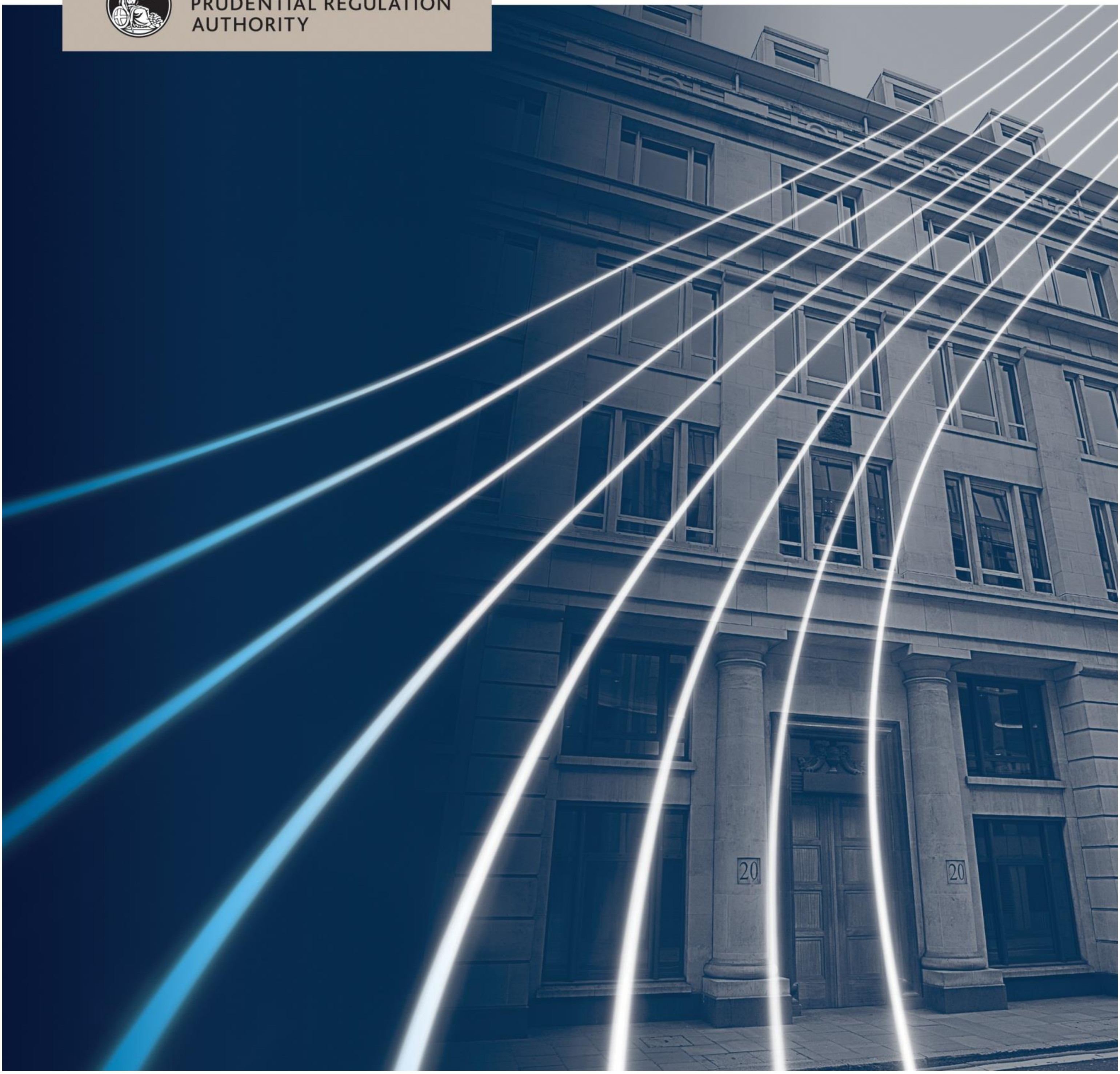
Policy Statement | PS37/16

PRA fees and FSCS levies for insurers - transitional approach for 2017/18: responses to CP30/16

December 2016

BANK OF ENGLAND
PRUDENTIAL REGULATION AUTHORITY



Prudential Regulation Authority
20 Moorgate
London EC2R 6DA

Prudential Regulation Authority, registered office: 8 Lothbury, London EC2R 7HH.
Registered in England and Wales No: 07854923

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This policy statement provides feedback to responses and final rules for Consultation Paper 30/16 'PRA fees and FSCS levies for insurers: proposals for a transitional approach in 2017'.

1 Overview

1.1 This Prudential Regulation Authority (PRA) policy statement (PS) provides feedback to responses and final rules for Consultation Paper (CP) 30/16 'PRA fees and FSCS levies for insurers: proposals for a transitional approach in 2017/18' (the CP).[1]

1.2 This PS is relevant to insurance firms falling into the A3 (general insurance) and A4 (life insurance) fee blocks and FSCS levy classes B1 (general insurance) and C1 (life insurance), the FSCS, (for the purposes of the FSCS levy only) the Society of Lloyd's and policyholders.

