, we consulted the CBA Panel as part of preparing the draft statement, which was published in September 2024. We are grateful to the CBA Panel for their comments at the time. In response, we included a clearer and more consistent description of how we approach risks and uncertainty, and we included a more balanced description of the applicability of 'net present value' NPV estimates within our CBA framework.
- 2.12** In its Interim Annual Report,⁹ the CBA Panel recommends that the PSR "*develop a clear policy on how its CBA reflects its various statutory objectives and regulatory principles*". This ask for additional clarification has also been reflected in comments by other stakeholders. As explained, for example, in paragraph 2.17 of this document, we intend to provide further clarification on this matter via the publication of supplementary material later this year.

Public consultation

- 2.13** We consulted on our draft statement of policy (SoP), with the consultation period ending on 3 November 2024. We received two substantive written responses from UK Finance and NatWest. Consultation respondents largely supported the general principles set out in the draft SoP, while UK Finance provided examples of where it felt such best practice had not always been adhered to.
- 2.14** Stakeholders were particularly supportive of our commitment to develop CBA documents not just where they are required by statute and our transparency principles. They agreed that effective CBA relies on it being embedded across the policy cycle. UK Finance made several smaller drafting suggestions, which asked for clarification of specific elements within the SoP and which we have incorporated within this final statement. Stakeholders otherwise commented on a few areas where they felt the framework could go further, and where more specific guidance might be useful.
- 2.15** Firstly, UK Finance welcomed our aim to use CBA as a tool to enhance transparent policymaking and improve the quality of our consultations. It commented that we should commit to publishing all conducted CBAs and that we should seek the CBA Panel's agreement in cases where we consider the development of a CBA document to be disproportionate. While our final statement does re-emphasise our commitment to the overarching principle of CBAs as a tool of transparency, and while we will aim to liaise with the CBA Panel where we consider the use of CBA disproportionate, we think that to be most effective our policy needs to allow for a degree of flexibility.

⁹ Available on the CBA Panel's website: [CBA Panel Annual Report 2024](#).

- 2.16** Both UK Finance and NatWest commented that CBAs should be clear and transparent about existing evidence and data gaps, and that we should use the consultation process to engage with stakeholders to help fill any such data gaps where possible. We agree that this is one way that CBAs can help improve consultations and the evidence base, and we have brought this out more clearly in the final statement.
- 2.17** Secondly, UK Finance provided several comments on the interlink between CBA and other considerations that might factor into our decision-making, for example, querying whether the statement should set out more clearly how CBA relate to our statutory objectives to our proportionality obligation in section 53 of FSBRA. We agree that additional detail in these matters could helpfully be developed over time. We have included a high-level assessment of the relation between our statutory objectives and CBA in this final statement. But we consider this statement to be a more high-level summary of our CBA framework and will over time aim to build on it, for example via the publication of supplementary materials on specific matters of methodology like this as noted above.
- 2.18** Thirdly, UK Finance and NatWest provided comment on individual matters of CBA methodology. For example, UK Finance suggested that CBAs should compare a proposed intervention with a range of alternative options, rather than just a 'do nothing' option, and that our statement could commit more strongly towards the provision of quantified (summary) impacts. Our statement says that we will assess a proposed intervention 'at the minimum' against the 'do nothing' case. We agree that an assessment against other viable options is, in many circumstances, proportionate and advisable. But there are also cases where 'do nothing' is the only realistic or appropriate alternative. We think that quantifying the impacts and providing point-estimates is helpful in some circumstances, but our final statement maintains that the primary aim is for CBAs to provide evidence for the likely balance of impacts.
- 2.19** UK Finance and especially NatWest also commented on the need to consider distributional impacts rather than only aggregated impacts, for example to identify potential unintended adverse impacts on specific groups. We agree with this and have brought this out more clearly in our final statement. NatWest, while agreeing that the consideration of non-monetary impacts is important, noted that such impacts are often difficult to measure and that assessing them without clearly agreed, consistent methods can be subjective. We agree, and as suggested by NatWest, will aim to explore developing consistent best practice on these matters over time (including potential publication of supplementary materials to this statement).

What we mean by 'CBA'

- 2.20** As we explain throughout this document, establishing current market outcomes and potential harms and/or market failures, considering the likely economic impacts of potential interventions and other aspects of economic appraisal are always part of our policy development, whether or not these are summarised and published in the form of a specific CBA document.
- 2.21** In principle, the term 'cost benefit analysis' could refer to any one of three related but somewhat distinct concepts:
1. The framework and process for how we consider and factor in the different elements that underpin an assessment of costs and benefits mentioned in paragraph 2.20, above.
 2. The act of applying that framework and process – that is, the act of analysing costs and benefits.
 3. The summary and evaluation of that analysis within a single (published) document.
- 2.22** Our CBA framework will discuss all three of these concepts. While distinguishing between these concepts is not always necessary, where it is necessary, we refer to 'CBA process' or 'CBA framework' (when referring to 1, above), 'CBA' (when referring to 2, above) and 'CBA document' or 'CBA statement' (when referring to 3, above).

Structure of this document

- 2.23** The remainder of this document is structured as follows:
- **Chapter 3 – Why we use CBAs:** We set out the purposes of our CBAs and how we see them being applied in the most useful way.
 - **Chapter 4 – When we carry out CBAs:** We explain the typical circumstances in which we develop and publish CBAs.
 - **Chapter 5 – What we do in CBAs:** We present the scope and high-level methodology of our CBAs, including the questions we try to answer and how we go about answering them.
 - **Chapter 6 – How we develop CBAs:** We explain the processes involved in CBA development.

3 Why we use CBAs

Using a CBA framework provides a consistent and structured process for assessing the impacts of our proposed regulatory interventions. This helps ensure that we make effective, evidence-based regulatory decisions.

3.1 While applying a CBA framework may present some limitations and challenges, it can also offer significant benefits, which shape the core principles that we use when carrying out individual CBAs. Our rationale for applying a CBA framework drives when and how we carry out CBAs.

Benefits of CBAs

Figure 1: Purpose of CBAs



Improved engagement and accountability

3.2 We think that engaging transparently with stakeholders and presenting the evidence on which we base our regulatory interventions have an importance beyond fulfilling our legal requirements. This is why we sometimes publish CBA documents for regulatory interventions where there is no legal requirement for us to do so. Even where we decide not to publish a formal CBA document, we are still led in our decisions by evidence on the likely impacts of our actions. CBA goes beyond its application within published CBA documents.

3.3 CBAs provide a well-understood and consistent framework for explaining the evidence and reasoning underlying our regulatory approach. For example, CBA documents published alongside policy consultations allow us to test different options, gather evidence and share assessments of possible impacts with relevant stakeholders whose responses can then help inform further policy development.

Improved decision-making

- 3.4** Improved engagement and accountability can, in themselves, ultimately result in improved decision-making by ensuring that stakeholders' views are considered appropriately. CBAs also help improve policy development and decision-making more directly. Early on, a CBA framework provides a structure within which we can define existing problems, the outcomes we are seeking to achieve and whether intervention is likely to affect them positively. This can help frame our ultimate policy objectives.
- 3.5** Later in the policy development process – for example, when consulting on a proposed regulatory intervention – a CBA framework can be used to test options and their estimated impacts. We can also use it to gather evidence, including from stakeholders. This strengthens the evidence base for final policy development.
- 3.6** In the final stages, a CBA framework can help highlight uncertainties as well as wider effects, such as equality and distributional impacts. It can also provide a structure to identify a preferred option among a set of options.
- 3.7** Through the whole policy development cycle, this framework, and the individual CBA documents it generates, can help ensure that our decisions are based on solid and proportionate evidence. This approach allows us to assess and present the relevant economic arguments for why a particular regulatory intervention is needed and how it will lead to a better outcome than the 'do nothing' option. CBAs also help establish a baseline of expectations for any potential reviews or evaluations of interventions post implementation. They can help drive more evidence-based decision-making within that part of the policy lifecycle.

