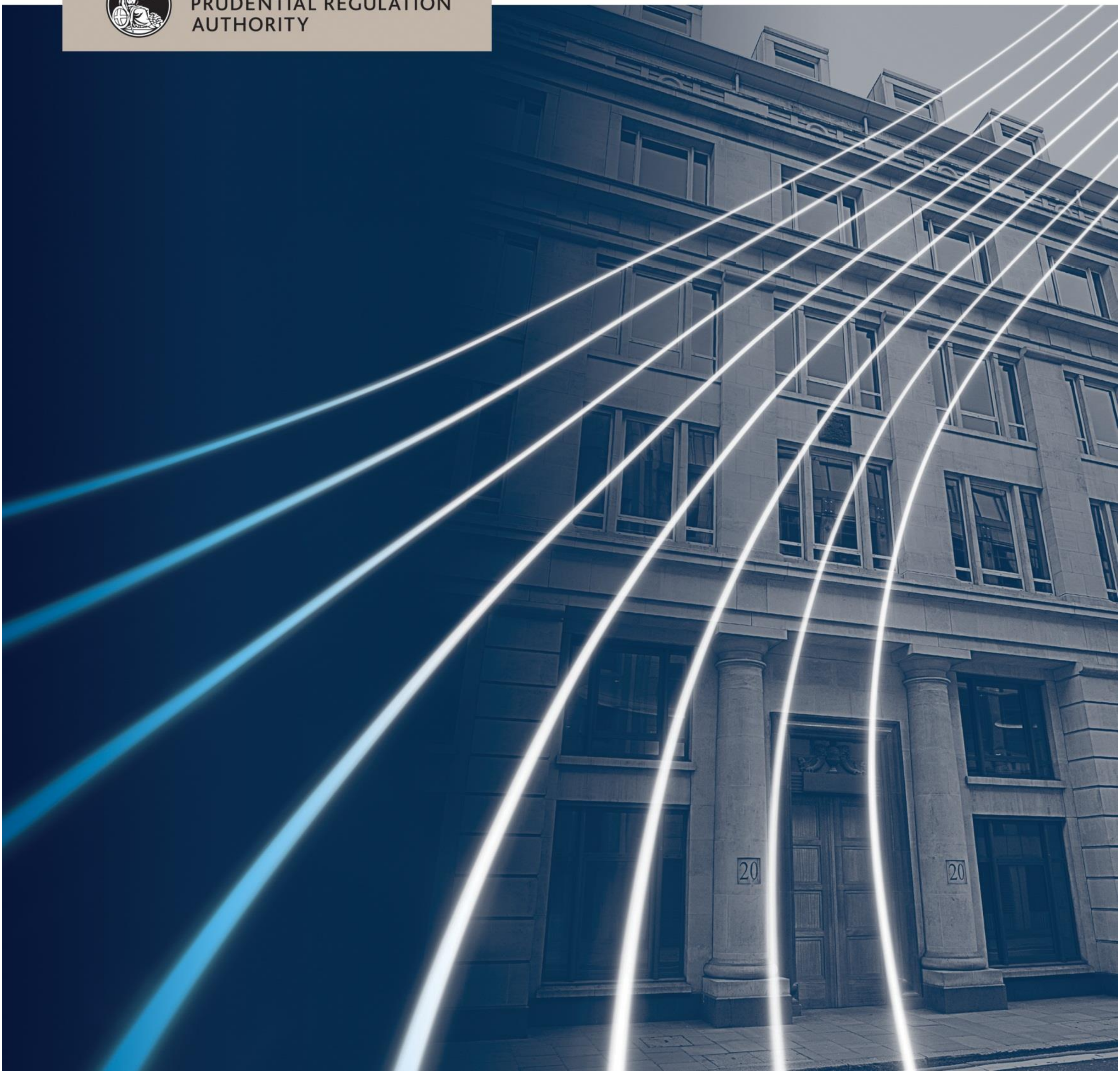
Policy Statement | PS18/16

Regulated fees and levies: rates for 2016/17

June 2016

BANK OF ENGLAND
PRUDENTIAL REGULATION AUTHORITY



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This policy statement sets out the final fee rates to meet the Prudential Regulation Authority's 2016/17 Annual Funding Requirement. It also confirms the approach to recovering costs associated with ring-fencing implementation and consequential rule changes regarding fees for credit unions.

