Title: Immigration Act 2014: Access to Banking **Lead department or agency:** HM Treasury **Other departments or agencies:** Home Office Financial Conduct Authority	**Impact Assessment (IA)** **Date: 22 July 2014** **Stage:** Final **Source of intervention:** Domestic **Type of measure:** Primary legislation **Contact for enquiries:** Correspondence and Enquiry Unit public.enquiries@hmtreasury.gsi.gov.uk

Summary: Intervention and Options

RPC Opinion: Awaiting Scrutiny

Cost of Preferred Option				
Total Net Present Value	**Business Net Present Value**	**Net cost to business per year** (EANCB on 2009 prices)	**In scope of One-In, One-Out?**	**Measure qualifies as**
-£2.4 million	-£2.4 million	£0.2 million	Yes	IN

What is the problem under consideration? Why is government intervention necessary?

As part of the agenda to reform the immigration system, the Government has informally consulted with industry on potential options to ensure that known illegal migrants are not able to access banking services in the UK.

The current identification requirements placed on banking customers looking to use products and services in the UK are already high, mainly stemming from the Money Laundering Regulations and Proceeds of Crime Act. They do not, however, specifically stop banking products or services being made available to illegal migrants.

What are the policy objectives and the intended effects?

The policy objective is to ensure that known illegal migrants are not able to access banking products and services, as part of a series of measures being introduced across Government which are designed to reduce the attractiveness of the UK as a destination for those intending to work or stay illegally, by restricting access to the practical means of living in the UK unlawfully, such as employment, housing and benefits.

What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)

The Government has considered three options to deliver the policy objectives. These are:

(1) A voluntary agreement.
(2) Industry guidance.
(3) Legislation.

As a result of consultation with industry, the Government has concluded that introducing legislation is the only effective way of delivering the policy intention. Non-legislative options would not be sufficient to ensure the Government's objectives in this area are achieved, while also not providing the banking sector with the legal certainty that is required.

The Immigration Act 2014 which received Royal Assent in May will, when implemented, prohibit banks and building societies from offering current accounts to illegal migrants identified through a designated anti-fraud organisation. The Government intends to name CIFAS for this purpose.

Will the policy be reviewed? It will not be reviewed. **If applicable, set review date:**

Does implementation go beyond minimum EU requirements?			N/A		
Are any of these organisations in scope? If Micros not exempted set out reason in Evidence Base.	**Micro** Yes	**< 20** Yes	**Small** Yes	**Medium** Yes	**Large** Yes
What is the CO_2 equivalent change in greenhouse gas emissions? (Million tonnes CO_2 equivalent)			**Traded:** N/A	**Non-traded:** N/A	

I have read the impact assessment and I am satisfied that (a) it represents a fair and reasonable view of the expected costs, benefits and impact of the policy, and (b) that the benefits justify the costs.

Signed by the responsible Ministers: Andrea Leadsom 22 July 2014

Summary: Analysis & Evidence

Policy Option 3

Description: The Immigration Act will, when implemented, prohibit banks and building societies from offering current accounts to illegal migrants identified through a designated anti-fraud organisation. The Government intends to name CIFAS for this purpose.

Price Base Year 2013	PV Base Year 2013	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low:	High:	Best Estimate: -£2.4

COSTS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low				
High				
Best Estimate	£2.1		£0.07	**£2.7**

Description and scale of key monetised costs by 'main affected groups'

The cost for each bank and building society will vary depending on the existing business model of that particular institution. The one-off transitional cost to current account application processes aggregated across the banking sector is estimated to be approximately £2.1 million in year 1.

CIFAS will incur upfront set up costs and additional running costs associated with new members, which are estimated to be around £0.3 m (PV over 10 years). There are assumed to be no additional costs to access the data for existing CIFAS members.

Other key non-monetised costs by 'main affected groups'

There may be some costs for banks and building societies if they are prohibited from offering current accounts and other products to individuals which may have generated revenue. Given the difficulty of estimating the number of illegal migrants who will be refused access to financial services, this impact assessment does not look to monetise these costs.

BENEFITS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant	Total Benefit (Present Value)
Low				
High				
Best Estimate			£0.04	**£0.3**

Description and scale of key monetised benefits by 'main affected groups'

There is an estimated benefit to CIFAS of £0.3 million (PV over 10 years) from fees paid by those banks and building societies to access Home Office Immigration data but are currently non-members.

Other key non-monetised benefits by 'main affected groups'

This measure will ensure that known illegal migrants, as determined by the Home Office, are not able to open a current account in the UK. This impact assessment provides a qualitative description of some of these benefits. Banks, building societies, and other institutions will benefit from not offering banking products and services, and other credit, to individuals who are liable to removal by the Home Office at short notice.

Key assumptions/sensitivities/risks — **Discount rate** 3.5

Costs are based on estimates of the required training and other set up costs and registration fees. The key uncertainty is the estimate of any additional net benefit to banks, building societies and the wider economy from restricting access to financial services to illegal migrants, including any potential deterrent effect on prospective future illegal migrants.