Potential limitations of CBAs

- 3.8** Our CBA framework provides a structure within which to analyse potential policy interventions across the stages set out above. However, not all analysis we carry out and that might inform our decisions is done within a CBA framework. Furthermore, we have to take into account the practical limitations of CBAs and be aware that they are ultimately used to inform decisions. We do not see them as an exercise that seeks to provide precise estimates or forecasts for each specific impact or combined impacts over a specified timeframe.
- 3.9** The likely impact of regulatory intervention can be uncertain, especially when an intervention applies to new or rapidly changing markets. Summarising costs and benefits within a single figure may not take appropriate account of this uncertainty or may not capture some of the nuances of these effects. This limitation applies mainly if CBAs focus overly on a single figure rather than on providing a sense of overall trade-offs and the likelihood of different outcomes occurring.¹⁰

¹⁰ As discussed further in paragraphs 3.13 to 3.15, we think a CBA should take account of the degree of uncertainty and risk. We discuss how we do this within our CBAs in more detail in paragraphs 5.49 to 5.52.

- 3.10** Precisely estimating the benefits of regulatory intervention can be particularly challenging when we are considering intervening to prevent potential harm from materialising in the first place. CBAs can run the risk of systematically favouring interventions that aim to remove a harm that has already happened over those that aim to prevent an anticipated harm before it occurs.
- 3.11** Many impacts do not have clear prices associated with them, so monetisation of these might be infeasible and/or unduly onerous. Our CBA framework acknowledges that quantification or precise monetisation may not always be feasible or desirable. CBAs that rely solely on monetised figures fail to take account of ‘immeasurable’ or ‘hard to measure’ impacts that can still be significant and important. For this reason, our approach to monetising net benefits takes account of the purpose of the analysis and does not over-refine monetary estimates.
- 3.12** Some of our regulatory interventions are systemic in nature. That is, they can create immediate compliance and implementation costs with the aim of creating long-term or diffuse but significant benefits. There is a risk that a CBA fails to express these long-term benefits adequately.
- 3.13** Some of these issues can partially be addressed by:
- a. applying an appropriately flexible methodology that can be tailored to specific cases¹¹
 - b. an appropriate assessment of risks, uncertainties and limitations of the analysis¹²
 - c. factoring in qualitative estimates alongside quantitative estimates
- 3.14** Rather than the derivation of specific single numbers that may be uncertain or only spuriously accurate, our CBAs focus on plausible ranges and probabilities of impacts, supported by appropriate sensitivity analysis. We will also apply our regulatory judgement when balancing different effects, in particular where some impacts are easily quantified while others are uncertain and difficult to quantify (and/or occur in different timeframes). See Chapter 5 for more detail on our approach to uncertainty and risk.
- 3.15** Our primary objective for CBAs is to present a clear logic for our proposed regulatory interventions, as well as an assessment of the likelihood that costs will be outweighed by benefits.

11 For example, applying smaller discount rates for longer-term impacts.

12 For example, analysis that highlights that the costs and/or benefits of an intervention are extremely onerous to estimate and/or uncertain is useful information for decision-making.

Our core principles

- **Our CBAs are part of our policy development process and may include comparison of regulatory options.** Their primary aim is to inform the development of effective policies rather than to assess impacts of decisions after they have been made. Their value lies not only in the final publication of a CBA document but also in how they aid our wider decision-making during the development stages.
- **Our CBAs help us make effective decisions, but they are not the only means of doing this.** A CBA is one of several inputs into our decision-making that help us establish the likely balance of impacts of a proposed intervention. We consider such evidence developed within a CBA alongside other relevant factors and pieces of evidence. CBAs focus on economic impacts, but it is usually not feasible to summarise all impacts in a single number. Sometimes a CBA may identify costs that we consider worth trading off against other objectives, such as the protection of vulnerable customers.
- **Our CBAs help us communicate the economic reasoning behind our proposed interventions to stakeholders.** We assess the economic case for intervention, establishing whether the benefits associated with a proposed intervention are likely to outweigh any costs.
- **Our CBAs help us to consult effectively.** We can test our assumptions and consideration of likely impacts with stakeholders, including potentially seeking additional information to help improve our assessments.

4 When we carry out CBAs

We apply our CBA framework in a proportionate manner as part of our policy development, and we may produce CBA documents for our proposed regulatory interventions whether there is a specific legal requirement to do so or not.

Sometimes we may decide that the development of a CBA with meaningful impact estimation is not feasible or proportionate, or that we need to intervene urgently to protect service users from significant harm. We might not develop and publish specific CBA documents in such cases, but consideration of relative costs and benefits will still guide our thinking.

Legal framework and requirements

- 4.1** Section 53 of FSBRA sets out regulatory principles to which we have to have regard when discharging any of our general functions. These requirements include proportionality – that is, our regulatory intervention must be proportionate to the problem we aim to address. CBAs are one tool that can help us address part of this question of proportionality.¹³
- 4.2** Section 104 of FSBRA requires us to carry out CBAs in certain circumstances. We must publish a draft of any ‘generally applicable requirement’¹⁴ we are proposing with a number of explanatory documents, unless we consider that publication would cause too much delay and potential prejudice to the interests of service users or potential service users. These documents include a CBA statement.
- 4.3** Section 104(6) of FSBRA also requires us to publish a new CBA document if a final requirement differs from the draft version in what is, in our opinion, a significant way.
- 4.4** There are other requirements that do not specifically refer to the use of CBAs but for which the use of CBAs might be relevant.¹⁵

13 CBAs are also different from any evaluation of a regulatory intervention once it is in force. This document does not address this different type of analysis.

14 Giving general directions under section 54 or general requirements under section 55.

15 Such as the Public Sector Equalities Duty within the Equality Act 2010.

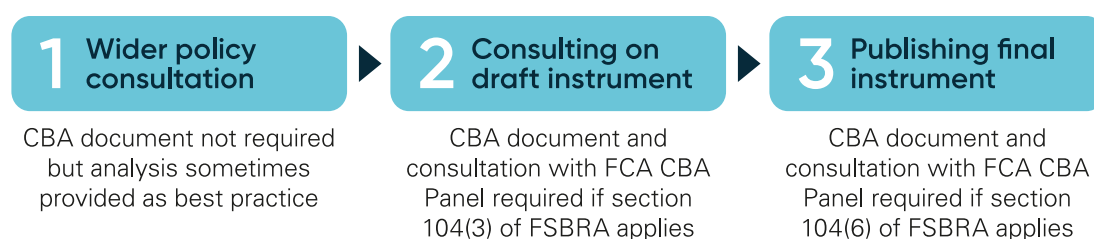
PSR best practice

Conducting CBAs when reasonable

- 4.5** We do not have an explicit statutory requirement to carry out and publish CBA documents for all our regulatory interventions. For example, they are not required for specific directions. However, in light of the benefits already discussed, and where it would not involve a disproportionate use of resources, our practice is to carry out specific CBAs for our regulatory interventions. See paragraphs 4.9 to 4.16 for circumstances in which we might decide the development of a specific CBA and the publication of a CBA document would be disproportionate. The degree of detail we provide in a CBA document also reflects this proportionality criterion.