Contents

1 Overview

Introduction

1.1 In March 2016 the Prudential Regulation Authority (PRA) published Consultation Paper (CP) 10/16,[1] to consult on:

- fee rates to meet the PRA's 2016/17 Annual Funding Requirement (AFR);
- a new ring-fencing implementation fee; and
- a new single rate authorisation fee for credit unions.

1.2 This policy statement (PS) summarises the feedback received on CP10/16 and provides the PRA's response to this feedback. It sets out the final fee rates and rules to recover the PRA's AFR and ring-fencing implementation fee for the financial period 1 March 2016 to 28 February 2017.[2]

1.3 CP10/16 also set out how the PRA intends to refund unspent budget from the 2015/16 AFR, 2015/16 Solvency II special project fee (SPF) and application of the retained penalties for 2015/16. This policy statement is relevant to all PRA-authorised firms.

1.4 This PS should be read in conjunction with CP10/16.

Summary

1.5 The PRA received four responses to CP10/16. The PRA is required by the Financial Services and Markets Act 2000 (FSMA) to have regard to any representations made in relation to a consultation, to publish an account of these in general terms, of the representations and its responses to them, and to publish details of any significant changes to the proposals as a result of consultation. A summary of the feedback received and the PRA's response is in Chapter 2.

1.6 Following the consultation period, one change has been made to the policy proposed in CP10/16 to insulate non-Directive firms, including a number of mutual societies, from the full impact of the growth in costs allocated to the A3 and A4 fee blocks. This has been achieved through the application of a discount to those firms. Other updates to the figures in the 'PRA Periodic Fees (2016/17) and other fees instrument 2016' are due to the finalisation of the firm population and the collection of more accurate tariff data. Having carefully considered the feedback, the PRA deems that these rules are appropriate for the PRA to effectively perform its functions.

Annual Funding Requirement and allocation to fee blocks

1.7 CP10/16 set out proposals for how the PRA's AFR for 2016/17 of £257.3 million is allocated to fee blocks and how tariff data is used to allocate the AFR to firms within fee blocks. No changes have been made to this approach following consultation. This is covered in Chapter 2.

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1 PRA Consultation Paper CP10/16: 'Regulated fees and levies: rates proposals 2016/17', March 2016; www.bankofengland.co.uk/pra/Pages/publications/cp/2016/cp1016.aspx

2 See Appendix 1

Ring-fencing Implementation Fee

1.8 Chapter 3 of CP10/16 set out proposals for how the PRA intends to recover costs associated with the implementation of the Financial Services (Banking reform) Act 2013 (the 'Banking Reform Act') in 2016/17. No respondents made comments relating to these proposals. As a result no changes have been made to these proposals or the draft rules in the Appendix following consultation.

Distribution of refund for 2015/16

1.9 There will be a refund to fee payers of unspent AFR in 2015/16 of £4.8 million. This figure has been confirmed following the finalisation of the PRA's accounts. Information on how this will be refunded to fee payers is in Chapter 3.

Financial Penalty Scheme and application of retained penalties for 2015/16

1.10 For 2015/16 there are retained penalties of £1.3 million, which the PRA will allocate across fee blocks using firm population data for 2015/16 (the financial year to which the retained penalties relate). Details of the distribution of retained penalties to firms remain unchanged from CP10/16.

New single rate authorisation fee for credit unions

1.11 Chapter 6 of CP10/16 set out proposals for a new single rate authorisation fee for credit unions to reflect recent Rulebook changes to remove the distinction between Version 1 and Version 2 credit unions. No changes have been made to these proposals following consultation. A trade association representing credit unions welcomed the PRA's proposal to apply the lower of the former Version 1 and Version 2 rates to all new applications from 1 July 2016.

Bank of England and Financial Services Act 2016

1.12 CP10/16 drew attention to the Bank of England and Financial Services Bill. This is now law (Royal Assent received on 4 May 2016)[1] and will enter into force in stages over the coming months. On a date to be confirmed, but likely to be during the 2016/17 fee year, the PRA will become an authority within the Bank of England and operate as part of the Bank. As indicated in CP10/16, firms should experience no change in relation to fees. All rules will remain in the name of the PRA as previously. Invoicing will continue to be undertaken by the Financial Conduct Authority (FCA) as collection agent for the PRA.