BUSINESS ASSESSMENT (Option 2)

Direct impact on business (Equivalent Annual) £m:			In scope of OIOO?	Measure qualifies as
Costs: £0.26	**Benefits: £0.03**	**Net: £0.2**	Yes	IN

Evidence Base

A. Background

As part of the agenda to reform the immigration system, the Government has informally consulted with the banking sector on potential options to ensure that known illegal migrants are not able to access banking services in the UK.

The current identity requirements placed on banking customers looking to use products or services in the UK are already high. Industry consultation therefore demonstrated that the majority of illegal migrants will already be refused when they apply for a current account and other banking products or services.

These existing requirements largely stem from the UK's Money Laundering Regulations and Proceeds of Crime Act. Under these provisions, banks and building societies are required to carry out due diligence to identify and verify their customers, conduct ongoing monitoring, report suspicious activity to National Crime Agency (NCA) and to also seek consent from NCA before processing any suspicious transactions.

Separately, to protect themselves from fraud, banks and building societies will also typically conduct a search of a fraud database, such as CIFAS (previously known as the Credit Industry Fraud Avoidance System). The Home Office already shares data with CIFAS, with approximately sixty thousand known immigration offenders currently on their database, against whom the Home Office is actively pursuing immigration enforcement action.

The nature of these checks mean that illegal migrants will often be identified before new current accounts are opened. These checks do not, however, specifically prohibit banks and building societies from providing current accounts to illegal migrants, and banks and building societies are not presently subject to a legal requirement to conduct checks against CIFAS.

The Government has therefore included provisions in the Immigration Act that will prohibit banks or building societies from opening new current accounts for illegal migrants, referred to in the Act as "disqualified persons". This prohibition will operate by way of a duty to undertake a "status check" against a specified anti-fraud organisation.

The Home Office issued a statement of intent on 24 February 2014 that CIFAS would be named as the organisation for the purposes of the "status check" required by the Act. Where an individual is identified as an illegal migrant (or "disqualified person") as a result of a "status check" against CIFAS, the bank or building society will be required to refuse that application.

The Government undertook informal consultation with banks and building societies prior to the introduction of the Immigration Bill. The Government has continued to consult informally with the banks and building societies on the relevant secondary legislation. As a result, the provisions within the Immigration Act are broadly supported by industry as a proportionate response to this issue and provide the banking sector with legal certainty when refusing applications for a current account from known illegal migrants.

This impact assessment considers the potential options to ensure that known illegal migrants are not able to access banking products and services in the UK and, where possible, provides estimates of the potential costs and benefits of the Government's preferred option.

B. Rationale

The Government wants to ensure that known illegal migrants are not able to access banking products and services in the UK. The current checks on banking customers do not specifically prohibit an illegal migrant from obtaining a current account in the UK. This measure seeks to prevent illegal migrants from obtaining a current account and then accessing further products and services, as part of the wider reform of the immigration system to deter illegal immigration and deny illegal migrants the practical means of remaining in the UK unlawfully.

Informal consultation with the banking sector concluded that there are no other options, beyond legislation, that would achieve the Government's objectives.

The Immigration Act will provide a clear message that life in the UK is being made less attractive for illegal migrants. The Government has ensured that the legislation relating to the banking sector is sufficiently focused to avoid imposing undue burdens on industry, and will not impact on those individuals who want to legitimately open a current account.

C. Options

The Government has considered a range of options to deliver this policy. As there is currently nothing specifically preventing banks and building societies from opening a current account for illegal migrants, "do nothing" was not considered sufficient to ensure that known illegal migrants are not able to access banking services in the UK.

The options considered were:

(1) A voluntary agreement.

(2) Industry guidance.

(3) Legislation.

Non-legislative options

The Government used its informal consultation with banks and building societies to explore non-legislative options to deliver the policy objective. These included (1) a voluntary agreement, or (2) industry guidance. However, these options were not considered to be sufficiently robust to ensure that the Government's objectives were met, nor would they provide the banking sector with the legal certainty that is required.

Previously, the Government has reached a number of voluntary agreements with the major High Street banks on a range of policy issues. However, this impact assessment estimates that there are approximately 50 active current account providers in the UK. The Government also considered whether the policy intention could be achieved through amendments to industry guidance, including the Financial Conduct Authority's existing Financial Crime Guidance or the guidance of the Joint Money Laundering Steering Group (JMLSG).

Both of these non-legislative options would have resulted in the banking sector facing the same transitional costs (as outlined in section D). However both non-legislative options would not have provided the complete legal certainty required by banks and building societies offering current accounts in the UK. Without providing legal certainty, an illegal migrant who was refused a current account would remain entitled to make a complaint to the Financial Ombudsman's Service or even the courts. As a result, informal consultation with the banking sector concluded that legislation provided the legal certainty required for banks and building societies to refuse current account applications where an individual has been identified by the Home Office as an illegal migrant.

Option 3 (Legislate to prevent illegal migrants accessing a bank account)

As a result of informal consultation with industry, the Government has concluded that introducing legislation is the only effective way of ensuring that known illegal migrants are not able to access banking services in the UK. Legislation also provides banks and building societies with the appropriate legal certainty needed to deny access to a current account for illegal migrants. As a result, this approach avoids any unnecessary risk for industry. The Government has therefore included provisions in the Immigration Act that will prohibit banks or building societies from opening new current accounts for illegal migrants, referred to in the Act as "disqualified persons".

