

Policy Statement | PS14/15

Depositor and dormant account protection- the protection limit

July 2015



BANK OF ENGLAND
PRUDENTIAL REGULATION
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This policy statement contains the final rules, and an updated supervisory statement to implement changes to the Depositor Protection rules that arise as a result of the recast Deposit Guarantee Schemes Directive requirement to review the deposit protection limit on 3 July 2015 and a corresponding change to the Dormant Account Scheme rules.

1 Overview

1.1 This Prudential Regulation Authority (PRA) policy statement (PS) sets out changes to the Depositor Protection rules that arise as a result of a requirement in the recast Deposit Guarantee Schemes Directive (DGSD) to review the deposit protection limit on 3 July 2015 and a corresponding change to the Dormant Account Scheme rules.¹

1.2 Member States are required to set the deposit protection limit at €100,000. For those Member States that convert the limit into their national currency, the exchange rate prevailing on 3 July 2015 must be used (up to €5,000 rounding is permitted). The PRA has therefore reviewed the existing limit (£85,000) and amended it to £75,000. The PRA has made a corresponding change to the limit under the Dormant Account Scheme rules.

1.3 The PRA issued a statement on 3 July 2015 announcing this change.² The statement also referred to HM Treasury (HMT) transitional legislation.³ The effect of the HMT transitional legislation is that most depositors remain protected up to £85,000 up to and including 31 December 2015.

1.4 As a result of the change to the deposit protection limit, a number of rule changes are necessary to ensure that firms' disclosure materials and systems accurately reflect the new limit and the new limit is clearly communicated to depositors. This PS sets out these changes, together with CP23/15 'Depositor and dormant account protection- consequential amendments' published alongside this PS, which addresses issues around disclosure and arrangements to help manage the impact on depositors with aggregate balances above £75,000.⁴ PS15/15 'Depositor and policyholder protection- technical amendments' which sets out further technical amendments to the Depositor Protection rules following consultation is also published alongside this PS.⁵

1.5 The changes made in this PS affect rules in the Depositor Protection Part and the Dormant Account Scheme Part made by the PRA in PS6/15 'Depositor and Dormant Account Protection' and PS9/15 'Depositor Protection- further amendments'. In these PSs, the PRA noted the recast DGSD requirement for the deposit protection limit to be reviewed on 3 July 2015 and that, given this requirement, the consultation remained open on the rules subject to the limit and related provisions, including disclosure.⁶ The rules in this PS are intended to advance the PRA's general objective of promoting the safety and soundness of PRA authorised firms by reducing the adverse effects the failure of firms could be expected to have on the stability of the UK financial system.

1.6 Appendices 1 and 2 of this PS contain the amendments to the Depositor Protection rules and Dormant Account Scheme rules found in the Depositor Protection Part and Dormant Account Scheme Part of the PRA Rulebook.

1 Article 6(5) of the DGSD (2014/49/EU); <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32014L0049>.

2 News release: www.bankofengland.co.uk/publications/Pages/news/2015/056.aspx

3 The Deposit Guarantee Scheme (Amendment) Regulations 2015

4 *PRA Consultation Paper CP23/15*, 'Depositor and dormant account protection- consequential amendments', July 2015; www.bankofengland.co.uk/pr/Pages/publications/cp/2015/cp2315.aspx

5 *PRA Policy Statement PS15/15*, 'Depositor and policyholder protection- technical amendments', July 2015; www.bankofengland.co.uk/pr/Pages/publications/ps/2015/ps1515.aspx

6 *PRA Policy Statement PS6/15*, 'Depositor and dormant account protection', April 2015;

www.bankofengland.co.uk/pr/Pages/publications/ps/2015/ps615.aspx
PRA Policy Statement PS9/15, 'Depositor and dormant account protection- further amendments', May 2015; www.bankofengland.co.uk/pr/Pages/publications/ps/2015/ps915.aspx

1.7 Appendix 3 includes an updated Supervisory Statement 18/15 'Depositor and dormant account protection' which provides further information around the PRA's expectations in respect of the rule changes.⁷

1.8 This PS is relevant to:

- UK banks, building societies and credit unions as well as to overseas firms with PRA deposit-taking permission and UK branches of European Economic Area (EEA) credit institutions;
- dormant account fund operators
- the Financial Services Compensation Scheme (FSCS), as the administrator of the UK's Deposit Guarantee Scheme (DGS) and Dormant Account Scheme (DAS); and
- depositors.