Conducting CBAs early

Figure 2: Stages of cost benefit analysis



- 4.6** Section 104(3) of FSBRA refers to the need to publish a CBA document alongside consultation on a legal instrument and the possible need for another CBA document if section 104(6) applies. It does not specify a requirement to publish a CBA document alongside possible earlier policy stages, such as a call for views or wider policy consultations.
- 4.7** At Stage 1 we develop our economic evidence alongside early policy development. This early analysis aims to assess likely impacts, but there still may be uncertainties around some impacts and the finer details of the proposed policy. We aim to publish early analysis either in the form of a CBA or embedded within general policy consultations. This can help us test our initial assessments and methodologies with stakeholders, and to gather evidence for a more refined analysis in later stages.¹⁶
- 4.8** Where we need to refine an earlier CBA in response to evidence gathered during consultation, we will publish an updated CBA statement alongside a final policy. This also applies where we need to reflect a substantial change in policy following consultation.¹⁷ Our normal practice is to identify the relevant CBA analysis on which a final decision rests.

¹⁶ We do not typically publish CBAs alongside even earlier documents, such as calls for views, as we do not typically test any specific forms of regulatory intervention at this stage. We might, though, provide some analysis, such as an assessment of existing market outcomes and the potential scope for change, within such documents.

¹⁷ This is also a matter of compliance with section 104(6).

Exemptions

4.9 Sections 104(10) and 104(11) of FSBRA provide exemptions from the CBA requirements established by sections 104(3) and 104(6). Section 104H(2)(c) of FSBRA requires us to set out in our statement of policy what matters we consider when relying on these exemptions.

Exemptions under section 104(10) of FSBRA

4.10 Section 104(10) states:

Subsections (2)(b) and (3) to (6)¹⁸ do not apply if the Payment Systems Regulator considers that the delay involved in complying with them would be prejudicial to the interests of those who use, or are likely to use, services provided by regulated payment systems.

4.11 A number of considerations may be relevant to our assessment of whether undertaking a CBA would result in a prejudicial delay, such as:

- the magnitude of harm to service users, whether in terms of the scale, likelihood and/or nature of the detriment
- the likelihood that the results of a CBA could meaningfully change decisions and/or the clarity of the available assessment
- the extent to which affected parties agree that the situation gives rise to a degree of urgency
- the degree of anticipated delay caused by undertaking a CBA.

4.12 The above list is not exhaustive, and in each case we balance all of the relevant considerations in the round to decide whether the exemption is met.

Exemptions under section 104(11) of FSBRA

4.13 Section 104(11) states:

Subsections (3)(a) and (6) do not apply if the Payment Systems Regulator considers that, making the appropriate comparison—
(a) there will be no increase in costs, or
(b) there will be an increase in costs but the increase will be of minimal significance.

4.14 When considering any regulatory intervention, our practice is to carry out some initial analysis of likely impacts. After that stage we might decide that initial analysis indicates that there are no costs (direct or indirect) – that is, that section 104(11)(a) of FSBRA applies. In these circumstances, so long as we have identified at least some potential benefits, we would not consider it necessary to undertake a formal CBA.

¹⁸ These subsections essentially establish that we need to consult and that our consultations on generally applicable requirements need to be accompanied by CBAs.

4.15 Should initial analysis identify only minor costs (that is, costs of ‘minimal significance’), we will consider a number of factors in determining whether section 104(11)(b) of FSBRA applies. These factors include:

- **Costs of developing and publishing a CBA alongside the consultation:** These include costs in time as well as in resources. If we consider that these costs are insignificant, we might publish a CBA that focuses on benefits and a qualitative assessment of costs that explains why we consider them to be immaterial.
- **Consensus on whether costs are negligible:** If, for example, we received consistent feedback from stakeholders during early engagement that regulatory intervention would be beneficial and would not impose any significant costs, we would consider there to be less need for a more detailed CBA.
- **Distribution of costs:** Even if costs are insignificant in aggregate – especially when compared to overall benefits – we still consider how they affect individual parties or groups. If a regulatory intervention causes insignificant costs at the aggregate level but significant costs for specific parties, which in turn could affect competition or innovation, then we are less likely to make use of this exemption.

CBAs not required by section 104 of FSBRA

4.16 Whether or not section 104 of FSBRA applies, we aim to apply a CBA framework and consider publishing CBA documents for our regulatory interventions as long as their analysis can provide meaningful insight and any resource required for their development is proportionate.¹⁹ The exemptions discussed above only apply to statutory CBAs (as the general requirement in section 104 has to apply in the first place for a CBA to be exempt from it). However, we also consider these principles when deciding whether to develop a CBA for any intervention. In practice, we expect to apply the principles behind sections 104(10) and 104(11) in all cases.

4.17 Where we consider that such exemptions to the development of a CBA document apply, we will keep the CBA Panel apprised at a suitable time.

Our core principles

- **We typically apply a CBA framework to our proposed regulatory interventions.** We have statutory duties to publish CBA documents in some cases but may develop and publish a CBA document even in cases where there is no legal requirement to do so.
- **We may decide not to conduct a CBA using the exemptions listed in FSBRA subject to case-specific circumstances.** We consider whether the resources needed to carry out a CBA are proportionate to the problem under scrutiny, and whether a CBA is likely to change any ultimate conclusions.

¹⁹ This refers to both the resources required of us in developing the CBA and the resources that would be required of regulated parties – for example, in responding to necessary data requests.

5 What we do in CBAs

The precise methodology we use in our CBAs necessarily differs on a case-by-case basis. While our CBAs follow a common structure and set of principles, factors such as data availability determine the methods we use.

Our analysis is largely based on four broad types of analysis:

- identification of impacts
- qualitative assessment of impacts
- quantitative assessment of impacts
- monetised assessment of impacts.

In some cases, not all of these are feasible or proportionate. We do not consider quantified impacts to necessarily be of higher importance than impacts that are 'only' assessed qualitatively.

Our primary focus within CBAs is not to provide single point estimates for overall net impacts. Instead, we aim to provide an appropriate description of the likely overall balance of impacts, taking into account risks and uncertainty.

Legal framework

5.1 Section 104(7) of FSBRA provides the following definition of a CBA:

- (a) *an analysis of the costs together with an analysis of the benefits that will arise*
 - (i) *If the proposed requirement is imposed, or*
 - (ii) *If subsection (6)²⁰ applies, from the requirement imposed, and*
- (b) *subject to subsection (8) an estimate of those costs and those benefits.*

5.2 This is qualified by the exceptions set out in section 104(8) of FSBRA:

If, in the opinion of the Payment Systems Regulator—

- (a) *the costs or benefits referred to in subsection (7) cannot reasonably be estimated,*
or
- (b) *it is not reasonably practicable to produce an estimate, the cost benefit analysis need not estimate them, but must include a statement of the Payment Systems Regulator's opinion and an explanation of it.*

5.3 This means that a CBA need not include estimates if section 104(8) applies. This allows for a more qualitative assessment where quantification and monetisation might not be reasonable or practicable.

²⁰ Section 104(6) of FSBRA states that if, in our view, a final requirement substantially differs from the one initially consulted on, we must publish details of the difference as well as a new CBA.

5.4 While sections 104(7)(a) and 104(7)(b) of FSBRA distinguish between analysis and estimation of costs and benefits, in practice this distinction is often blurred. We typically consider 'estimation' to be a type of analysis, particularly when conducting quantitative and monetised assessments. Similarly, it is arguable whether the provision of a 'rough' range of possible impacts or a relative classification – for example, into 'high', 'medium' and 'low' impacts – constitutes an estimation.