This prohibition will operate by way of a duty to check an applicant for a current account against a specified anti-fraud organisation. As noted above, this will mean that where an illegal migrant is identified as a result of a "status check" against CIFAS, the bank or building society will be required to refuse the application. This prohibition will also apply to applicants for a joint account, a signatory or a named beneficiary, and also where that individual is to be added to an existing account as an account holder, signatory or named beneficiary.

The Government will bring forward secondary legislation to clarify that the provisions will only apply to current accounts for 'banking customers'. The definition of a 'banking customer' is a consumer, a micro-enterprise and a charity (with an annual income of less than £1m). This definition is already in common usage in the banking sector, and is set out in the Financial Conduct Authority's Banking Conduct of Business Sourcebook (BCOBS). By including micro-enterprises and charities within the provisions, the Government is seeking to ensure that illegal migrants do not find obvious ways to avoid the prohibition.

An individual will be considered a "disqualified person" where they are physically present in the UK and require leave to enter or remain in the UK under the Immigration Act 1971, but do not have it. This could be, for example, because they never had such leave (they entered illegally) or because they did have such leave but it has expired or was revoked.

The Home Office will retain discretion over whether an individual is considered a "disqualified person" and therefore shared with CIFAS (and as a result prohibited from opening a current account in the UK). In certain cases the Home Office may decide not to pass the details of certain individuals to CIFAS, even if that individual has no leave to remain in the country. This is because there will be some individuals who face legitimate and practical barriers which prevent them from leaving the country and it would not be reasonable to deny them access to a current account.

This measure will only apply to new current accounts offered by a bank or building society operating in the UK. Applications for credit cards, loans and mortgages have been excluded to ensure that the measure is proportionate. As the proposed legislation will put a requirement on banks and building societies, the Act will enable the Financial Conduct Authority (FCA) to supervise compliance in a proportionate way as part of their existing regulation regime.

D. Appraisal (Costs and Benefits)

The Government has brought forward provisionsin the Immigration Act that will prohibit banks or building societies from opening new current accounts for banking customers, where they are identified by a "status check" against CIFAS as a "disqualified person".

Estimates indicate that there are approximately 50 active current account providers in the UK. Following consultation with a range of banks and building societies, the impact of this measure will vary depending on the existing business model of each bank and building society. The primary cost of the measure will be the one-off costs from the process changes banks and building societies need to make to ensure that they correctly undertake the requirements set out in the Act.

In addition, those banks and building societies that are not currently CIFAS members will be subject to a one-off membership cost to CIFAS to ensure access the relevant Home Office data. They will also be subject to ongoing membership costs. The majority of banks and building societies in the UK are already members of CIFAS and will therefore face no additional costs in order to access the database. However, this impact assessment estimates that there are approximately 20 smaller current account providers who are not currently CIFAS members and will therefore require access to CIFAS to utilise the Home Office immigration data.

This impact assessment does not seek to monetise the benefits of this measure. It is anticipated that there will be benefits for the wider UK economy – and specifically to the banking sector – as a result of restricting access to financial services to illegal migrants. The difficulty of measuring the number of illegal migrants affected by this measure means that it is not possible to monetise these benefits, including any potential deterrent effect on prospective future illegal migrants.

COSTS

A – Costs to Banks and Building Societies

(a) One-off costs

Process adaptation costs

It is anticipated that all banks and building societies will need to adapt their current account application processes in order to ensure compliance with the Act's provisions. Where a bank or building society currently undertakes a CIFAS check (which demonstrates that the applicant is a known illegal migrant), it is a commercial decision for that bank or building society whether they proceed with the application based on the own internal fraud and risk policies. As a result of the Immigration Act, all banks and building societies that offer current accounts will need to undertake a check against CIFAS, and ensure that the application is rejected where it demonstrates that the applicant is an illegal migrant.

Based on the outcome of the Treasury's informal consultation with the banking sector, this impact assessment assumes that in the vast majority of cases – including for all major banks and building societies – the "status check" required by the Immigration Act will be undertaken through their central fraud teams, rather than within individual branches, and will simply build on the existing systems that the banking sector uses to identify risks such as money laundering and fraud.
Consultation with the banking sector produced a rough estimate of the potential cost of changing banks and building societies existing account opening processes, however there is insufficient robust data to make an accurate assessment. This impact assessment has therefore provided an indicative estimate of this cost by using the potential staff time needed to make the changes to current processes. It is assumed that systems changes will be made at a relatively senior level (equivalent to "bank manager" as defined by the Standard Occupational Classification 2010 (SOC2010), Office for National Statistics), and require a 6 month implementation period. On the basis of five full-time staff needed at the six major High Street banks and building society, and one full-time staff needed at each of the remaining 44 small to medium sized banks and building societies, and using average hourly wages for bank mangers of £29.87 per hour[1], this set up cost is estimated at around £2.1 million in year 1.

(b) Ongoing costs

CIFAS membership fees

This impact assessment does not expect CIFAS members to face additional CIFAS membership fees as a result of this measure.