Summary of rule changes

1.9 In summary the PRA is making rules to:

The protection limit

- set the deposit protection limit for the DGS at £75,000 ('the new deposit protection limit') from 3 July 2015;
- set the protection limit for the DAS at £85,000 for those claimants who would be eligible for £85,000 compensation if their protected dormant accounts were eligible deposits held by a DGS member, and £75,000 for all other eligible claimants, until 31 December 2015;
- set the protection limit for the DAS at £75,000 from 1 January 2016 for all eligible claimants;

Information sheet and exclusions list

- amend the wording in the information sheet (as required under Depositor Protection Chapter 17) to refer to the new deposit protection limit;
- amend the date from which rules relating to the provision of the information sheet and exclusions list (including referring to this information on account statements) are to take effect, to 1 January 2016;
- require firms to provide the information sheet and exclusions list to all depositors as soon as practicable after 31 December 2015 and in any event by 1 July 2016;
- extend the period during which the initial version of the exclusions list applies until 31 December 2016;

Posters and stickers

- amend the wording on FSCS posters and stickers to refer to the new deposit protection limit (requirements for UK branches of 'euro firms' are not affected);⁸

⁷ PRA Supervisory Statement 18/15, 'Depositor and dormant account protection', July 2015; www.bankofengland.co.uk/pr/Pages/publications/ss/2015/ss1815update2.aspx

⁸ 'euro firm' means an incoming firm that is a credit institution of an EEA State that has adopted the euro or that does not convert into their national currency the amount referred to in Article 6(1) of the DGSD, pursuant to Article 6(5) DGSD.

- require firms to display the new posters and stickers as soon as practicable and in any event from 1 September 2015 (requirements for UK branches of euro firms are not affected);

Other disclosure requirements

- amend the date from which firms must comply with other disclosure requirements on statements of account so that firms must comply as soon as practicable and in any event by 1 January 2016;
- amend the date from which rules relating to the FSCS compensation leaflet apply to as soon as practicable and in any event by 1 January 2016 (requirements for UK branches of euro firms are not affected); and
- require firms to inform depositors of the change in the deposit protection limit as soon as practicable and in any event by 1 September 2015.

Impact on mutuals

1.10 The PRA is required by the Financial Services and Markets Act 2000 (FSMA) to publish a statement setting out its opinion on whether or not the impact of the final rules on mutual societies and other firms as compared with mutual societies are significantly different from the impact of the proposed rules where the final rules differ from the draft of the proposed rules.⁹ The PRA does not expect the impact on mutuals to be materially different to that set out in PS6/15 and PS9/15, except to the extent that a mutual may have fewer depositors with balances above £75,000, in which case they may have a proportionally greater share of the total industry tariff base and may therefore see (all else being equal) a marginal increase in FSCS levies.¹⁰

⁹ <http://www.legislation.gov.uk/ukpga/2000/8/contents>

¹⁰ *PRA Policy Statement PS6/15*, 'Depositor and dormant account protection', April 2015; www.bankofengland.co.uk/pr/Pages/publications/ps/2015/ps615.aspx
PRA Policy Statement PS9/15, 'Depositor and dormant account protection- further amendments', May 2015; www.bankofengland.co.uk/pr/Pages/publications/ps/2015/ps915.aspx

2 Changes to Depositor Protection and Dormant Account Scheme rules

2.1 This chapter sets out further detail around the change in the deposit protection limit and changes to the Depositor Protection rules which the PRA considers are necessary to accommodate this change. The rule changes will have implications for depositors, as they should consider the extent to which their deposits are covered, and for firms, to ensure that firm's disclosure materials and systems accurately reflect the new deposit protection limit.

The change in the deposit protection limit

DGSD requirement

2.2 Article 6(5) of the recast DGSD requires the deposit protection limit to be set at €100,000. Member States that choose to convert the limit to their national currency must do so using the exchange rate prevailing on 3 July 2015.¹¹ Amounts resulting from the conversion may be rounded, provided that such rounding does not exceed €5,000. The PRA has therefore reviewed the existing limit (£85,000) and set the new limit at £75,000 in accordance with the directive requirements. This new limit of protection provided by the Depositor Protection rules takes effect immediately.