5.5 We start with the intention to quantify and monetise all significant impacts. Our judgement as to whether some effects 'cannot reasonably be estimated' or whether it is 'not reasonably practicable to produce an estimate' depends on a number of factors and criteria, such as:

- **The degree of uncertainty around an impact:** Where the degree of uncertainty around an impact is substantial, we first consider the use of, for example, meaningful ranges and sensitivity analyses but might also rely on qualitative assessments. In instances where we can reasonably quantify only one element (for example, only the costs) we might also rely on the use of break-even analysis to provide an assessment of:
 - a. the scale of benefits that would have to materialise to offset these costs
 - b. the likelihood of that happening
- **The information available and the cost of gathering further data:** As discussed further in paragraphs 5.14 to 5.17, the resources we allocate to our CBAs must be proportionate. This means that we are less likely to provide a specific value for an impact where creating an estimate would require the use of substantial resources – for example, due to limited data availability. This applies especially where initial analysis suggests that the impact in question is likely to be minor.
- **The balance of other costs and benefits:** If the balance of other estimated costs and benefits is such that one side clearly outweighs the other, we might judge that further estimation of other, smaller effects would not change the balance materially.

5.6 In instances where we deem section 104(8) to apply, and where estimation of costs and benefits is not required, our CBAs would typically focus solely on the identification of impacts and elements of qualitative assessments. They would not provide quantitative or monetised assessments.

Our methodology

Types of analysis and estimation

5.7 Our analysis and estimation of impacts falls into four types:

1. **Identification of relevant costs and benefits:** This is often best done within the context of causal chains and includes assessing which parties are likely to be affected and how, and in some cases, where relevant, which impacts are more 'direct' or 'indirect'. Direct impacts are first-order effects that are likely to occur as an immediate consequence of the intervention, while indirect effects are more general-equilibrium effects whose materialisation is typically less certain.

2. **Qualitative assessment of impacts:** For example, this might involve sorting effects into 'low', 'medium' and 'high' impact categories.
3. **Quantification of the scale of the likely impact:** For example, 'the measure will result in an x% reduction or prevention of fraud cases'.
4. **Monetisation of impacts:** That is, assigning pound values to impacts.

5.8 We support all analyses, but in particular 2, 3 and 4, with initial information- and evidence-gathering exercises, followed by synthesis (that is, collating and summarising existing information contained, for example, in relevant academic research). Where we decide that existing analysis is unlikely to form a robust enough evidence base, we aim to fill gaps in the evidence base identified by the synthesis of existing evidence with primary research, including by gathering necessary data.

5.9 Data and information to support any primary analysis may come from different sources. We may use stakeholder feedback gathered as part of consultations or within meetings and discussions. Where available, we may rely on publicly available data sources (for example, the Office for National Statistics), data published by other regulators, or data and information about the sector we gather routinely while carrying out our functions (for example, during our monitoring and enforcement efforts). We may utilise payments data gathered and published by stakeholders such as UK Finance or Pay.UK. Alternatively, where proportionate, we may gather bespoke data and evidence – for example, by commissioning surveys or using our information-gathering powers under section 81 of FSBRA.

5.10 We see CBAs as a tool to help improve our consultation processes. In CBAs published alongside a consultation, we will aim to set out the limits of our existing data and use the consultation period to engage with stakeholders in order to help address, where possible, remaining data and evidence gaps.

5.11 The four types of analysis set out above build on each other: for example, impacts must be identified before they can be quantified. However, we do not consider the list of analysis types in paragraph 5.7 to be necessarily in hierarchical order. For example, we do not consider a quantitative assessment of a particular impact to be of higher importance than a qualitative assessment. Feasibility or proportionality might dictate that some CBAs stop short of quantifying or monetising some impacts we identify, but in itself that does not mean those impacts are less important.

5.12 The choice of qualitative versus quantitative methods is also not solely determined by the availability of data. The choice is also determined by the purpose of the analysis, with quantitative assessments often being more focused on assessing overall impacts and qualitative assessments at times being able to provide more insight into, for example, why people might make specific choices or have certain preferences.

5.13 That said, our general aim is to quantify and monetise impacts where appropriate, and we acknowledge that qualitative and non-monetary assessments can risk introducing subjectivity or inconsistency into analysis. We will aim to follow best practice in our use of non-monetary assessment and be clear and consistent in our use of such evidence. As mentioned, for example, in paragraph 2.7, we may also develop supplementary material on such methodological matters to ensure we apply a robust and consistent approach in line with evolving best practice.

Table 2: Types of analysis and common techniques

Type of analysis	Purpose of analysis	Examples
Identification	Determining affected parties and the relevant types of impact	<ul style="list-style-type: none"> • Application of basic supply and demand theories • Analysis of economic incentives to identify likely responses to regulatory intervention • Use of logic chains to analyse likely effects of regulatory interventions • Consideration of behavioural science evidence to predict individuals' likely behavioural responses
Qualitative	Providing a sense of likely scale of different impacts	<ul style="list-style-type: none"> • Case studies • Consultation responses and stakeholder feedback • Qualitative evidence contained in surveys or structured focus group interviews
Quantitative	Providing a more detailed estimation of the magnitude of impacts	<ul style="list-style-type: none"> • Estimated resource/time impacts on regulated companies • Data analysis to estimate reduction in or prevention of number of scams and misdirected payments as a result of additional authorised push payment (APP) scam protections • Econometric analysis
Monetisation	Applying monetary values to quantitative impacts	<ul style="list-style-type: none"> • Applying relevant wage and non-wage costs to quantified compliance impacts • Using value-of-time estimates to translate time savings into monetary values • Willingness-to-pay approaches where clear market prices do not exist

Proportionate analysis

- 5.14** Our analyses, and the resource and time they may require, should be proportionate to the likely impacts of a proposed intervention, the benefits of the CBA work required, the degree to which additional analysis could feasibly reduce uncertainty and the resources and time available to the PSR and stakeholders. We are also mindful of any burden data and information requests might impose on regulated firms.
- 5.15** The level of resources we devote to developing CBAs is case-dependent. In some cases, we may decide to rely predominantly on qualitative evidence gathered via stakeholder engagement. In others, we may be able to conduct quantitative and monetised assessments using detailed statistical or econometric methods. We typically base our approach on proportionality considerations. Criteria that we consider include:
- **Likely magnitude of impacts:** If initial analysis shows that impacts in terms of costs and benefits are likely to be small, we may judge that it would not be proportionate to carry out more detailed quantitative analysis for the purpose of improved accuracy.
 - **Availability and reliability of existing data and evidence:** Where there is a reliable body of existing data and evidence, it can be more proportionate to use and expand on that rather than to carry out new primary research. For example, this is more likely to be the case where an intervention builds on existing policy whose impacts are well established.
 - **Degree of uncertainty of impacts and ability to reduce it:** Where the initial assessment points to a very high level of uncertainty with a material effect on the likely balance of impacts, we might need to conduct more detailed analysis to reduce it. In contrast, the use of more resource-intensive analytical methods would likely not be proportionate if it was unlikely to reduce the degree of uncertainty.
 - **Distributional impacts and stakeholder views:** Our CBAs focus primarily on aggregate effects, but we also consider impacts on individuals and groups. If our initial analysis identifies considerable distributional effects, we may consider more detailed analysis to identify different impacts on vulnerable groups, including those with protected characteristics.
 - **The time-sensitivity of our proposed intervention:** Where we assess that quick intervention is required to reduce or avoid significant harm to the users of payment systems, we may consider the use of less resource- and time-intensive approaches as proportionate.
- 5.16** Considering these and other relevant criteria in the round, we are therefore more likely to provide detailed quantitative analysis where the issue lends itself to quantitative analysis and where we are proposing big, market-wide interventions that have considerable ramifications for the market and affect different market participants in complex ways.
- 5.17** Proportionality also informs how we present our economic evidence. In some cases, our analysis of costs and benefits might be presented in a separate, stand-alone CBA document. In other circumstances, we might present it as an annex to a policy consultation or policy statement. We have also explained that we always apply a CBA process even if we do not aim and are not required to develop and publish a CBA document. In such cases, the economic analysis resulting from the CBA process

might be presented within a 'formal' CBA document or embedded within the arguments set out in a policy consultation or statement of policy.

