7. Identifying Benefits of Different Options

This next step in the RIA process answers the following question:

What are the benefits of the options?

The entire point of regulatory intervention is to achieve an overall improvement in welfare of stakeholders in the aggregate. Unless there are benefits to be had from regulation, there is no point incurring costs that come with it.

The identification, quantification and where possible, monetisation of these benefits, allows policymakers to understand the positive impact brought about by the regulatory intervention.

Regulators should evaluate benefits as improvements relative to a baseline or the status quo situation without any regulation.

7.1. Linking Benefits to Market Failure and Unrealised Welfare

Benefits in the context of addressing a market failure arise because market failures suppress outcomes that would otherwise enhance welfare. Regulatory intervention, if well-designed, removes or mitigates these distortions and enables those gains to materialise.

For instance, in the presence of information asymmetry, consumers may make suboptimal choices, leading to welfare losses. Regulatory interventions such as disclosure requirements or standardisation can improve decision-making and generate benefits in the form of better outcomes. Similarly, market power may result in higher prices and restricted output; competition-enhancing measures can yield benefits through lower prices, greater choice, and improved quality. It also leads to an increase in overall allocative efficiency by reducing ‘deadweight losses’.

In the case of externalities, regulatory intervention can lead to a more socially optimal provision of the good or service under question.

Regulatory options are often ways of removing or mitigating constraints such as lack of reliable information, high switching costs, barriers to market entry, weak enforcement mechanisms.

Benefits arise when these constraints are relaxed, enabling improved behaviour by consumers and firms. For example, reducing switching costs may encourage consumers to change providers, leading

to more competitive outcomes. Strengthening grievance redress mechanisms may increase trust in markets, encouraging participation.

The **World Bank**'s guidance on RIA emphasises the importance of articulating this causal link, noting that regulators should clearly explain how interventions lead to improved outcomes relative to the baseline.

Identifying the mechanism through which benefits accrue also helps in their quantification or monetisation.

7.2. Nature and Diversity of Benefits

Not all benefits take the form of allocative efficiency gains.

Many interventions are designed to reduce harm, such as risks to health, safety, financial well-being, or the environment. For instance, the **UK Government**'s Impact Assessment for online safety regulation identifies benefits primarily in terms of reduced exposure to harmful content, particularly for vulnerable users.

Regulation can also improve trust and confidence in markets, which in turn influences participation and can lead to market expansion. The **European Commission** has emphasised that regulatory frameworks in areas such as data protection and consumer rights can enhance trust, thereby encouraging individuals and businesses to engage more actively in markets.

In addition, interventions may generate dynamic benefits over time, including increased investment, innovation, and entry of new firms. The Australian CDR reform explicitly links data portability to innovation and competition, recognising that improved access to data can enable new business models and services. These benefits often emerge over time and may be more significant than immediate gains.

Finally, interventions may produce broader social and distributional benefits, such as enhanced inclusion, improved access to services, increased income opportunities, and time savings. The World Bank has highlighted that regulatory reforms in sectors such as finance can expand access for underserved populations, thereby generating welfare gains that extend beyond traditional efficiency considerations.

7.2.1. Immediate and Long-term Benefits

A critical analytical distinction in RIA is between patent (immediate and observable) benefits and latent (indirect or long-term) benefits. Patent benefits include outcomes such as immediate price reductions, improved safety standards, or enhanced disclosure. These are often easier to identify and, in some cases, quantify.

Latent benefits, by contrast, emerge over time and may include innovation, structural changes in markets, increased competition, and behavioural adjustments. RIA should consider both short-term and long-term impacts, recognising that regulatory effects may evolve and may not be immediately observable.

For example, a reform that improves market entry conditions may not yield immediate price reductions but may lead to increased competition and innovation over time. Similarly, improvements in trust may gradually increase participation in markets, generating cumulative welfare gains.

Failure to account for latent benefits can result in an incomplete assessment of regulatory options, particularly in sectors characterised by rapid technological change or network effects.

7.2.2. Timing, Behavioural Responses, and Conditions for Realisation

Benefits may not always accrue immediately upon the introduction of interventions; their realisation depends on how stakeholders respond and how markets adjust. Some benefits may be immediate, particularly where harmful practices are eliminated. Others depend on responses by consumers and firms, complementary measures, or the development of supporting infrastructure.

Therefore, it is important to consider the timing of benefits and evaluate them over appropriate time horizons. This is particularly important where benefits are delayed or contingent on future developments.

7.2.3. Baseline and Incremental Benefits

Benefits must be measured relative to what would have happened in the absence of intervention. If markets are already evolving toward efficient outcomes, the incremental benefits of regulation may be limited. Conversely, in markets characterised by persistent failures, the same intervention may generate substantial gains.

7.2.4. Risk, Uncertainty, and Avoided Costs

Benefits are often uncertain and may depend on assumptions about future conditions and depend on unobservable factors that drive individual or firm responses.

Therefore, where possible, it is useful to present ranges of benefit outcomes rather than just point estimates.

A significant proportion of regulatory benefits also arise in the form of avoided costs. These include reductions in risks such as illness, accidents, financial loss, or environmental damage. In many regulatory contexts, particularly in safety and environmental policy, avoided costs constitute the primary source of benefits.

7.3. Identifying Beneficiaries Across Stakeholders

A rigorous benefit analysis must explicitly identify who benefits and how. Different stakeholders experience benefits in different ways, and the distribution of these benefits may vary across regulatory options.

Consumers may benefit through lower prices, improved quality, enhanced transparency, better grievance redress, and increased trust.

Firms may benefit from clearer rules, reduced uncertainty, improved market conditions, and reputational gains.