£85,000 limit maintained for some depositors for a transitional period

2.3 On 3 July 2015, HMT issued a statement referring to their decision to provide for the maximum level of compensation available under PRA rules to remain at £85,000 for a transitional period for those depositors who were eligible to that level of compensation before 3 July 2015 and who will continue to be eligible for compensation after 3 July 2015. Such depositors include individuals and small companies. This means that, although the cover provided for under PRA rules has changed to £75,000, these depositors continue to be protected up to £85,000 until 31 December 2015. Depositors that are no longer eligible for DGS cover, such as credit union own funds, will not qualify for this protection.¹²

2.4 Eligible deposits of large companies and small local authorities have become eligible for protection from 3 July 2015 onwards. The £75,000 deposit protection limit will apply to such deposits from 3 July 2015 since these deposits have not previously been protected.

The change in the dormant account scheme protection limit

2.5 As money which is protected under the DAS would have been a deposit with a bank or building society immediately before being transferred to a dormant account fund operator, the PRA considers that the protection limit under the DAS should be the same as the protection limit under the DGS. To ensure consistency with the DGS limit, money held in dormant accounts that have been transferred to a dormant account fund operator and are protected under the DAS will also continue to be eligible for protection up to £85,000 until 31 December 2015 for those claimants who would be eligible for £85,000 protection under the DGS during this period and £75,000 for all other eligible claimants. From 1 January 2016 the DAS protection limit will drop to £75,000 for all eligible claimants, in line with the deposit protection limit.

A Implications for depositors

2.6 Depositors with total eligible deposits of less than £75,000 per PRA authorised firm, should not be affected by the change in deposit protection limit. The PRA anticipates that only a small proportion of depositors have aggregate eligible deposits above £75,000 and therefore will be affected by the change in the deposit protection limit. Affected depositors have until 31 December 2015 to make arrangements (if desired) to adjust their eligible deposit balances in light of the new

11 Article 6(5) of the DGSD

12 Individuals' deposits held at credit unions are not affected and continue to be protected by the FSCS.

deposit protection limit. The PRA is putting in place a number of measures to ensure that all depositors are informed of the change in the limit in a timely manner. The PRA is also considering measures to manage the impact of a limit change on depositors (in particular those with aggregate balances above £75,000). This section sets out these measures.

Depositors with aggregate balances above £75,000

2.7 In CP23/15, published alongside this policy statement, the PRA is consulting on a rule to give depositors, whose aggregate eligible deposits were and remain covered by the FSCS, an opportunity prior to 31 December 2015 to make a request to their bank, building society or credit union to withdraw an amount up to the lower of (i) the amount by which their aggregate deposits exceed £75,000 and (ii) £10,000 without charge, penalty or loss of interest.¹³

Raising awareness of the new deposit protection limit

2.8 The PRA has taken steps to ensure that depositors are informed of the change in the limit in a timely manner. Communications to depositors will take a number of different forms, including amendments to the posters and stickers that firms are required to display in branches and on websites (see paragraph 2.14) and a separate firm communication to all depositors (see paragraph 2.16). The PRA is also working closely with the FSCS to ensure that the FSCS advertising campaign, which aims to raise awareness of the FSCS, clearly communicates the change in protection to depositors. The FSCS, PRA and FCA websites also contain further information.

B Implication for firms

2.9 This section sets out changes to the Depositor Protection rules that affect firms as a result of the limit change, including changes to disclosure, firms' SCV systems and the tariff base calculation.