Structure

5.18 In our analysis of potential regulatory interventions, we typically consider standard best practice principles of economic appraisal, such as those set out in the Treasury's *Green Book*. The general structure of our analyses therefore often looks similar to CBAs developed by other regulators or impact assessments developed in central government. While structures and approaches can differ case by case, an archetypal CBA will contain some or all of the elements outlined in Table 3.

Table 3: Typical CBA elements and usual types of analysis

Chapter title	Contents
The case for intervention Policy objectives and desired outcomes Options	Identifying the reason for intervention, options for intervention and outcomes via the use of causal chains. See paragraphs 5.19 to 5.24 for more detail.
Costs and benefits Summary assessment of net impacts	Building on the previous analysis, providing a more detailed assessment and estimate of likely impacts using qualitative and quantitative techniques. See paragraphs 5.25 to 5.36 for more detail.
Wider considerations and impacts, such as distributional and equality considerations	Identifying less immediate impacts, such as distributional or equality considerations. May use qualitative and quantitative techniques where proportionate. See paragraphs 5.37 to 5.48 for more detail.
Uncertainty and risks	Identifying uncertainty and possible unintended consequences and dealing with the assessment of risks via tools such as sensitivity or scenario analysis. See paragraphs 5.49 to 5.52 for more detail.

Case for intervention

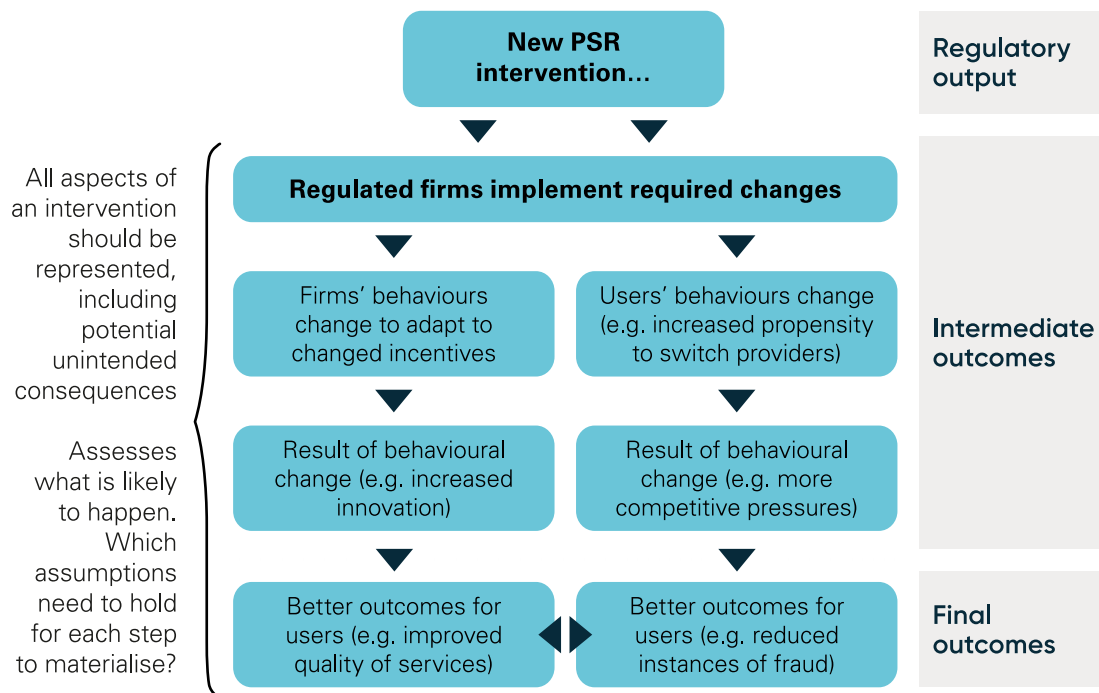
5.19 Each of our CBAs contains an assessment of current market outcomes and an explanation of why an intervention could help improve outcomes for those making or receiving payments. Within this explanation of our rationale for intervention we aim to assess the source of 'sub-optimal' market outcomes or market failures.

5.20 A high-level assessment of the potential scale for improvement in outcomes is a further focus in the early stages of a CBA to help inform policy before a more detailed impact estimation on options for intervention can be carried out.

Policy objectives and desired outcomes

- 5.21 Our analysis sets out the intended policy outcomes and the economic reasoning of how the proposed policy is likely to achieve them. In future, we will typically aim to use causal chain logic. Within this analysis, we will also aim to show how our intended policy outcomes support one or more of our statutory objectives.
- 5.22 Causal chains allow us to analyse the likely consequences of a potential intervention, assess the probability of possible impacts, and consider what needs to happen for positive outcomes to occur. This helps us isolate which assumptions have to be valid and which intermediary steps need to materialise for an intervention to achieve its intended effect on outcomes. Causal chains can also help highlight possible unintended consequences.

Figure 3: Causal chains



Options

- 5.23 When developing potential policy interventions, we may consider different options for achieving intended outcomes. Our CBAs assess a proposed intervention at the minimum against the appropriate counterfactual and its outcomes.
- 5.24 This appropriate counterfactual is usually a 'do nothing' scenario, but in special circumstances we might apply other counterfactuals.²¹ The 'do nothing' counterfactual is not a 'no change' assessment. Rather, it includes impacts that we expect to occur regardless of our proposed intervention – for example, other planned interventions and likely changes in the markets or macroeconomic environment.

21 In line with a common best practice approach taken, for example, by the FCA and central government, one such exception is regulatory change relating to revoked EU law. In this scenario, the common 'status quo' counterfactual includes the pre-existing EU law before it was revoked. For example, where we move previous EU regulation into UK regulation/statute without change, this would be considered to cause no impact overall.

Costs and benefits

5.25 Our CBAs highlight which impacts are most likely and which are less certain. Where useful, we categorise impacts as either **direct** or **indirect**. This is not always a clear binary distinction; however, direct impacts tend to occur as a direct consequence of an intervention, whereas indirect impacts rely on intermediate steps.

5.26 We also may categorise impacts as **one-off** or **ongoing**. One-off costs include, for example, initial familiarisation costs²² and implementation costs such as updating required systems. Ongoing costs include relatively direct compliance costs (such as annual reporting costs) and more indirect impacts that result from adjustments in the market over time (such as changes in business and thus revenue for regulated parties).

5.27 The immediate costs to regulated parties of regulatory interventions are often easier to quantify and monetise than benefits. Assessing these benefits often, almost by definition, involves less tangible and less direct factors and relies to a greater degree on assumptions about intermediary steps.