[1] ONS Annual Survey of Hours and Earnings, table 14.5a; median hourly pay £, including an estimate of non wage labour costs of 17.8 per cent

Following consultation with CIFAS, this impact assessment assumes that those banks and building societies who are not currently CIFAS members are expected to face an ongoing membership fees to access the Home Office immigration data of approximately £1,750 per institution, (with higher costs in the first few years to account for set up costs) or a total of £0.3 million (PV) over 10 years.

Once the one-off changes have been made to banks and building societies application processes, it is expected that there will be no additional costs, given that banks and building societies already receive Home Office immigration data, and as a result the requirements of the Act will be completed as part of banks and building societies usual day-to-day operations.

(c) Foregone earnings from current accounts

The number of current accounts that are not opened as a result of this measure are likely to be a very small proportion of the total number of accounts across the UK (an estimated 76 million bank accounts for consumers alone, (OFT report, 2013, s3.1, p26)).

The number of current account applications impacted by the Act's provisions will also depend on the volume of cases listed with CIFAS by the Home Office on an ongoing basis. CIFAS currently holds the details of approximately sixty thousand known illegal migrants who are subject to immigration enforcement action. On the basis of 2012 figures that around 3% of consumers switch to a new current account every year (OFT, 2013), it is reasonable to expect that as a proxy there could be approximately 2,000 current account applications potentially within the scope of this measure per year. However, as set out previously, it is important to recognise that illegal migrants may face difficulties opening an account prior to the 'status check' being undertaken. These include providing sufficient documentation to prove their identity, and passing the anti-money laundering checks and other general fraud checks undertaken during the application process. This estimate is consistent, however, with CIFAS data which indicates that an estimated 2,000 individuals were refused current accounts in 2013 who were the subject of Home Office data shared with CIFAS (although this wasn't specified as the reason for refusal).

The number of current account applications impacted by the Act's provisions will also depend on the volume of cases listed with CIFAS by the Home Office on an ongoing basis. The Home Office continues to build its relationship with CIFAS and develop its approach to sharing information with the anti-fraud organisation. CIFAS currently holds the details of approximately sixty thousand identified immigration offenders with no outstanding applications or rights of appeal who are currently subject to immigration enforcement action or who have already been removed from the UK. On the basis of 2012 figures that around 3% of consumers switch to a new current account every year (OFT, 2013), it is reasonable to expect that as a proxy there could be approximately 2,000 current account applications potentially within the scope of this measure per year in the first instance. However, as set out previously, it is important to recognise that illegal migrants may face difficulties opening an account prior to the 'status check' being undertaken. These include providing sufficient documentation to prove their identity, and passing the anti-money laundering checks and other general fraud checks undertaken during the application process. This estimate is consistent, however, with CIFAS data which indicates that an estimated 2,000 individuals were refused current accounts in 2013 who were the subject of Home Office data shared with CIFAS (although this wasn't specified as the reason for refusal).

It is important to recognise, however, that using these figures only provides this impact assessment with a broad estimate of the current account applications that are potentially within the scope of this measure per year. In many instances illegal migrants, particularly new or recent cases, are likely to be "unbanked" in the UK.

Evidence from the OFT (OFT, 2011) suggests that the average earnings for a personal current accounts are £139 per year; however it is not clear that this average is evenly distributed across all accounts, nor will it necessarily apply to accounts belonging to illegal migrants. Previous analysis of Home Office data shared with CIFAS also suggests a high match rate for attempted fraud in relation to accounts held by individuals who have been identified as immigration offenders., Given both of these factors, it is not possible to make a reliable estimate of foregone profit to banks and building societies as a consequence of the new prohibition. It is also possible that the accounts of illegal migrants are primarily, perhaps exclusively, being used to pay in the wages from their employment. Depending on the immigrant's circumstances that money may be the wages of illegal working and so is consequentially the proceeds of crime. That money is therefore recoverable under the Proceeds of Crime Act 2002. It is against general policy for the proceeds of crime to remain in general circulation for the benefit of anyone, including banks. The individual circumstances around each case may give rise to a suspicious activity report being made to the National Crime Agency or not depending on the bank having (reasonable grounds for) knowledge or suspicion that the money in the account being the proceeds of crime. If a report were made then law enforcement would make an operational decision whether to take action involving the recovery of those proceeds of crime. Given these circumstances, it would therefore not be appropriate to take into account foregone profit for banks and building societies derived from any illegal activity in calculating the costs and benefits of this measure. This is consistent with the approach taken in other impact assessments relating to the Immigration Act.

B – Ongoing and Set up Costs for CIFAS

CIFAS will incur some additional costs from admitting new members, including training costs, ongoing running costs and further set up costs. These are estimated at £0.3m (10 year PV).

C – Costs of regulation by the Financial Conduct Authority

The costs incurred by the Financial Conduct Authority (FCA) from enforcing and monitoring the new requirements will be absorbed within their existing supervision and enforcement functions.

Total costs

The total cost in the first year is estimated to be £2.1 million. Including ongoing revenue costs, over the 10 year period of the IA **the total cost is estimated to be £2.7 million (PV).**

BENEFITS

It is not possible to monetise the benefits of this measure. This section discusses the potential benefits and sets out why it is not possible to monetise each benefit.