(i) Disclosure

The information sheet and exclusions list

2.10 The Depositor Protection rules require firms to provide to depositors an information sheet setting out prescribed information, including the deposit protection limit. The PRA has amended the information sheet to refer to the new deposit protection limit. In order to give firms sufficient time to amend their systems, the rules requiring firms to provide depositors with the information sheet and exclusions list will apply from 1 January 2016. Firms must now also provide the information sheet and exclusions list to all depositors as soon as practicable after 31 December 2015 (but not before) and in any event by 1 July 2016 but firms have flexibility as to whether this is provided in the depositor's statement of account or not. Satisfaction of this requirement will also satisfy the requirements of Depositor Protection 17.1(3) for the first annual cycle. Further information regarding the PRA's expectations around these requirements is set out in SS18/15 (see Appendix 3).¹⁴

2.11 The PRA recognises that firms may have already sent out the information sheet referring to a deposit protection limit of up to £85,000 to some intending depositors (for example those depositors that have applied to enter into a deposit taking contract by post) and has set out further information around PRA's expectations in this respect in SS18/15(see Appendix 3).

2.12 Firms should note that the PRA is also consulting on further minor amendments to the Annex 1 information sheet in CP23/15.

13 PRA Consultation Paper CP23/15, 'Depositor and dormant account protection- consequential amendments', July 2015; www.bankofengland.co.uk/pr/Pages/publications/cp/2015/cp2315.aspx

14 PRA Supervisory Statement SS18/15, 'Depositor and dormant account protection', July 2015; www.bankofengland.co.uk/pr/Pages/publications/ss/2015/ss1815update2.aspx

Information on account statements

2.13 As the requirements for depositors to be provided with the information sheet and exclusions list apply from 1 January 2016, the requirement for firms to refer to these documents on account statements also applies from 1 January 2016. Firms must comply with other disclosure requirements on statements of account (i.e. confirming that deposits are eligible deposits and referring to the FSCS website) as soon as practicable and in any event from 1 January 2016. Attention is also drawn to proposed amendments to Depositor Protection Chapter 17 in CP23/15.¹⁵

Posters and stickers and the compensation leaflet

2.14 The PRA has amended the wording in the posters and stickers, which firms are required to display prominently in their branches and on their websites, to refer to the new deposit protection limit. Firms must display the new materials as soon as practicable and in any event from 1 September 2015. The PRA is working closely with the FSCS to ensure that the new posters and stickers templates are available shortly. Requirements for UK branches of euro firms are unchanged. Further information about the PRA's expectations regarding the relevant requirements is set out in SS18/15 (see Appendix 3).¹⁶

2.15 The FSCS compensation leaflet which firms are required to provide to any person that requests further information about deposit protection under Depositor Protection 23.9, and which must be linked to by the electronic sticker and poster under Depositor Protection 23.7(2) and 23.8(2), is being updated to reflect the new deposit protection limit. These rules will apply as soon as practicable and in any event from 1 January 2016. Requirements for UK branches of euro firms are unchanged.

Informing depositors

2.16 It is important that depositors are informed about the change in the deposit protection limit and Article 19(2) of the recast DGSD requires that depositors are informed of deposits no longer covered by a deposit guarantee scheme. This requirement is transposed, in part, by the requirement to provide depositors with the version of the exclusions list set out in Section A of Annex 3 of the Depositor Protection Part. To further implement Article 19(2), the PRA has introduced a new requirement that firms must inform depositors of the change in the deposit protection limit as soon as practicable and in any event by 1 September 2015. The PRA has prescribed the wording that must be used in Annex 4 of the Depositor Protection Part and, for the avoidance of doubt, this requirement is subject to the requirements of Chapter 21 of the Depositor Protection Part.

2.17 As the requirement to provide the exclusions list will not apply until 1 January 2016, the period during which the Section A exclusions list must be sent out to depositors has also been adjusted to end on 31 December 2016.

(ii) Single Customer View (SCV) systems

2.18 As a result of the change in the deposit protection limit firms will need to amend their SCV systems to ensure the compensatable amount is calculated using the new deposit protection limit. The effect of the HMT transitional legislation is that firms should not implement this requirement until 1 January 2016. More information around PRA's expectations in this respect is set out in SS18/15 (see Appendix 3).

15 PRA Consultation Paper CP23/15, 'Depositor and dormant account protection- consequential amendments', July 2015; www.bankofengland.co.uk/pr/Pages/publications/cp/2015/cp2315.aspx

16 PRA Supervisory Statement SS18/15, 'Depositor and dormant account protection', July 2015; www.bankofengland.co.uk/pr/Pages/publications/ss/2015/ss1815update2.aspx

(iii) Reporting tariff data

2.19 Firms should report their 31 December 2015 class A tariff base data for covered deposits in accordance with an £85,000 limit.

