



BANK OF ENGLAND

News release

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Bank of England announces proposals to strengthen the financial system through structural reform

The Bank of England has today published four papers that propose changes to improve the resilience and resolvability of deposit-takers and reduce the disruption to customers and the system if a deposit-taker or insurer fails.

Following recommendations made by the Independent Commission on Banking, the Government introduced legislation to allow for ring-fencing of core banking services in the UK from activities associated with trading and financial interconnectedness. These changes are intended to ensure that ring-fenced banks, and groups containing ring-fenced banks, can be resolved in an orderly manner with minimal disruption to the provision of core services.

From 1 January 2019, banks with core deposits greater than £25 billion (broadly those from individuals and small businesses) will be required to ring-fence their core activities. To prepare for this, the Prudential Regulation Authority (PRA) is consulting on three areas of ringfencing policy: the legal structure of banking groups; governance; and continuity of services and facilities.

All banks that expect to reach the threshold for being subject to ring-fencing requirements by 2019 must submit a preliminary plan of their anticipated legal and operating structures to the PRA by 31 December 2014.

The PRA is also consulting on changes to enhance depositor and insurance policyholder protection.

For depositors, the proposed changes implement the requirements for deposit-takers under the European Deposit Guarantee Schemes Directive, as well as proposing new rules which would allow customers to continuously access the deposits covered by the Financial Services Compensation Scheme (FSCS) if their deposit-taker fails. The proposals aim to provide a mechanism to transfer accounts to another financial institution in the event of a deposit-taker's failure or enable faster pay-out of compensation. The proposals also introduce additional FSCS coverage for deposits that are temporarily higher than the £85,000 compensation limit, e.g. house purchase or personal injury compensation.

For insurance policyholders, the PRA is proposing changes to the insurance limits for FSCS compensation to increase protection for policyholders in the event of an insurer failing. This would increase the limit to 100% of cover for annuities, pure protection, claims arising from death or incapacity and professional indemnity insurance. This reflects the potential for significant adverse consequences to policyholders, and the wider financial system, of cover being disrupted. The limits for all other types of insurance remain the same.

The PRA is also publishing a discussion paper on operational continuity in resolution. These proposals will help ensure deposit-takers make the appropriate changes to enable critical functions to operate effectively at all times, even if the deposit-taker fails.

Andrew Bailey, Deputy Governor of the Bank of England and Chief Executive of the Prudential Regulation Authority said

“Improving the resilience and resolvability of firms has been at the heart of international and domestic reforms since the financial crisis. Ring-fencing will improve banks’ resilience, by protecting them from shocks, and facilitate orderly resolution – both of which are needed for a stable financial system.

“These proposals will allow customers to have continuous access to the money in their bank account – or receive payment from the FSCS if this is not possible. Additionally, the increase in FSCS limits for certain types of insurance will mean policyholders who may find it difficult to obtain alternative cover, or who are locked into a product, have greater protection if their insurer fails.”