Online fees calculator

1.13 The FCA provides a facility on its website to enable firms to calculate their periodic fees for the forthcoming year using the PRA rates in Appendix 1. The fees calculator for 2016/17 fees and levies is available for firms to use from 30 June 2016.

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1 https://www.gov.uk/government/news/bank-of-england-and-financial-services-bill-given-royal-assent

2 Feedback to responses

2.1 The PRA received four responses to CP10/16. This section summarises the feedback received and the PRA's response.

Transparency and assessing value for money

2.2 Two respondents requested more information regarding the work the PRA intends to undertake in 2016/17 to assist firms in assessing value for money and understanding how PRA fees are determined.

2.3 One respondent mentioned that they had expected to see a significant reduction in the costs apportioned to the insurance related fee blocks following increases in recent years that have reflected Solvency II preparations.

2.4 The PRA's current practice is to publish its Business Plan alongside each Annual Report. This usually means the Business Plan is published in June. The majority of the PRA's annual budget is spent on the close and continuous supervision of regulated firms. The key year-on-year changes often relate to the development and implementation of new policy initiatives.

2.5 The PRA is committed to achieving its statutory objectives, and to promoting the good of the people of the United Kingdom, in a cost effective manner. It continues to seek efficiencies in its operations and take advantage of shared costs with the Bank in line with the National Audit Office's recommendations.[1]

Impact on small mutual insurers

2.6 Before publication of CP10/16 the PRA considered carefully whether the policies it consults on might have a disproportionate impact on mutual societies. In particular, when consulting, the PRA was aware that the firms in the A3 and A4 fee blocks and those charged the Solvency II implementation fee in the past were not identical.

2.7 One respondent indicated that a number of small firms in fee blocks A3 (general insurance) and A4 (life insurance) had no exposure to the Solvency II implementation fee, which was withdrawn on 1 March 2016. As such, these firms would have seen a significant rise in their fees (c 12%) as a result of the proposals, with no corresponding benefit. This population includes some small mutual insurers.

2.8 Taking this feedback into account the PRA has decided to apply a discount of 11% to the periodic fees payable by non-Directive firms, in effect removing the increase for those firms and reallocating it across other firms in the A3 and A4 fee blocks. The total amount required to fund the discount in 2016-17 is just over £26,000. When spread across the A3 and A4 fee blocks, the impact on individual firms is not significant. The proposed discount is therefore considered a fair and proportionate response to the feedback received. Both the approach and the amount of the discount will be kept under review to ensure that this remains the case in future fee years.

1 NAO 'Regulating financial services', March 2014 http://www.nao.org.uk/report/regulating-financial-services-2/

2.9 It is also noted that this firm population is relevant to the work signposted in the March CP, which considered the consequential impact on fees collection of changes to regulatory reporting under Solvency II.

2.10 The same respondent, based on the level of information provided in the consultation, challenged the statement made regarding the impact on mutual societies.

2.11 The PRA is obliged under Section 138K FSMA to consider and highlight situations in which the impact of its proposals on mutual societies is significantly different when compared with other firms. Within each fee block, as the costs to be recovered from individual firms is based on their size, the PRA does not expect the impact of the proposed fee rates on mutual societies to be significantly different from other authorised persons of a similar size within that fee block. The statement made in the consultation is therefore considered valid and it is hoped that the proposals set out in paragraphs 1.6 and 2.8 above, aimed at all non-Directive insurers, will be of further reassurance to mutuals.

Other responses

2.12 Two respondents noted that they were pleased with or supported particular aspects of the proposals in the consultation. Specifically there was support for the new single rate authorisation fee for credit unions and one respondent was pleased that the proposed fee block allocation for this year represented a slight decrease after substantial increases in recent years.

2.13 Two respondents noted the PRA's intention to consider the impact of changes to regulatory reporting due to Solvency II implementation on fees rules and the possibility of a consultation later this year.

2.14 The PRA welcomes the positive feedback received on its proposals in CP10/16, particularly regarding the new single rate authorisation fee for credit unions.

2.15 One respondent commented that the PRA should include consideration both of the cost of regulation in the UK as benchmarked internationally, and of the broader impact on UK consumers and the competitiveness of the UK insurance market.

2.16 As indicated in previous years the PRA does not plan to benchmark its costs against other international regulators as the different remits and financing mechanisms limit the usefulness of any such comparison.