Economic analysis

2.20 This section sets out an estimate of the costs and benefits that arise as a result of the rule changes. Where the costs or benefits cannot be reasonably estimated or it is not practicable to produce an estimate, a qualitative analysis is provided.

Impact on competition

2.21 The change in the deposit protection limit to £75,000 will bring the protection available to depositors of PRA-authorized firms in line with the protection offered by firms in other Member States and therefore the change is not expected to have an adverse effect on competition.

Impact on firms

2.22 Firms may have marginally higher or lower FSCS levies depending on the number of depositors with amounts above £75,000 (all else being equal) held at the firm. For example, where a firm has a large number of depositors with deposits above £75,000, the firm's class A tariff base will decrease as a result of the change in the limit (all else being equal) and therefore the firm will hold a proportionally lower share of total industry covered deposits. As a result the firm may see a decrease in FSCS levies (all else being equal). As firms are not required to report covered deposits at the lower limit until 2017, any impact arising from this change will not apply until this time.

2.23 Firms will incur direct incremental costs as a result of the rule changes included in this PS. The PRA expects these costs to include:

- operational costs from halting the planned roll-out of disclosure materials for 3 July 2015, making the proposed further changes to disclosure materials and re-launching the disclosure requirements on the new timetables;
- a one-off cost from informing depositors about the change in the limit, representing the cost of sending out an email or letter to each depositor. This is not expected to represent a material incremental cost to the costs set out in CP15/15 where the PRA consulted on requiring firms to inform depositors of deposits no longer covered by the deposit guarantee scheme in order to fulfil the requirements of article 19(2) of the DGSD;¹⁷
- costs from amending their SCV systems to reflect the new limit. This cost is not expected to be material as firms are expected to have systems capable of altering the limit against which the compensatable amount is calculated. When the Financial Services Authority first consulted on introducing SCV systems, it was made clear that, as the limit may change in the future it must be possible to change the limit against which the system checks holdings. Firms have approximately 6 months to implement this change; and
- costs from training staff.

17 PRA Consultation Paper CP15/15, 'Depositor and dormant account protection- further amendments', April 2015; www.bankofengland.co.uk/pr/Pages/publications/cp/2015/cp1515.aspx
Deposit Guarantee Schemes Directive: <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32014L0049>.

Impact on FSCS

2.24 The FSCS will need to amend their awareness campaign as a result of the change in the limit. This will incur costs of approximately £350,000 which will be passed on to firms via levies.

Impact on depositors

2.25 A sudden change in the level of protection could undermine depositor confidence in the UK. However by maintaining additional protection for most depositors at £85,000 for six months, the UK government has taken action to ensure that depositors are not exposed to a sudden reduction in the level of deposit protection they receive from the FSCS.

2.26 Most depositors that have eligible deposit balances above the new deposit protection limit will lose up to £10,000 protection from 1 January 2016. However this is only expected to affect a small number of depositors. Over 95% of eligible deposits of retail depositors are expected to remain fully protected by the new deposit protection limit of £75,000. Most depositors that are affected by the change in the limit have until 31 December 2015 to take action they consider necessary, such as splitting their eligible deposits between PRA-authorized firms. Measures are also being consulted on which aim to give all depositors the opportunity to adjust their deposit balances in the light of the lower limit without charge, penalty or loss of interest.¹⁸

18 *PRA Consultation Paper CP23/15, 'Depositor and dormant account protection- consequential amendments', July 2015;* www.bankofengland.co.uk/pr/Pages/publications/cp/2015/cp2315.aspx

Appendices

1 Depositor Protection (Amendment No. 3) Instrument 2015 (PRA 2015/57) – see www.bankofengland.co.uk/pr/Documents/publications/ps/2015/ps1415instr1557.pdf

2 Depositor Protection and Dormant Account Scheme (Amendment No. 4) Instrument 2015 (PRA 2015/59) – see www.bankofengland.co.uk/pr/Documents/publications/ps/2015/ps1415instr1559.pdf

3 Supervisory Statement - Depositor and dormant account protection (SS18/15) – see www.bankofengland.co.uk/pr/Pages/publications/ss/2015/ss1815update2.aspx