Table 4: Illustrative common benefits

Benefit type	Relevant issues	Illustrative measures
Improved choice and service	<ul style="list-style-type: none"> • Availability of a choice of payment systems (e.g. access to cash)²³ • Reliability of payment systems 	<ul style="list-style-type: none"> • Number of means of making and receiving payments available to consumers and merchants • Number of consumers experiencing avoidable adverse impacts • User satisfaction
Increased consumer protection/reduced fraud	<ul style="list-style-type: none"> • Payment systems embed advanced fraud protection • Consumers have adequate protection if they become victims • Consumers trust payment systems 	<ul style="list-style-type: none"> • Reduced financial loss • Reduced probability of financial loss • Perceived reduction in psychological stress • User satisfaction
Faster transactions	<ul style="list-style-type: none"> • Time to settle transactions is adequate for users' needs 	<ul style="list-style-type: none"> • Time per transaction × number affected × value of time

22 These are costs associated with regulated entities familiarising themselves with the changes and the possible need to share this information across the organisation. In some cases, where appropriate, we may assume these are absorbed by business-as-usual activities of regulated entities.

23 As far as choice and the number of ways to make and receive payments helps drive positive user outcomes, i.e. not choice for choice's sake.

Benefit type	Relevant issues	Illustrative measures
Fair and effective competition	<ul style="list-style-type: none"> Promotion of dynamic competition and future innovation 	<ul style="list-style-type: none"> Assessment of barriers to entry Ability and ease of users switching providers (e.g. merchants' ability to compare prices and switch providers of card-acquiring services)
Externalities	<ul style="list-style-type: none"> Positive spillover benefits to others in the wider ecosystem are considered 	<ul style="list-style-type: none"> Assessment of positive externalities (e.g. psychological benefit of reduced instances of fraud to consumers as a result of increased fraud protection investment by banks) Additional economic value provided by innovative services as a result of better access to existing infrastructure

5.28 Any general assessment of the proposed intervention will take into account all impacts, whether they are assessed qualitatively or quantitatively, or monetised.²⁴

5.29 The assessment will also analyse the extent to which costs and benefits that, in the first place, accrue to a specific party might eventually be passed through to other parties. For example, the extent to which initial compliance costs to firms will be passed through to consumers.

5.30 Sometimes we have to protect or maintain anonymity of sensitive data. This can constrain the techniques we use and how we present published CBA documents. For example, we might need to present results at a more aggregated level to ensure information and data are not attributable to specific data subjects.

Summary assessment of net impacts

5.31 One simple interpretation of a CBA is as an exhaustive estimation of all costs and benefits caused by a proposed regulatory intervention, assessed over a specific appraisal period, discounted appropriately and finally summarised in a single 'net present value' (NPV) figure that could be further broken down into constituent NPVs (e.g. an NPV for overall consumer impacts and a separate NPV for business impacts).

5.32 Such NPV figures can reflect uncertainty to a degree but ultimately are expected values. A question that informs our decision-making, alongside other relevant factors, is whether a proposed intervention is likely to result in costs which are proportionate to the benefits. NPVs might not always provide the best basis for this assessment as they do not, on their own as single point statistics, describe in full the distribution of possible outcomes.²⁵

²⁴ We acknowledge that monetisation is a form of quantification, but for the purpose of this document it makes sense to treat general quantification and monetisation as separate concepts.

²⁵ For example, the risk profile of possible outcomes might differ across options in such a way that an option with a lower NPV might still be preferable.

Furthermore, NPVs can only provide a partial base for robust decision-making where large impacts remain unquantified.

- 5.33** We thus consider the application of NPV estimates on a case-by-case basis. We provide such estimates where this can be done in a meaningful way (in particular where risk profiles are obvious and consistent across options and where the large majority of impacts can be quantified), taking account of relevant uncertainties and risks in line with general best practice.²⁶
- 5.34** We aim to assess and estimate impacts to a sufficient degree of specificity, but this does not necessarily entail grouping costs and benefits under a single NPV estimate.²⁷ Our main aim is rather to provide a holistic assessment of whether a proposed intervention can reasonably be expected to improve outcomes.
- 5.35** We instead often rely on related methods, such as break-even analysis, to establish whether a proposed intervention is likely to create more benefits than costs.²⁸ We can apply break-even analysis to show how much of a positive change an intervention has to cause to offset identified costs and how likely we consider this to be given the available quantitative and qualitative evidence.
- 5.36** In some cases, especially where we do provide summary NPV figures, we might also use analytical tools such as sensitivity analysis or scenario analysis to give a sense of risks, uncertainties and the entire spectrum of possible outcomes (rather than just a point estimate). This depends on factors such as the extent to which it is possible to quantify or monetise impacts, or whether a qualified assessment is more appropriate. We explain the specific approach used in each CBA.

Distributional issues and transfers

- 5.37** We consider how regulatory interventions affect different groups, such as regulated companies, merchants or consumers. Within this analysis we might also consider especially the impacts on specific groups, such as, for example, vulnerable customers. Considering distributional impacts (i.e. the assessment of how the overall expected impact breaks down for constituent groups) is also particularly important, as relying solely on aggregated impacts might increase the risk of not identifying specific unintended consequences on individual groups.
- 5.38** We consider whether first-order transfers (whose immediate impacts cancel each other out in aggregate) should be assessed as impact neutral in terms of welfare on a case-by-case basis. We may instead consider the application of welfare weights either within the CBA or in how we take the evidence presented by a CBA into account. Where we do apply weights, we explain and justify our approach in the individual CBA and/or the relevant policy statement.

26 That is, applying best practice principles on issues such as appropriate discounting or appraisal periods, as set out in, for example, the Treasury's *Green Book*. We might however deviate from commonly applied approaches or parameters; where we do, we will explain the logic behind our approach within the specific CBA.

27 For example, the Treasury's *Green Book* uses a default ten-year appraisal period and an annual 3.5% discount factor, but allows for deviation from that default – for example, for interventions that have very systemic, long-term impacts.

28 The principle that a proposed intervention should on balance cause more benefits than costs is our primary focus, whereas establishing by how much we expect benefits to outweigh costs in expectation is a secondary focus.

Equality

5.39 Section 149 of the Equality Act 2010 requires public authorities to have due regard to several equality considerations when exercising their functions. As such an authority, we must consider impacts on groups or individuals with 'protected characteristics'. The Act does not specifically require that we publish Equality Impact Assessments (EIAs), but these are a common means of demonstrating compliance with the Public Sector Equality Duty (PSED).

5.40 We analyse equality impacts as part of our general policy development and appraisal. Unless we consider there is a significant equalities issue that warrants a specific, separate EIA, we usually aim to provide it as part of the CBA. In most cases, we think it makes sense to consider equality impacts as part of a breakdown of general impacts, in particular where we assess specific equality impacts as part of distributional analysis.

The Better Regulation Framework

5.41 On 29 June 2023, the Retained EU Law (Revocation and Reform) Act 2023 came into effect. This abolished the Business Impact Target (BIT), the statutory basis for the previous Better Regulation Framework, and with it our statutory obligation to report against the BIT. The new Better Regulation Framework guidance was introduced in September 2023.

5.42 As an independent regulator, we are not in scope of the Better Regulation Framework. However, our economic analysis process incorporates the principles of the Better Regulation Framework where appropriate. Our engagement with the CBA Panel will help us further establish an approach that is appropriately consistent with the Better Regulation Framework.

Other factors

5.43 Section 49 of FSBRA establishes our three core statutory objectives:

- **Our service user objective:** Ensure that payment systems are operated and developed in a way that takes account of, and promotes, the interests of those who use or are likely to use them.
- **Our competition objective:** Promote effective competition in the interests of those who use or are likely to use services provided by payment systems.
- **Our innovation objective:** Promote the development of, and innovation in, payment systems in the interests of those who use or are likely to use their services.