The primary benefit of this measure is to ensure that known illegal migrants are not able to access banking products and services, as part of a series of measures being introduced across Government to reform the immigration system. These are intended to reduce the attractiveness of the UK as a destination for those intending to work or stay illegally, by restricting access to the practical means of living in the UK unlawfully, such as employment, housing and benefits. The benefits of this measure will therefore be the result of a cumulative impact of the Immigration Act and wider Government policy, rather than this measure in isolation.

A – Reduction in illegal migration

The objective of this measure is to deny access to a current account for known illegal migrants to the UK, and to deter others who intend to abuse the immigration system. Denying these individuals access to banking products and services makes it more difficult to live in the UK.

Reducing the volume of people who are illegally resident in the UK will have benefits for the Home Office through a potential reduction in removal costs. The National Audit Office (NAO) state that cost of removing a person illegally present in the UK is in a range between £400 and £60,100 for all removal cases [2](NAO, 2009) depending on their profile. This should be viewed as an opportunity cost in terms of Home Office enforcement resources being freed for other activity which is likely to result in an increase in enforcement activity in other areas.

[2] For single detained adults the range is between £11,400 and £23,200, NAO (2009), Table 21, p36.

It is not possible to estimate the short-term deterrent effect on those overseas who are contemplating attempting to enter the UK illegally or those in the UK who overstay their leave owing to the limited data that exists on the current illegal population.

The non-quantified impacts of reducing the illegal population include savings in public services. If there is a reduction in the volume of people who are illegally resident settling in the UK, through additional voluntary removals and deterrence of illegal migration, this could help reduce pressures on public services by reducing the volume of people eligible to utilise them. The Home Office estimates that a reduction in illegal migration to the UK could save an average of £4,250[3] per person per year in services such as healthcare, education and other public spending. The Government set this out previously in the impact assessment on tackling illegal immigration in the privately rented sector. An extract is set out at Annex B of this impact assessment.

A proportion of this figure is likely to be realised through opportunity costs as the reduction in the use of public services by those encouraged to leave the UK will instead be utilised by other UK residents meaning actual cash savings overall may not be realised.

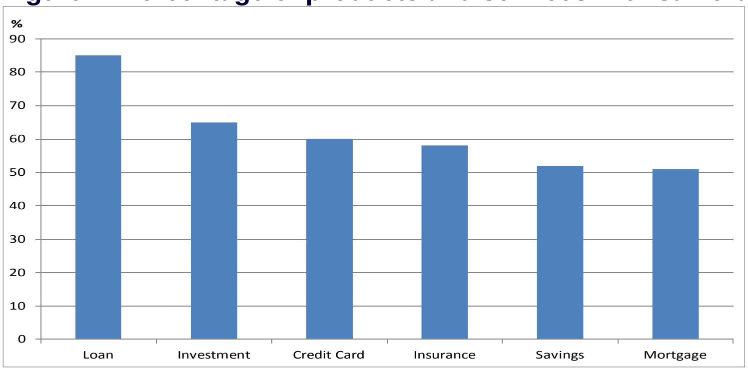
B – Other Benefits

(a) Benefits for banks and building societies

As noted previously, this measure has been targeted on current accounts to ensure that it is proportionate to implement for the banking sector. Current accounts are considered the gateway product to other banking products and services. It is extremely difficult to take out a credit card, loan or mortgage without a current account and so the policy intention to deny access to a broader range of products is therefore achieved.

To demonstrate this link, OFT research (OFT 2008) indicated that 85 per cent of customers who had a personal current account with a particular bank also had a loan with the same institution. Figure 1 indicates that this link is also demonstrated for investments, credit cards, insurance, savings and mortgages by varying degrees (but greater than 50% for all listed products). There was relatively little change in these figures over the period 1997-2007.

Figure 1: Percentage of products and services with same bank as current account, 2006



Source: Chart 2.4, OFT (2008) Response to OFT questionnaire by banks.

Therefore, in addition to the wider benefits outlined above, there will be some incidental benefits to the banks and building societies as a result of this measure, which could be experienced through:

(i) reduced losses from not offering banking products and services to illegal migrants who are deported or leave at short notice; and,

(ii) reduced losses from greater fraud awareness for those banks and building societies who were not previously CIFAS members.

This section briefly looks at each of these benefits in turn.

[3] HM Treasury (2009) Public Expenditure Statistical Analyses (PESA), Table 5.2. Uplifted to 2011/12 prices. Also used in the Home Office IA, HO0094, see Annex 4 for full details.

(i) Reduced losses from not offering banking products and services to illegal migrants

Banks and building societies will receive some incidental benefit as a result of the reduced losses from not offering current accounts – and in turn other banking products and services – to illegal migrants who are then deported or leave the UK at short notice.

This impact assessment does not seek to monetise this benefit given the lack of available data. As set out previously, the majority of illegal migrants are already stopped from opening current accounts due to the existing identification checks that take place. This impact assessment, therefore, concludes that it is not possible to estimate how many current accounts are currently opened by banks and building societies for illegal migrants.

In addition, given the lack of available data, this impact assessment does not seek to put a figure on the number of illegal migrants who could be denied an account, and then be deported or leave the UK. Nor does it consider it proportionate to seek to estimate the approximate amount of outstanding debt an illegal migrant is likely to have when they are deported or leave the UK.