1.3 In the CP, the PRA proposed transitional arrangements that would be applied to the 2017/18 PRA fee and FSCS levy years for all insurance firms subject to fee blocks A3 and A4 and FSCS levy classes B1 and C1. The proposal meant that calculations for the 2017/18 fee and FSCS levy years would be based on the last set of Solvency I[2] data received (returns received for the relevant insurance firms' financial year ending during 2015).

1.4 The CP also proposed that adjustments to that data would be required where an insurance business transfer under Part VII of the Financial Services and Markets Act (FSMA) (or other such transfer under Part VIII of the Friendly Societies Act 1992) had occurred between the end of a firm's financial year ending in 2015 and 31 December 2016. As well as this, where a relevant insurance firm has gone into run-off between the end of the firm's financial year ending in 2015 and 31 December 2016, it may optionally provide submissions of updated data on a Solvency I calculation basis for the year ending in 2016. Relevant firms would need to provide relevant data on a Solvency I basis to the FCA by 28 February 2017.

1.5 The appendices to this PS contain the final rules for a transitional approach in 2017/18 that makes changes to the Fees and Policyholder Protection Parts of the PRA Rulebook**.**

1.6 If the final rules differ from the draft published in the CP in a way which is, in the opinion of the PRA, significant, FSMA requires the PRA to publish details of the difference together with a cost benefit analysis and a statement of whether or not the impact of the rules on mutuals is significantly different from that of other authorised firms.[3] In the PRA's opinion the final rules are not significantly different from those in the CP.

2 Feedback to responses

2.1 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 compared with those consulted on.[4]

2.2 The PRA received five responses to the consultation, generally supporting the proposals. Some respondents raised suggestions and questions which are discussed below. The responses have not led to any changes to the proposals in the CP.

1 September 2016: www.bankofengland.co.uk/pra/Pages/publications/cp/2016/cp3016.aspx.
2 In this PS, 'Solvency II' refers to the new prudential regime for insures introduced under Directive 2009/138/EC (as amended) which took effect on 1 January 2016. 'Solvency I' refers collectively to the regime under individual insurance directives which preceded it.
3 Section 138J(5) and section 138k(4).
4 Section 138(J)(3) and (4).

2.3 Some respondents suggested that it should be possible to submit adjusted data where there have been changes to business models or business volumes other than due to the events specified in the CP. Among the examples given were acquisitions/disposals, portfolio transfers, sale of renewal rights and new reinsurance arrangements. The PRA has considered whether to accept adjusted data in these and other circumstances, but has concluded that it is not appropriate to do so. There are many elements that will impact on a firm's fees and levy over a year and the PRA believes that the proposals were proportionate. Any widening of the instances for submitting updated data would need to be a requirement in a rule (and not voluntary) because of the need to capture both those firms that would benefit from a lower fee/levy in these circumstances and those that would be required to pay a higher fee/levy, otherwise other fee payers would pay a higher proportion of the funding recovered through the fee/levy. To do so would have required a large number of firms to maintain Solvency I systems, which the PRA has specifically sought to avoid, given the potential burden on firms.

2.4 One respondent requested further clarity as to the information that will be required where an insurance business transfer under Part VII of FSMA (or other such transfer under Part VIII of the Friendly Societies Act 1992) has occurred between the end of a firm's financial year ending in 2015 and 31 December 2016. The PRA will require firms to provide the tariff data that was previously provided for the 2016/2017 fees and levies year appropriately adjusted (based on the Solvency I data) for the liabilities and premium income transferred in or out under the insurance business transfer. The FCA (as the PRA's and FSCS's collection agent) will write to relevant firms in December specifying the information required to establish the extent to which the Solvency I data has increased or decreased as a result of the transfer.

2.5 One respondent highlighted that, notwithstanding the transitional phase, the future timing of submission of Solvency II data will not align with the current fees and levies timetable. The PRA acknowledges this point and will consider it when developing proposals and consulting on final rules for 2018/2019 and onwards next year.

2.6 Another respondent suggested that internal reinsurance within a group should be eliminated from the fees and levy calculation. Again the PRA does not intend to address this in the transitional arrangements but will consider whether it is appropriate when consulting on final rules for 2018/2019 and onwards next year.

2.7 Having taken all comments into account, the PRA remains of the view that the transitional arrangements represent a workable, proportionate response to the issues raised in consultation.

Appendices

1	**PRA RULEBOOK: SOLVENCY II FIRMS, NON SOLVENCY II FIRMS, NON-AUTHORISED PERSONS: POLICYHOLDER PROTECTION INSTRUMENT 2016, available at: www.bankofengland.co.uk/pra/Pages/publications/ps/2016/ps3716.aspx**
2	**PRA RULEBOOK: FEES (INSURANCE FIRMS TRANSITIONAL RULES) INSTRUMENT 2016, available at: www.bankofengland.co.uk/pra/Pages/publications/ps/2016/ps3716.aspx**