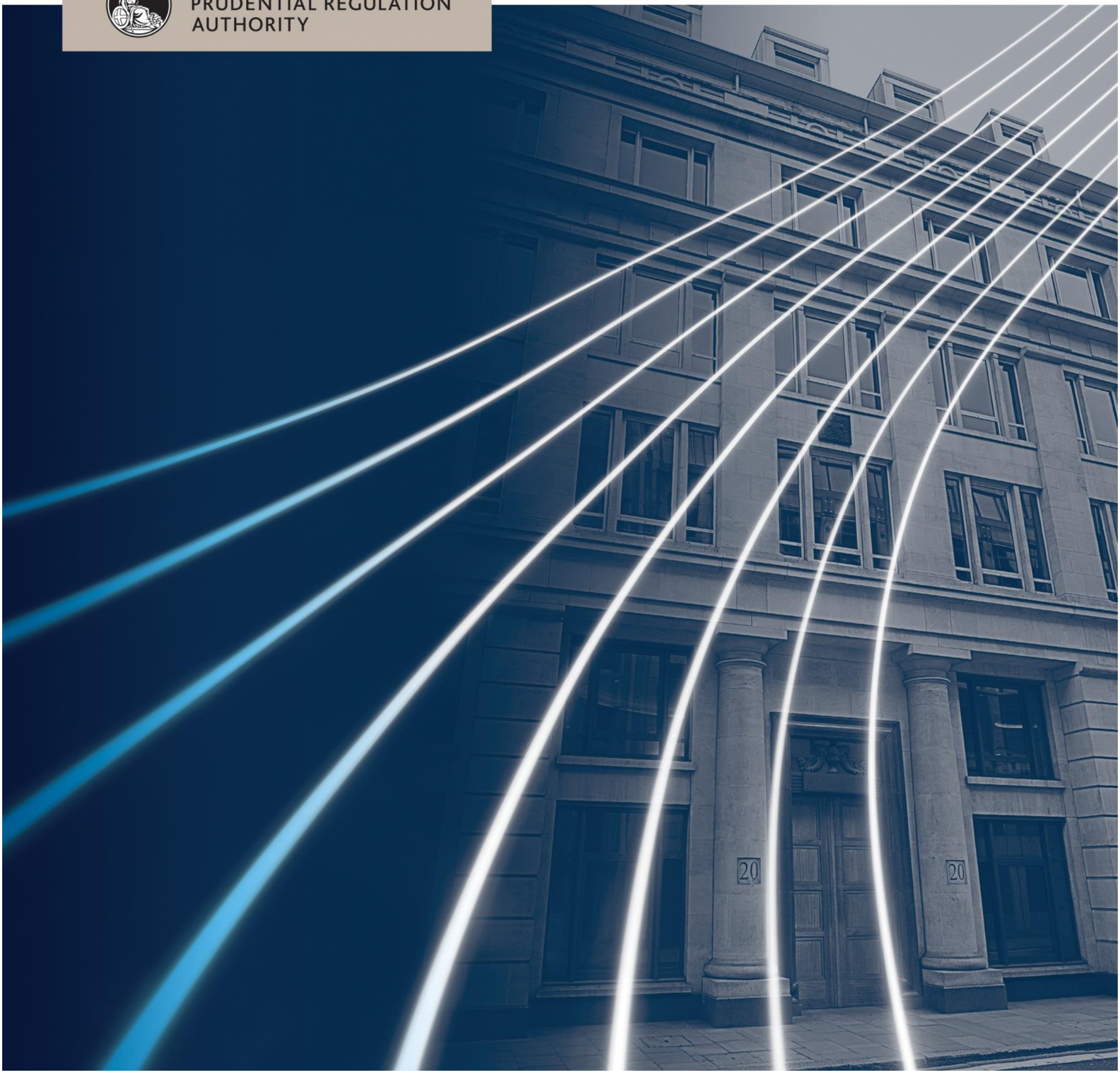
Policy Statement | PS8/20

Financial Services Compensation Scheme – Management Expenses Levy Limit 2020/21

March 2020

BANK OF ENGLAND
PRUDENTIAL REGULATION AUTHORITY



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Prudential Regulation Authority | 20 Moorgate | London EC2R 6DA

Contents

1 Overview

1.1 This Prudential Regulation Authority (PRA) Policy Statement (PS) provides feedback to responses to Consultation Paper (CP) 1/20 'Financial Services Compensation Scheme – Management Expenses Levy Limit 2020/21'.[1] It also contains the final rules for the Financial Services Compensation Scheme (FSCS) Management Expenses Levy Limit (MELL) for 2020/21 (Appendix).

1.2 This PS is relevant to all PRA-authorised firms, but contains no material of direct relevance to retail financial services consumers or consumer groups upon which they might need to act.