(ii) reduced losses from greater fraud awareness

Banks and building societies will also receive benefits from the reduction in losses from greater fraud awareness for those who are not currently CIFAS members. It is worth recognising that it is currently expected that those banks and building societies who are not currently member of CIFAS will not have access to the full suite of CIFAS fraud data, and will therefore only have access to the Home Office immigration data.

While there is some evidence from the Home Office's existing relationship with CIFAS that there is a relationship between known illegal migrants and existing cases of fraud, this is not a definitive indicator. As the number of illegal migrants with access to a bank account is also unknown, this impact assessment does not seek to use existing CIFAS data to make an assessment of the number of cases where potential fraud will be prevented by this measure in isolation.

While we are therefore not able to provide an estimate on the number of individuals, CIFAS analysis of use of Home Office data provides an estimate on the fraud saving for every identified case of fraud linked to a refused current account. This is £2,329.27.[4] As a result, just 100 cases per year would equate to £232,927 in fraud savings for banks and building societies from this measure. Given the lack of data however, this impact assessment does not seek to monetise this.

(b) Benefits to CIFAS

There will be benefits to CIFAS which are the fees from new members to CIFAS which is estimated to be around £0.3 million (PV) over 10 years. The fees are set to reflect the additional costs to CIFAS from the new members.

Total benefits

This impact does not seek to monetise the benefits of this measure. That is not to say that there will not be monetary benefits for the wider UK economy from reduced illegal migration, or for the banking sector directly as a result of this measure, just that it is not possible to monetise these on the basis of the currently available data.

ONE-IN-TWO-OUT (OITO)

Costs (INs): This impact assessment concludes that the majority of one-off costs to business are from changes to existing application processes. Ongoing costs are the fees paid to CIFAS by current non-members who need access to Home Office data. The one-off cost to business is approximately £2.1 million and the equivalent annual cost to business is approximately £0.26 million.

[4] Data from CIFAS based on matches with HO data in 2013.

Benefits Out (OUT): Revenues paid are an equivalent annual benefit to CIFAS of around £0.03 million.

Net: The equivalent annual net cost to business (EANCB) is estimated to be approximately £0.2 million (2009 prices).

Small and Micro Business Assessment (SMBA)

The Small and Micro Business Assessment is included at Annex A.

The Government does not expect there to be an impact on small and micro organisations within the banking sector as these have either been excluded from scope or do not offer current accounts. As with other applicants for a current account, those small and micro businesses seeking to legitimately open an account will not be impacted by the provisions of the Act.

E. Risks

OPTION 3 (Regulate to prevent illegal migrants accessing a bank account)

To make certain that illegal migrants do not take advantage of the targeted scope of the Act, the Treasury has taken powers to alter the categories of financial institution (beyond banks and building societies) to which the prohibition applies; to alter the types of account to which the restriction applies (beyond current accounts); and, to include provision to further define the category of account to which the prohibition applies.

F. Enforcement

The Immigration Act provides that the Treasury may make regulations to enable the Financial Conduct Authority (FCA) to make arrangements for monitoring and enforcing banks and building societies compliance with the prohibition. The FCA is expected to take this forward in a proportionate manner alongside their existing supervisory obligations.

G. Review

The Treasury, in line with the Government's better regulation objectives, will carry out and publish a review of the legislation within five years of the measures coming into force.

H. Summary and Recommendations

The Government has brought forward provisions in the Immigration Act that will prohibit banks or building societies from opening new current accounts for banking customers, where they are identified by a "status check" against CIFAS as a "disqualified person". The net cost of the measure is estimated at £2.4m (PV) over 10 years.

I. Implementation

The Government currently plans to implement these changes before the end of 2014.

REFERENCES

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Office of Fair Trading (2013) *Review of the Personal Current Account Market*, January, London.

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Annex A – Small and Micro Business Assessment

Background
A small and micro sized business assessment (SMBA) applies for all measures that come into force after 31 March 2014. The Immigration Act received Royal Assent in May 2014 and the policy proposal assessed in this impact assessment is expected to come into force before the end of 2014.

The Government has brought forward measures in the Immigration Act that will prohibit banks or building societies from opening new current accounts for banking customers, where they are identified by a "status check" against CIFAS as a "disqualified person".

The policy objective is to ensure that known illegal migrants are not able to access banking products and services, as part of a series of measures being introduced across Government designed to reduce the attractiveness of the UK as a destination for those intending to work or stay illegally, by restricting access to the practical means of living in the UK unlawfully, such as employment, housing and benefits.

Current Account Providers
This impact assessment has not identified any current account providers that would fall within the definitions used by the Government for small or micro organisations. This is due to a range of both regulatory and other market factors.

In terms of regulatory factors, the authorisation requirements for banks and building societies – which are set at a European level through the Capital Requirements Directive – mean that these organisations must (with limited exceptions) hold over €5 million capital.