Potential entrants may benefit from reduced barriers to entry, while workers and society may benefit from improved employment opportunities, environmental outcomes, and social welfare.

Understanding the distribution of benefits across stakeholders can also play a role in designing how the regulatory intervention is funded in a fair manner.

7.4. Estimation of Benefits

Once you have identified the benefits associated with regulatory intervention, estimation seeks to determine their magnitude, distribution, and likelihood, thereby enabling meaningful comparison across regulatory options.

It is useful to quantify and monetize benefits to the extent possible, while recognising that some benefits may need to be described qualitatively if data is unavailable.

Benefit estimation can be usefully thought of as three interrelated analytical steps:

- identifying the stakeholders who benefit
- identifying the way in which benefits accrue
- assigning a value to these changes, either in quantitative or where possible, in monetary terms.

These steps can be implemented through a range of methods, discussed below.

7.4.1. Estimating Benefits through Harm Reduction and Consumer Surplus

Steps involved in estimating harm reduction include:

- identify the number of consumers currently experiencing harm (for example, overpaying for services or making suboptimal choices).

- estimate how many of these consumers are likely to experience improved outcomes under the regulatory option.
- estimate the magnitude of harm per consumer in the baseline scenario, followed by the magnitude of harm under the regulatory scenario. The difference between these two (i.e. the reduction in harm) provides the per capita benefit, which, when aggregated across affected consumers, yields total benefits.

For example, if after the intervention, the prices are lower and market demand is higher, the difference in the price multiplied by the additional demand in the market can serve as an estimate of the additional benefits from the regulation.

The **UK Impact Assessment** on "*Open Communications: A Smart Data Scheme for the Telecoms Market*" identifies a key form of harm—the "loyalty penalty"—where consumers remain on expensive contracts even after expiry. Using data from Ofcom, the assessment estimates that out-of-contract mobile consumers overpay by approximately £10.83 per month, while broadband consumers overpay by approximately £5.10 per month.

The population affected is estimated using market shares (e.g., 10% of mobile users and 35% of broadband users being out-of-contract), allowing regulators to calculate the aggregate scale of harm. The benefits of regulatory intervention are then estimated as reductions in this overpayment.

Similar methodologies are used by the United States Environmental Protection Agency to estimate benefits of environmental and quality regulation in terms of avoided mortality and morbidity.

7.4.2. Estimating Benefits for Business Consumers and Market Participants

Benefit estimation must extend beyond retail consumers to include business users and other market participants. In many sectors, particularly telecoms, finance, and energy, small businesses face similar informational and behavioural constraints as consumers.

The UK telecoms Impact Assessment shows that SMEs spend, on average, £1,400 annually on communications services, with significant variation by firm size. Importantly, it estimates that SMEs may overspend by as much as 96% due to market complexity and limited ability to compare tariffs.

Rather than directly monetising all such benefits, the analysis uses this evidence to demonstrate the scale and distribution of potential gains, particularly for smaller firms with higher per-employee costs. With approximately 5 million small business consumers in the UK, the assessment establishes a substantial base of potential beneficiaries.

This reflects a broader methodological point: benefit estimation often combines quantitative data with contextual interpretation, particularly where precise monetisation is difficult but the direction and magnitude of impacts are clear.

7.4.3. Time Savings Valuation

Time savings are a significant and often quantifiable category of benefits, particularly where regulation reduces search costs, traffic congestion, administrative burdens, or switching frictions.

The estimation process involves identifying time spent in the baseline scenario, estimating time required under the regulatory option, and calculating the difference. This time saving is then monetised using wage rates or willingness-to-pay estimates.

The UK telecoms Impact Assessment provides a particularly clear illustration. Under a more advanced regulatory option involving automated data portability, consumers are assumed to save approximately 30 minutes annually. When scaled across the population and valued appropriately, this results in an estimated benefit of approximately £271 million per year.

Importantly, the analysis distinguishes between regulatory options. While basic data access may increase transparency, it may also increase search costs. In contrast, automated solutions reduce effort and generate net time savings. This highlights that benefit estimation must be sensitive to design differences between regulatory options, not just their broad objectives.

7.4.4. Stated Preference Methods

Where market data is unavailable, regulators may need to rely on stated preference methods to estimate benefits. These methods involve surveys designed to elicit individuals' willingness to pay (WTP) or willingness to accept (WTA) compensation.

A range of techniques are used in practice. Choice experiments ask respondents to rank, rate, or select between alternatives, allowing regulators to infer the value of different attributes. Contingent valuation methods ask respondents directly about their willingness to pay, using formats such as open-ended questions, dichotomous choice, iterative bidding, or payment cards.

These approaches are widely used in environmental regulation, transport policy, and digital markets, particularly where benefits relate to non-market goods such as privacy or trust.

7.4.5. Revealed Preference Methods

Revealed preference methods infer values from observed behaviour in real markets. These methods are generally preferred where data is available, as they are grounded in actual decisions rather than hypothetical responses.

Such methods may involve comparing purchasing behaviour under different conditions, across similar products, or between observed behaviour and stated preferences. In the UK telecoms example, the estimation of overpayment based on actual tariffs represents a form of revealed preference analysis.

The **United States** Office of Management and Budget recommends prioritising revealed preference methods wherever feasible.

7.5. Addressing Challenges in Benefits estimation

Data availability and uncertainty

When data is insufficient, unavailable or there is uncertainty around key parameters, scenario analysis and ranges can be used.

Confusion between intermediate impact and final benefits

When consumers switch providers more readily, the increased level of switching itself is not the measure of benefit, but the consequent reduction in prices that they face is the actual benefit.

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