

Policy Statement | PS12/16

Financial Services Compensation Scheme – management expenses levy limit 2016/17

March 2016



BANK OF ENGLAND
PRUDENTIAL REGULATION
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This policy statement (PS) includes responses to the feedback on Consultation Paper (CP) 4/16 'Financial Services Compensation Scheme – management expenses levy limit 2016/17' and the PRA Rulebook: Non authorised persons: FSCS Management Expenses Levy Limit and Base Costs Instrument 2016.

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1 Introduction

1.1 This Prudential Regulation Authority (PRA) policy statement (PS) provides feedback to responses to PRA CP4/16 'Financial Services Compensation Scheme – management expenses levy limit 2016/17',¹ sets out the final rules for the Financial Services Compensation Scheme (FSCS) levy to cover their management expenses for 2016/17, and sets the management expenses levy limit (MELL) at £72.7 million for the period 1 April 2016 to 31 March 2017.² The final rules are provided in the appendix.

1.2 The Financial Conduct Authority (FCA) board has also approved the MELL of £72.7 million.³

1.3 Management expenses are the costs that the FSCS expects to incur in delivering its functions, not including the value of compensation or protection provided, which is recouped through the compensation costs levy. A MELL set appropriately will allow the FSCS to provide a responsive and well-understood compensation service for customers of authorised financial services firms.

1.4 Setting the MELL at an appropriate level to ensure an efficient and functioning compensation scheme also assists the PRA in meeting its statutory objectives. A correctly funded FSCS assists the PRA in promoting the safety and soundness of PRA-authorised firms by minimising the adverse effects of failure on consumers and helps promote financial stability as well as building confidence in the UK financial system as a whole.

1.5 The MELL is neutral in terms of facilitating competition: it neither helps to facilitate nor hinders competition in the relevant markets as it leads to a minimal cost per firm.

2 Summary of proposals

2.1 CP 4/16 consulted on a proposed MELL of £72.7 million for 2016/2017 covering:

- FSCS management expenses (or budget) of £67.4 million to cover such items as staff and building costs, operating expenses, IT, outsourcing and claims handling. It also includes provision for the FSCS's ongoing five year strategic change programme.
- A contingency reserve of £5.3 million for management expenses that allow the FSCS to levy additional funds, most likely at relatively short notice, without formal consultation by the PRA and the FCA to meet contingencies that were not foreseen when the annual levy was raised.

3 Consultation responses

3.1 The PRA is required by FSMA to have regard to any representations made to the proposals in a consultation, to publish an account, in general terms, of those representations and its response to them, and to publish details of any significant differences in the rules as made. No

¹ PRA Consultation Paper 4/16 'Financial Services Compensation Scheme – management expenses levy limit', January 2016: www.bankofengland.co.uk/pr/Pages/publications/cp/2016/cp416.aspx.

² A further consultation would be required should the FSCS intend to levy for management expenses in excess of £72.7 million in 2016/17.

³ FCA PS16/10 'Financial Services Compensation Scheme – management expenses levy limit', March 2016; www.fca.org.uk/news/ps16-10-fscs-management-expenses-levy-limit.

material changes to the proposal are included. This chapter sets out the feedback to responses received to the proposals.

3.2 There were three responses to CP4/16: two from industry bodies and one from a regulated firm. The PRA did not consider that the responses raised issues which would lead to any alteration to the proposals made.

3.3 Respondents generally welcomed the year-on-year reduction in the MELL, but had a number of queries around FSCS management expenditure on strategic projects and the cost effectiveness of its consumer awareness work.

3.4 Respondents noted the size of the FSCS's spending on its strategic change programme and asked whether the FSCS could provide more information on the projected cost reductions and savings relating to this programme in order to enable them to respond to the consultation more effectively. The FSCS is presently midway through a five year strategy to enhance its capability and scalability and, as such, spending on this programme is expected to continue. However, these costs have decreased by 19% between 2015/16 and 2016/17, and the FSCS expects a continuing reduction of these costs over the remaining three years of its five year plan.

3.5 The FSCS provides further information on activities relating to its strategic change programme at a high level in its Plan and Budget. In the next year, costs relating to the automation of claims handling are expected to be reduced further, and investment will continue to be made to manage future change and improve the IT and data handling infrastructure which supports its claims handling activities. The FSCS intends to make savings through claims handling process efficiencies, improved IT infrastructure, and maximising the value of its staff and contractors.

3.6 Accurately forecasting the budget for the strategic change programme in greater detail beyond the timescale indicated by the Plan and Budget is made difficult by a number of variables including the costs of contractors and likely system enhancements required. However, the PRA recognises that further information may be of use to stakeholders in future MELL CPs and intends to consider with the FSCS whether further information on projections for strategic change programme spend and savings can be provided.

3.7 One respondent requested further information on how the FSCS benchmarks good value for money in its strategic projects. Value for money is a key imperative of the FSCS's five year vision, and is reviewed by the FSCS against the criteria of efficiency, effectiveness and economy set out by the National Audit Office (NAO), which is also the FSCS's external auditor. The FSCS does not at this time plan to issue a further statement on its value for money targets beyond the information provided in the Plan and Budget and Annual Report. Key examples of the FSCS's efforts to ensure value for money include its reviews of the procurement of external services and outsourced claims handling and an internal awareness campaign to promote consideration of value for money throughout the organisation.

3.8 Concern was also expressed around whether the FSCS intended to assess the cost effectiveness of consumer awareness measures before committing to further awareness work. Raising awareness of the protection provided to consumers assists the PRA's statutory objectives, and the FSCS's current consumer awareness programme has raised general awareness from a benchmark of 30-40% in 2011 to over 70% at the time of writing. The FSCS keeps this programme under continuous review to ensure that its focus and delivery provide the best results possible for the costs incurred.

3.9 Respondents also expressed concern over the need to read the separate Plan and Budget to see the underpinning detail of the MELL. The PRA believes that duplicating information in documents would not materially add to stakeholders' ability to access the relevant information. The Plan and Budget is typically published one day after the consultation opens, and the documents can easily be read together. In addition, the FSCS hosts a stakeholder day ahead of the publication of the Plan and Budget which gives stakeholders insight into the proposals.

3.10 One respondent raised an issue about the compensation costs levy, which was outside the scope of CP4/16. The matter has been passed to the FSCS for consideration.

Appendices

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- 1 PRA RULEBOOK: NON AUTHORISED PERSONS: FSCS MANAGEMENT EXPENSES LEVY LIMIT AND BASE COSTS INSTRUMENT 2016, available at www.bankofengland.co.uk/pru/pages/publications/ps/2016/ps1216.aspx**