In addition, this impact assessment has estimated that there are approximately 50 active current account providers in the UK. However, the market is dominated by the six major banks and building societies. These are Barclays, HSBC, Lloyds Banking Group, Nationwide, Royal Bank of Scotland and Santander. Even recent new entrants (such as Virgin Money and Tesco) would not be considered micro or small organisations for the purposes of this impact assessment.
The Government has also ensured that smaller, alternative deposit takers – such as credit unions and mutual societies – are deliberately excluded from the prohibition in the Act, to ensure that these provisions do not adversely impact on micro or small organisations.

Impacts on businesses
As set out in the impact assessment, the business net present value is £2.4 million (PV) over a ten year period. The equivalent annual net cost to business (EANCB) is estimated to be £0.2 million.

The Government does not expect there to be an impact on small and micro organisations within the banking sector as these have either been excluded from scope or are not able to offer current accounts. The Act may limit access to banking services for illegal migrants who running small and micro organisations in the UK, but this is in line with the overall policy intention for the Act. As with other applicants for a current account, those small and micro businesses seeking to legitimately open an account will not be impacted by the provisions of the Act.

Annex B - Impact of Illegal Migration on Public Services

Home Office impact assessments have previously attempted to estimate the impact of migrants on health, education, criminal justice and welfare benefits using a bottom up approach which aims to identify consumption of specific services. However, these estimates present only a partial picture of the impacts and may be biased in that unidentified consumption may substantially alter the picture. For this reason a top down approach, which aims to allocate all public spending to each person in the UK, is preferred. This annex sets out the preferred approach, which aims to estimate the impact on public services of a change in the number of migrants arriving or remaining in the UK. This figure can be used to quantify the change in migration in impact assessments (IAs).

Allocation of Public Expenditure
A top down approach to allocating public spending to individuals assumes that consumption is broadly similar for all individuals included in the calculation. This approach has been documented in the relevant literature (Glover et al, 2000 and NIESR, 2011). HM Treasury document total levels of public spending (total managed expenditure (TME)) in the Public Expenditure Statistical Analyses (PESA) 2011 documents the total level of public spending in different areas, including general public services; defence; public order and safety; economic affairs; environment protection; housing and community amenities; health; education; social protection and EU transactions.

Simple calculation
This allows public expenditure to be allocated to each individual in the UK. The analysis assumed 62.3 million individuals in the UK, from the ONS statistical bulletin of national population projections (2011). Per head costs are calculated as being the sum of total spending on each element of public services, divided by the total UK population, and does not vary across characteristics or groups. This method gives an estimated spend per person, including children, in the UK of £11,300 per person.

Public Goods
However, this figure includes public goods which mean it may not be reasonable to assume that excluding a migrant from the UK could have a marginal impact of £11,300 on public finances. Instead it is sensible to exclude costs associated with public goods, as the cost of extending or removing coverage to one additional migrant is zero as public goods are not attributable to any one individual in the population.

Public goods are defined as non-rival and non-excludable. To be non-rival it must be that the consumption of a good by one individual does not reduce the ability of others to consume that good. A non-excludable good means that once the good is provided it is impossible for any individual to opt out. An example of a public good may be national defence. Once national defence is provided for the country, an individual is unable to opt out of it. Whether they wish to be defended or not, they will be defended as it is not possible to protect the country without also protecting everyone in it. However, it is also true that one individual who receives the protection of national defence does not reduce the defence of others. Thus the good is non-rival and non-excludable.

The characteristics of a public good mean that the marginal cost of providing the good to one additional person is zero. As such it is sometimes debated that the cost of that good, which is attributable to a single individual, should also be zero. For this reason estimate B in table 1 provides the estimated cost of public spending per person excluding those goods deemed to be public goods. The excluded spending includes items such as general public spending, research and development, defence, pollution and other environmental spending, and street lighting.

In addition to excluding these public goods, spending on public debt transactions and EU payments have also been excluded. This is because these are obligations which cannot be opted out of and are not always directly attributable to the current population. Thus on a similar principle to a public good they are not incurred on a per person basis and would not be affected by one additional migrant. Removing these categories reduces the average impact of a marginal individual in the UK to £9,100 per year. However, this does not control for differing characteristics of migrants and how these characteristics may affect use of public services.

The exclusion of public goods from the cost calculation is one that could be contested. It is possible to suggest that the migrant population in total is non-marginal and therefore the costs of migrants as a whole are not zero. However, as the IA approach is to estimate the impact of a marginal change in migrant volumes, the use of a zero marginal cost would be more appropriate. Similarly, some previous methods have not excluded debt transactions, or have only excluded part of them. The reasoning in these methods is that there is still some benefit gained from the large infrastructure projects that incurred the debt. However, this is complex to calculate the remaining benefit and apportion the debt payments appropriately and it is doubtful whether the presence of migrants per se has affected the demand for such capital investment, so debt transactions have been excluded.

Welfare and Benefits

Allocating public expenditure to the individuals in the population includes welfare and benefit expenditure. However, most migrants will not be eligible to claim most welfare benefits until they have been in the UK for at least 5 years and have been granted settlement in the UK. For this reason, it is prudent to exclude welfare benefit expenditure for migrants who have been in the UK for less than 5 years and who will not be eligible to claim. Estimate C in table 1 provides an estimated cost per person excluding public goods and welfare of £5,800 per person. For migrants who have been in the UK longer than 5 years and have settled here, welfare expenditure should be included, meaning estimate B is more appropriate.