5.44 HM Treasury, at least once in each Parliament, also makes recommendations to the FCA and PSR respectively about aspects of the government's economic policy to which the FCA and PSR should have regard, including when advancing their objectives and discharging certain functions or duties.²⁹

²⁹ The most recent letter from Chancellor of the Exchequer to the Chief Executive of the FCA and Managing Director of the PSR with regards to payments regulation, published in November 2024, is available on [GOV.UK](https://www.gov.uk)

- 5.45** Within our CBAs, we will aim to assess how our intended policy outcomes and the likely impacts of a proposed intervention relate to the advancement of our statutory objectives (including an assessment of any trade-offs between different objectives), and to any relevant issues in the remit letter. The standard approach to CBAs is based on considering the impacts on outcomes overall in terms of consumer welfare. This approach was not developed in the context of economic regulation, and we will in principle take account of the ways potential interventions impact all our objectives in a positive (benefits) or negative (costs) way. Objectives we may take into account would be on the effect on outcomes for users of payments (consumer welfare), our primary statutory duties as well as those matters to which we have to have regard (including matters relating to recommendations provided to us under Section 102A of FSBRA). As set out in paragraph 2.7, we may issue supplementary materials on specific issues and we intend to do so to provide further detail on this specific matter.
- 5.46** Section 53 of FSBRA sets out additional matters we must incorporate into our regulatory principles. These include a requirement to be proportionate and to have regard to “*the desirability of sustainable growth in the economy of the United Kingdom in the medium or long term*”, considering also sustainability and impacts on environmental targets, such as net zero. Where relevant, our CBAs thus also consider the likely impact of our proposed interventions on economic growth in the UK.
- 5.47** Our PSR Strategy, as updated in January 2025, is guided by the importance of supporting sustainable economic growth. This includes ensuring that through our internal decision-making processes we understand and consider the implications for growth of our interventions.
- 5.48** Our future CBAs will aim to capture all relevant economic effects where appropriate, including impacts on competition, innovation, the environment and growth in the UK economy. We explain in individual CBAs which wider impacts we see as particularly relevant and which might thus be worth expanding on in more detail.

Uncertainty

- 5.49** The early stages of the CBA process are designed to highlight possible uncertainties and unintended consequences. Any form of ex-ante appraisal that assesses a potential policy’s consequences involves a degree of uncertainty. The degree of uncertainty typically depends on a variety of factors, such as how novel a policy intervention is. In the case of more novel policy interventions, it can be challenging to rely on existing data to help assess the probability of a particular scenario occurring.
- 5.50** Our analysis of the economic reasoning will set out the immediate impacts a regulatory intervention might cause and how those immediate impacts might in turn affect identified outcomes. The assessment will not set out what we want to achieve; instead, it will provide an assessment of what immediate (first-order) and less immediate (second-order) impacts an intervention might cause. In doing so, our analysis will highlight possible uncertainties as well as the assumptions on which the causal chain of impacts depends. This will help highlight potential uncertainties and, where possible, identify the degree of likelihood of these uncertainties materialising.³⁰

³⁰ Where we can do so (i.e. provide an assessment of likelihoods of a specific uncertainty materialising or not) that turns an ‘uncertainty’ into a ‘risk’ on which we can provide further assessments in line with 5.51-5.52.

Risk

- 5.51** For identified risks, as indicated in paragraph 5.36, we might use sensitivity and scenario analyses to show how robust or sensitive our assessment is to any underlying analytical assumptions and inputs. This can also show how our estimates vary under different sets of inputs or in different scenarios. In more complex modelling scenarios, we also consider the appropriateness of techniques such as Monte Carlo analysis³¹ to present a full probabilistic representation of possible outcomes. We also use break-even analysis in cases where quantification or monetisation of impacts is challenging. Such analysis helps us assess what level of change an intervention would need to achieve to be net beneficial, and how realistic that is.
- 5.52** The inherent uncertainty in economic appraisal is one of the reasons why we do not usually rely on a singular NPV figure. NPV figures typically aggregate several individual impacts, each with their own associated risks and uncertainties. An overall, singular NPV figure is thus, at least in isolation, often not a robust basis on which to make decisions. Instead, we typically prefer to provide and consider likely ranges of impacts and make decisions based on the balance of probabilities.

Optimism bias

- 5.53** The Treasury's *Green Book* describes optimism bias as 'the proven tendency for appraisers to be optimistically biased about key project parameters, including capital costs and operating costs, project duration, and resulting benefits delivery'.³²
- 5.54** We acknowledge the principle of optimism bias, but we do not prescribe specific optimism bias adjustments like those set out in the Treasury's *Green Book*. As also shown in the *Green Book* guidance, most optimism bias relates to big spending projects such as improvements to infrastructure that involve significant capital expenditure, contracting with third parties, complex project management over many years and so on. These are not the types of regulatory interventions we typically make. However, we will consider using optimism bias adjustments for specific cases and we will often expect to use cautious estimates (see also our approach towards uncertainty and risk in paragraphs 5.49 to 5.52). In cases where we rely, at least partially, on cost estimates provided by regulated parties, there are also effects that tend to counteract optimism bias. Regulated parties can have a tendency – and may have an incentive – to overstate potential regulatory burdens; or, at the very least, they are unlikely to be subject to optimism bias on the potential success of regulation where that would mean understating costs to themselves.

31 Monte Carlo analysis is a form of simulation-based modelling in which inputs are not assumed as particular fixed values but are instead drawn repeatedly and randomly from probability distributions. This therefore generates an entire probability distribution of results.

32 [HM Treasury, *The Green Book* \(2022\), section 2.4.](#)

Our core principles

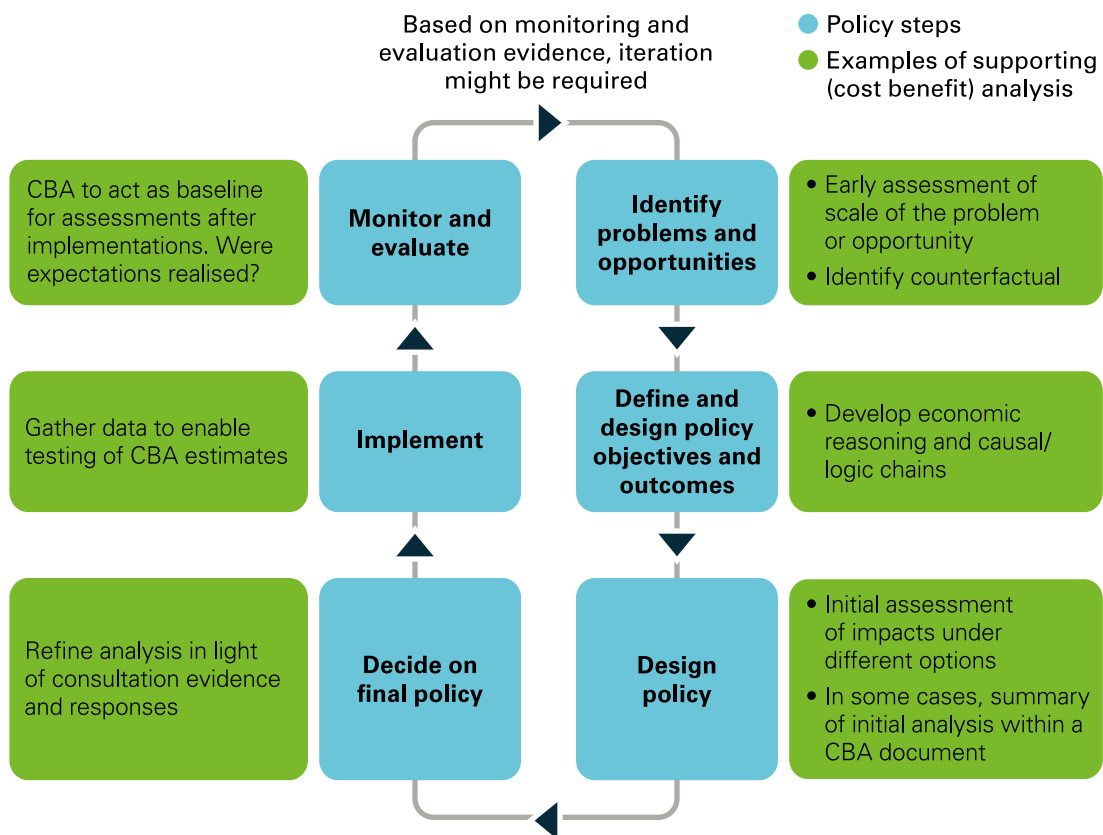
- **The precise CBA methodology we apply will necessarily differ on a case-by-case basis.** While our CBAs follow a common structure and set of principles, factors such as data availability, the scale of likely impacts and proportionality considerations determine the methods we use. We explain our choices in each individual CBA.
- **In general, providing single-point estimates for overall net impacts within our CBAs is not a primary focus.** We instead aim to provide a description of the likely overall balance of impacts, taking into account risks and uncertainties, and using both quantitative and qualitative evidence.
- **The focus of our CBA process changes through the policy development cycle.** Early CBA development tends to focus more on a clear explanation of the economic reasoning behind our proposed intervention, while later analysis tends to focus more on a refined assessment of likely impacts.

