

Policy Statement | PS4/15

Financial Services Compensation Scheme: management expenses levy limit 2015/16

March 2015



BANK OF ENGLAND
PRUDENTIAL REGULATION
AUTHORITY



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1 Introduction

1.1 This Prudential Regulation Authority (PRA) policy statement publishes on 31 March 2015 the final management expenses levy limit (MELL) for the Financial Services Compensation Scheme (FSCS) for 2015/16. The MELL approved by the PRA Board is £74.4 million.

1.2 Management expenses are the costs that the FSCS expects to incur in delivering its functions. A MELL set appropriately will allow the FSCS to provide a responsive and well-understood compensation service for customers of authorised financial services firms.

1.3 Setting the MELL at an appropriate level and having an efficient and functioning compensation scheme assists the PRA in meeting its objectives of promoting the safety and soundness of PRA firms by minimising the adverse effects of the failure on consumers and helps promote stability of the UK financial system as well as building confidence in the UK financial system as a whole.

1.4 It is neutral in terms of facilitating competition: the MELL does not help facilitate nor hinder competition in the relevant markets as it leads to a minimal cost per firm.

1.5 The Financial Conduct Authority (FCA) Board has also approved a MELL of £74.4 million.

2 Summary of proposals

2.1 In January the PRA and FCA jointly consulted⁽¹⁾ on a proposed MELL of £74.4 million covering:

- FSCS management expenses (or budget) of £69.1 million. This amount will be levied for 2015/16 and covers such items as staff and building costs, operating expenses, IT, outsourcing and claims handling.
- A contingency reserve of £5.3 million for management expenses that allows the FSCS to levy additional funds, most likely at relatively short notice, without formal consultation by the PRA and FCA to meet contingencies that were not foreseen when the annual levy was raised.

3 Consultation responses

3.1 There were 4 consultation responses.

- There was a question on the increase in costs of FSCS's continuing operations despite the downward trend in the expected claims. The FSCS has confirmed that the 3.7% increase is a reflection of the nature of the claims that are expected in 2015/16. The FSCS has seen an increase in more

complex claims which unlike the majority of the previous year's claims require considerable assessment and manual processing. It is expected that claims processing costs will reduce on a like for like basis in the future.

- A question was raised on the increase in costs for general insurance provision. These costs relate to the handling of the claims against the estate of Independent Insurance for which the FSCS is assuming responsibility from the run-off agent.
- The costs of FSCS's internal change programme have been questioned. The FSCS has, since 2010, invested in enhanced capability and scalability initially starting with the infrastructure to support faster payout for deposits and more recently in their Connect programme which is streamlining processes across other product classes. The FSCS has confirmed that these costs will wind down after 2015/16 and the FSCS expects to see a reduction in claims processing costs in the future.
- There was a question raised on whether a cost benefit analysis was completed on the recoveries action relating to the Keydata failure. On the 18 February, the FSCS published a statement on Keydata recoveries outlining the costs and distributions to claimants and levy payers.
- One respondent requested that the National Audit Office (NAO) conduct a value for money audit on the FSCS, its strategic projects and the Keydata recovery action. Neither the PRA nor the FCA can require an NAO audit of the FSCS, its projects or initiatives. The FSCS and its change programme are, however, subject to scrutiny by their external auditors (the NAO).
- One respondent requested that the information contained within the FSCS's Plan and Budget is subsumed into the MELL consultation. The FSCS publish the Plan and Budget and host an industry day immediately following the MELL consultation. The linked publications and industry day enable suitable analysis and avoids duplication. There is no plan to change this going forward as we do not feel it materially adds to the industry's ability to access the relevant information.

⁽¹⁾ PRA Consultation Paper CP2/15, 'Financial Services Compensation Scheme – management expenses levy limit 2015/16', January 2015; www.bankofengland.co.uk/pru/Pages/publications/cp/2015/cp215.aspx.

Appendices

Financial Services Compensation Services Scheme (Management Expenses Levy Limit) Instrument 2015

Amendments to the Fees manual (FEES)

FINANCIAL SERVICES COMPENSATION SCHEME (MANAGEMENT EXPENSES LEVY LIMIT) INSTRUMENT 2015

Powers exercised

- A. The Prudential Regulation Authority makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 ("the Act"):
- (1) section 137T (General supplementary powers);
 - (2) section 213 (The compensation scheme);
 - (3) section 214 (General); and
 - (4) section 223 (Management expenses).

- B. The rule-making powers referred to above are specified for the purpose of section 138G(2) (Rule-making instruments) of the Act.

Pre-conditions to making

- C. In accordance with section 138J of the Act (consultation with the Financial Conduct Authority) ("FCA"), the PRA consulted the FCA. After consulting, the PRA published a draft of proposed rules and had regard to representations made.

Commencement

- D. This instrument comes into force on 1 April 2015.

Amendments to the Handbook

- E. The Fees manual (FEES) is amended in accordance with the Annex to this instrument.

Citation

- F. This instrument may be cited as the Financial Services Compensation Scheme (Management Expenses Levy Limit) Instrument 2015.

By order of the Board of the Prudential Regulation Authority

30 March 2015

Annex**Amendments to the Fees manual (FEES)**

In this Annex, underlining indicates new text.

6 Annex 1R Financial Services Compensation Scheme – Management Expenses Levy Limit

This table belongs to FEES 6.4.2R	
Period	Limit on total of all management expenses levies attributable to that period (£)
...	
1 April 2014 to 31 March 2015	£80,000,000
<u>1 April 2015 to 31 March 2016</u>	<u>£74,429,000</u>