Changes in Annual Funding Requirement allocations to firms within fee blocks relative to CP10/16

2.17 Table 2.A sets out the analysis of final tariff data for 2016/17 used to allocate the PRA's AFR to firms within fee blocks compared to the draft data presented in CP10/16.

2.18 As noted in CP10/16 the fee rates presented for consultation were calculated using estimated fee-payer populations and tariff data. The final fee rates for 2016/17 have decreased for the A3, A5 and A10 fee blocks and increased for the A1 fee block. The A4 fee block has seen an increase in rate for mathematical reserves and a decrease in relation to adjusted premium income. The fee blocks which have seen an increase/decrease in fee rates have done so because there has been a reduction/increase in the value of overall tariff data that the fee is apportioned across.

2.19 The fee rate for A4 Mathematical reserves has decreased as there has been an increase in the value of overall tariff data that the fee is apportioned across.

2.20 The A0 Minimum Fee is at the same level as presented in CP10/16.

Table 2.A - Analysis of tariff data for allocation of fees within fee blocks compared to draft tariff data

Fee Block	Tariff basis	2016/17 Final Number of Firms	2016/17 Draft Number of Firms (CP)	% Change	2016/17 Final Tariff Data	2016/17 Draft Tariff Data (CP)	% Change	Change in Fee Rates from CP (%)
A0	Minimum fee	1,431	1,456	(1.7)	n.a.	n.a.	n.a.	-
A1	Modified eligible liabilities	856	868	(1.4)	£2,831.3bn	£2,833.9bn	(0.1)	0.2
A3	Gross premium income	344	346	(0.9)	£68.1bn	£64.4bn	5.7	(2.7)
	Gross technical liabilities				£140.4bn	£133.2bn	5.4	(2.1)
A4	Adjusted gross premium income	179	189	(5.3)	£60.1bn	£59.7bn	0.7	(0.7)
	Mathematical reserves				£943.4bn	£952.5bn	(1.0)	0.9
A5	Active capacity	64	64	-	£27.6bn	£27.0bn	2.2	(2.1)
A10	Traders	8	8	-	1,944	1,868	4.1	(3.9)
PT1	ORA fee	1,432	1,457	(1.7)	n.a.	n.a.	n.a.	-

3 Annual Funding Requirement refund for 2015/16

3.1 It is the PRA's policy to refund all unspent AFR to firms unless the PRA Board determines that a portion should be retained as reserves. The PRA Board has determined that the unspent AFR should not be retained for the purpose of reserves in 2016/17.

3.2 The PRA will refund to fee payers £4.8 million of unspent budget arising from the 2015/16 AFR (see Table 3.A). The figure has been updated from the estimated £4.5 million contained in CP10/16 following finalisation of the PRA's annual accounts. This includes a small difference of £44,000 between the fees collected in relation to the Non-IMAP Solvency II SPF and the actual spend for 2015/16 (estimated to be £13,000 in CP10/16).

Annual Funding Requirement refund

3.3 A net amount of £4.8 million will be refunded. Table 3.A sets out the 2015/16 refund.

Table 4.A Allocation of Annual Funding Requirement refund to fee blocks and comparison to the draft allocation

£ million	Final refund	Draft Refund (CP)	Change
A0 Minimum fee	-	-	-
A1 Deposit Takers	3.2	3.0	0.2
A3 Insurers - general	0.6	0.6	-
A4 Insurers - life	0.8	0.7	0.1
A5 Managing agents at Lloyd's	-	-	-
A6 The Society of Lloyd's	-	-	-
A10 Firms dealing as principal	0.2	0.2	-
Total	**4.8**	**4.5**	**0.3**

3.4 The refund to the A5 fee block, Managing agents at Lloyd's, and the A6 fee block, The Society of Lloyd's, are £27,000 and £37,000 respectively.

3.5 The AFR refund will be allocated to firms in two stages:

Stage 1 – Allocation to fee blocks

3.6 The PRA will allocate the AFR refund across all fee blocks, with the exception of the A0 minimum fee block, in proportion to the AFR allocation for the 2015/16 fee year.

Stage 2 – Allocation to individual firms

3.7 Within each fee block the AFR refund is allocated with reference to fee block population and tariff data for the 2015/16 fee year, excluding firms that are no longer PRA fee-payers.

Appendices

1 PRA PERIODIC FEES (2016/2017) AND OTHER FEES INSTRUMENT 2016, available at www.bankofengland.co.uk/pra/Pages/publications/ps/2016/ps1816.aspx