Wider Services

This approach assumes that consumption is the same for all individuals. However, migrants and the native population are unlikely to be a homogenous group with identical patterns of consumption. Consumption is likely to vary by age, gender, family composition and other factors such as income and ethnicity. The recent report on the impacts of migration by the Migration Advisory Committee (2012) has presented new evidence on the social impacts of migration. The MAC commissioned NIESR to provide top down estimates on health, education and social services expenditure for different migrant groups.

Given that health, education and social services expenditure figures which take these characteristics into account are available, we have excluded these from our simple estimate. This gives two estimates of general public expenditure. Estimate D of £1,400 per person, which excludes public goods and welfare expenditure as well as health, education and social services expenditure and estimate E of £4,700 per person, which includes welfare benefit expenditure while excluding public goods, health, education and social services. These wider estimates should be added to the estimates of health, education and social services expenditure which have been adjusted to account for age and other characteristics of specific migrant groups.

Table 1: Summary of the per head cost of public services consumed by a migrant

		£
A	Total spend per capita	11,200
B	Total excluding public goods	9,100
C	Total excluding public goods and welfare	5,800
D	Total excluding public goods, welfare, health, education & social services	1,400
E	Total excluding public goods, health, education & social services	4,700

Source: based on National Population Projections 2010-based Statistical Bulletin, ONS, (2011) and Public Expenditure Statistical Analyses (PESA), HM Treasury, Table 5.2, (2011).

NIESR

NIESR (2011) were commissioned to provide an estimate of migrants' consumption of education, health and social services. Estimates have been produced for all migrants, defined as those born outside of the UK, according to their key characteristics, on the assumption that age is the most powerful characteristic that drives consumption of public expenditure. NIESR estimated the proportion of the population that are migrants in each of the migrant groups of interest using the Annual Population Survey (APS). The APS identifies families, including children living at home. For some migrant groups, NIESR have given a narrow and broad definition[5] which will allow the creation of a range of costs for each type of migrant.

[5] In the narrow definitions, migrants are included if they cannot be included in any other group. For example, economic migrants includes those working in the UK but only if they are not as full time student or if their partner's status could not allow them to work. The broad definition

The population estimates were combined with PESA data for 2009/10 to estimate consumption per individual. These figures have been uplifted to 2011/12 prices using the change in public expenditure since 2009/10. These estimates can be added to the wider estimates (D and E) described above to give an overall estimate for cost to the public services per migrant in the UK.

Health

The evidence in the literature concludes that migrants in general are unlikely to pose a disproportionate burden on health services. There is strong evidence for lower impacts for Tier 1 and 2 work migrants, who are generally young and healthy. This is supported by a recent Home Office publication[6] which suggested that students and skilled workers, more often likely to be young and healthy, are likely to have a low impact on public services, making a lower demand on the public sector than an average UK resident. Expenditure on healthcare is much higher for elderly adults. NIESR base their estimates on the proportion of migrants and non migrants in the population, their gender and age, meaning estimates for migrants are lower than those for the non migrant population.

Education

The literature is unclear on the impact of migration on the provision of education. The main negative impacts concern children with poor English language skills and pupils arriving or leaving mid year. On the other hand, there is evidence of a positive relationship between children with English as an additional language and attainment. These views are supported by Home Office research.[7] These data suggest that consumption exceeds non migrant groups for some migrants groups. This is the case for economic migrants, primarily due to larger family sizes, but not for Tier 4 migrants owing to low volumes of accompanying children.

Social services

There is little evidence on migrants' use of social services, and most skilled migrants and students will be unlikely to make many demands. This would not be the case for family migrants, from poorer backgrounds, or asylum seekers necessarily, although evidence suggests there is a lack of awareness and thus use amongst these groups. However, demand may increase over time. Estimates have been adjusted by the age of migrant groups and suggest that on average use of social services by the migrant population is much lower than for non migrants.

Table 2 sets out the overall costs for public service consumption used in this IA. These consist of the values suggested by NIESR for health, education and social services expenditure uplifted to 2011/12 prices and estimate D or E given in Table 1. Estimate E is used for the maximum estimate as it is appropriate to include welfare payments for those who are settled in the UK. Estimate D, excluding welfare payments, is used for the lower estimates.

Table 2 – Aggregate costs for health, education and social services.

	£ per head - Min	£ per head - Max
Whole population	5,190	8,490
Non-migrants	5,240	8,540
Migrant in last 10 years	4,520	7,820
Migrant in last 5 years	4,250	4,250

(PESA), HM Treasury, Table 5.2, (2009). Uplifted to 2011/12 prices.

The values in table 2 can be used to quantify the impacts on public expenditure of marginal changes in the level of migrants arriving or remaining in the UK. Over the medium to long-run, it is expected that the migrant's pattern of consumption of service will converge to that of a UK resident.

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includes all migrants who may be in each category. For example, all employed migrants are treated as economic migrants regardless of their student or partner's status.

[6] Home Office (2013) Social and Public Service impacts of International Migration at the local level. Available from https://www.gov.uk/government/publications/social-and-public-service-impacts-of-international-migration-at-the-local-level

[7] *Ibid.*