Background

1.3 The FSCS is the compensation fund of last resort for customers of failed authorised financial services firms across the PRA's and the Financial Conduct Authority's (FCA) regulatory remit. The MELL is the maximum amount that the FSCS may levy for management expenses in a year without further consultation. It provides the FSCS with the resources to process compensation claims resulting from the failure of financial services firms. These functions are conferred on the FSCS by Part XV of the Financial Services and Markets Act 2000 (FSMA).

1.4 In CP1/20, the PRA and FCA consulted on a proposed MELL of £83.2 million for 2020/21. This included:

- FSCS management expenses of £78.2 million to cover the FSCS' ongoing operating costs including staff, facilities, claims handling, legal and other professional services; and

- an unlevied contingency reserve of £5.0 million which allows the FSCS to levy additional funds at short notice in the event of a significant unexpected event, without needing for further consultation by the PRA and the FCA.

Summary of responses

1.5 The PRA received two responses to the CP that were relevant to the proposal consulted upon. The PRA's feedback to these responses is set out in Chapter 2. The PRA does not consider that the responses to the CP raised issues that would lead to any alteration to the proposal and as such has made no changes to the proposal as consulted.

Implementation

1.6 The FSCS MELL will apply for the financial year ending Wednesday 31 March 2021.

1.7 The FCA Board has also made its respective rule for the 2020/21 MELL.[2]

1.8 The policy set out in this PS has been designed in the context of the UK's withdrawal from the European Union and entry into the transition period, during which time the UK remains subject to European law. The PRA will keep the policy under review to assess whether any changes would be required due to changes in the UK regulatory framework at the end of the transition period, including those arising once any new arrangements with European Union take effect.

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1 January 2020: available at https://www.bankofengland.co.uk/prudential-regulation/publication/2020/financial-services-compensation-scheme-management-expenses-levy-limit-2020-2021.

2 FCA Handbook Notice 75: https://www.fca.org.uk/publication/handbook/handbook-notice-75.pdf

1.9 The PRA has assessed that the policy would not need to be amended under the EU (Withdrawal) Act 2018 (EUWA). Please see PS5/19 'The Bank of England's amendments to financial services legislation under the European Union (Withdrawal) Act 2018'[3] for further details.

2 Feedback to responses

2.1 Before making any proposed rules, the PRA is required by FSMA to have regard to any representations made to it, and to publish an account, in general terms, of those representations and its feedback to them.[4]

2.2 The PRA received two responses to the consultation which related to the MELL. One of the responses requested more justification for the rising operating costs, additional full-time equivalent staff and investment spend. The second response welcomed the additional budget directed towards preventing firm failure.

Operating costs

2.3 One respondent asked why operating costs have increased above the rate of inflation for the past four years.

2.4 As indicated in the CP (and supported by the FSCS' Plan and Budget),[5] the volume and complexity of claims received have almost doubled in the last three years, and the FSCS have a statutory responsibility to handle these claims.

2.5 In order to demonstrate the impact of the increase in volume and complexity clearly, the FSCS split its costs between volume driven costs (costs sensitive to changes in claims volumes) and controllable costs (costs which are not sensitive to change in claims volumes).

2.6 Controllable cost increases for 2020/21 have been held roughly in line with inflation at 1.7%.

Full-time equivalent staff

2.7 The respondent also asked for more justification on the proposed increase in the FSCS' additional full-time equivalent staff, specifically where the staff will be allocated and whether they will be permanent.

2.8 The FSCS have accounted for 18 new full-time equivalent staff in order to handle the increasing number and complexity of claims. The majority of staff will be allocated to operations to deal with the increase in claims. Some of the staff are allocated to legal, consumer awareness and the resolution team.

Investment

2.9 The respondent asked for more justification on the maintained budget of £4 million for investment.

2.10 As indicated in the CP, the investment budget focuses on improving claims processes, particularly in relation to service design and technology. The FSCS has provided more detail on this in its Plan and Budget 2020/21.

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3 April 2019: https://www.bankofengland.co.uk/paper/2019/the-boes-amendments-to-financial-services-legislation-under-the-euwithdrawal-act-2018.

4 Sections 138J(3) and 138J(4) of FSMA.

5 FSCS Plan and Budget: https://www.fscs.org.uk/globalassets/publications/fscs-plan-and-budget-2020-final.pdf.

Appendix

1	**PRA RULEBOOK: NON AUTHORISED PERSONS: FSCS MANAGEMENT EXPENSES LEVY LIMIT AND BASE COSTS INSTRUMENT 2020, available at: https://www.bankofengland.co.uk/prudential-regulation/publication/2020/financial-services-compensation-scheme-management-expenses-levy-limit-2020-2021**