6 How we develop CBAs – our processes

6.1 In this chapter we set out how we incorporate our CBA development into the policy cycle, as a tool to improve decision-making. We also describe how we ensure our CBAs are high quality and take into account stakeholder views, as appropriate.

CBA process within the policy cycle

Figure 4: Analysis within the policy cycle



6.2 Figure 4 shows how we integrate CBA development into the whole policy cycle. Our analysis changes with the different stages of policy development, moving from early, high-level assessments to a more detailed CBA at the end. Our analysts are typically embedded within our policy teams, helping to ensure that the economic evidence developed as part of the CBA process responds to and influences the policy development process.

- 6.3** Monitoring and evaluating the impacts of our interventions after implementation can provide extremely useful feedback, not only for the effectiveness of an intervention itself but also on the type of analysis we conducted. It can provide valuable insight as to whether impacts matched the expectations our CBA outlined, and, if not, how we might need to adjust analysis and assumptions for future CBAs.
- 6.4** There can be instances – particularly when a potential regulatory intervention is market-sensitive – in which we have to consider publishing a more detailed analysis at an early stage. As part of early analysis, we identify whether a CBA could contain market-sensitive information and take the appropriate steps in response.
- 6.5** We also learn from CBA processes that have been undertaken so as to inform our approach to this framework in light of its ongoing application.

Engagement with the CBA Panel

- 6.6** Section 104G(1)(a) of FSBRA sets out that we must consult the CBA Panel on any CBA prepared under section 104(3)(a) or (6). Section 104(3)(a) covers any CBA that accompanies a generally applicable requirement, while 104(6) covers any produced for a generally applicable requirement that has changed significantly following consultation.
- 6.7** The requirement to publish a CBA document and consult the CBA Panel during its preparation does not apply in other contexts. In the instances covered by section 104G(1)(a)³³, we will formally submit an advanced draft CBA to the CBA Panel for its consideration. After we receive the CBA Panel’s formal advice we will consider it in taking the CBA forward for publication. Where appropriate, we might follow up with the CBA Panel to clarify advice or test whether a proposed response might address the issue raised by the CBA Panel. We will then summarise the CBA Panel’s key comments and how we have taken these into consideration within the published CBA document.³⁴ The CBA Panel will publish a summary of its advice on its website for further transparency.
- 6.8** As explained throughout this document, we frequently develop and publish CBA documents in other contexts, and we are continuing to develop best practice across all our CBAs. With that in mind, we have agreed with the CBA Panel that from time to time, and depending on the context and the Panel’s capacity, we may seek its advice beyond the requirements in FSBRA. This would be at our discretion. Some of our more complex CBAs, which can assess significant policy proposals, are not covered by the statutory requirements of s.104(3) and (6) in FSBRA. Although these CBAs do not refer to policies implemented via ‘generally applicable requirements’ and are not covered by the FSBRA requirements, there may well be instances where such CBAs would benefit from the Panel’s expert input and advice. On such measures, we might seek the CBA Panel’s informal advice on draft CBAs or on specific methodological matters to help us develop consistent and robust analysis, depending on the facts of the matter.

33 We are not introducing additional restrictions to this requirement, for example via the introduction of a specific de minimis threshold.

34 Our CBA documents are usually published as annexes to the underlying consultation paper (or final policy statements) but may in some instances be published as standalone documents.

- 6.9** We are engaging with the CBA Panel to help create effective, proportionate processes and terms of engagement. Our aim is to engage with the Panel transparently and proactively, meaning that we will typically aim to be transparent about any engagement we have had with the Panel, and that we will aim to respond within appropriate timeframes to any advice we receive.

With stakeholders

- 6.10** CBAs published alongside consultation documents can usefully complement the broader consultation process. These CBAs provide our initial assessment of likely impacts of possible regulatory interventions. We invite stakeholder comment on these CBAs. This feedback can act as a valuable resource for refining our assessment of impacts when developing the final policy.
- 6.11** With respect to section 104H(2)(d) of FSBRA specifically, our CBAs are published alongside consultation on our proposed action, or earlier, at the stage of general policy consultation. They are then refined for the final policy statement if necessary. During the consultation period, we review and analyse feedback on the CBA in the same way as we consider feedback on our policy proposals. Where the evidence we gather during consultation or changes in policy lead us to revise (parts of) our CBA, we summarise the feedback received and how we have taken it into account within the final document.
- 6.12** In the development of our CBAs, we will also reach out to other financial regulators or departmental bodies as appropriate. Such outreach as part of CBA development can help improve regulatory coordination and ensure a degree of consistency across regulatory CBA practices.

Ensuring robustness and consistency

- 6.13** When we engage with CBA Panel on individual CBAs, we will consider carefully their comments. Similarly, when we publish CBAs alongside consultation documents, we treat views expressed by stakeholders as a useful source of scrutiny that we can factor into any revisions and future relevant CBAs. When we publish a final CBA document alongside or as part of a policy statement, we summarise within the CBA the key comments made by stakeholders on previous published versions of the CBAs as well as how we have taken account of these.
- 6.14** All our CBAs are subject to the process of internal quality assurance (QA). Our internal QA process is largely based on three principles:
- ensuring we are using appropriate analysis
 - ensuring we execute the analysis correctly
 - ensuring we document and store our analysis appropriately

- 6.15** The degree of QA activity we carry out needs to be proportionate to the analysis and the underlying intervention itself and may at times also involve bringing in external resource and expert advice. What degree of QA is proportionate is generally independent of the specific legal instrument we are considering. That is, our internal QA does not differentiate between CBAs that refer to measures implemented by general or specific directions. The relevant factors are rather the potential impact of a measure and the complexity of the analysis.

Our core principles

- **Our CBA process starts at the beginning of the policy cycle and evolves alongside policy.** Early analysis focuses on identifying the scale of existing problems and analysing causal chains for possible interventions, assessing whether and how intervention could improve relevant outcomes. Later, the analysis narrows down potential policy options. Final analysis assesses the likely impacts of a preferred policy option.
- **CBA development is supported by a quality assurance framework that focuses on ensuring that our analysis asks the relevant questions using robust and proportionate methods.** We consider views expressed by stakeholders when revising existing CBAs or developing new CBAs.

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