

Policy Statement | PS1/17

# Deposit protection limit

January 2017



BANK OF ENGLAND  
PRUDENTIAL REGULATION  
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This policy statement (PS) provides feedback to responses, final rules and an updated Supervisory Statement 18/15 'Depositor and dormant account protection' following Consultation Paper (CP) 41/16 'Deposit protection limit'.



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## 1 Overview

1.1 This Prudential Regulation Authority (PRA) policy statement (PS) provides feedback to responses to CP41/16 'Deposit protection limit' (the 'CP').<sup>1</sup> It also contains final rules (Appendix 1) and an updated Supervisory Statement (SS) 18/15 'Depositor and dormant account protection' (Appendix 2).

1.2 This PS is relevant to:

- UK banks, building societies, UK credit unions, as well as to overseas firms with PRA deposit-taking permission (hereinafter 'firms');<sup>2</sup>
- 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.

1.3 In CP41/16 the PRA proposed to:

- reset the deposit protection limit to protect depositors up to £85,000 as of 30 January 2017;
- provide a five month transitional period for firms to amend disclosure, advertising materials and posters and stickers and to update the Single Customer View (SCV) to reflect the new deposit protection limit;
- require firms to notify the PRA if they are ready to implement the rule changes prior to 30 June 2017; and
- update SS18/15 with the PRA's expectations in relation to the above rule changes, correct references and delete expired text.

1.4 The PRA is required by the Financial Services and Markets Act 2000 (FSMA) to publish a statement on the impact of rules on mutuals where the final rules differ from the draft of the proposed rule and a cost benefit analysis of any changes to the consultation proposals which the PRA considers to be significant.<sup>3</sup>

1.5 The PRA has made some changes to the rules consulted on in CP41/16 in response to feedback (see Chapter 2). Material changes to the proposals include: allowing firms more flexibility to make changes to customer-facing materials as soon as practicable during the transitional period and removing the requirement that firms notify the PRA. The PRA considers that the changes made to the draft rules are not significant in terms of the impact on mutuals and are likely to reduce costs to firms.

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<sup>1</sup> November 2016: [www.bankofengland.co.uk/pr/Pages/publications/cp/2016/cp4116.aspx](http://www.bankofengland.co.uk/pr/Pages/publications/cp/2016/cp4116.aspx)

<sup>2</sup> Requirements for a UK branch of a euro firm are not affected. A 'euro firm' means an incoming firm that is a credit institution of an European Economic Area 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.

<sup>3</sup> Sections 138J (5) and 138K FSMA.

1.6 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. Chapter 2 sets out feedback to responses received to PRA proposals.

### **Implementation**

1.7 The new deposit protection limit is effective from 30 January 2017. Based on the final rules and expectations set out, firms:

- (i) must make all changes to customer-facing materials required to implement the new deposit limit as soon as practicable after 30 January 2017 and in any event on or before 30 June 2017; and
- (ii) are expected to train their customer-facing staff to answer questions from customers about the change in the deposit limit, regardless of when a firm's written materials are amended, by 30 January 2017 or as soon as practicable after 30 January 2017.

## **2 Feedback to responses**

2.1 The PRA received 24 responses to the CP (twelve individuals, nine firms, and three trade bodies). Most respondents supported the proposals to reset the deposit protection limit at £85,000.

### **Resetting the deposit limit**

2.2 Most respondents supported the proposal to reset the deposit limit, although a couple requested the limit be increased above £85,000. One respondent requested that the new deposit limit be set at a different level to avoid confusion with the pre-2015 deposit limit and the possible perception that firms' materials referring to the new £85,000 limit were out of date and had not been properly updated since 2015. The PRA believes the benefits of consistency and memorability of resetting the limit at £85,000 outweigh the risks highlighted by this respondent.

2.3 Three respondents disagreed with the proposal to reset the limit at this time due to the possibility of further effects of the European Union withdrawal on the GBP/EUR exchange rate and the importance of a stable limit for consumer confidence. One of these respondents also highlighted the costs incurred by firms in the 2015 limit reduction.

2.4 As discussed in the CP, taking into consideration developments in financial markets following the UK's referendum vote to leave the European Union, including with respect to the GBP/EUR exchange rate, the PRA considers that a structural shift in the exchange rate has occurred. The PRA considers that under the Deposit Guarantee Schemes Directive (DGSD) an adjustment to the deposit limit is required.

2.5 One respondent requested the draft rules be amended to require firms to permit depositors who removed £10,000 from fixed term deposits as a result of the reduction in the deposit limit to £75,000, to replace that sum without charge. The PRA has considered this; however, allowing depositors to break contracts was previously required to avoid depositors losing FSCS protection as the limit was decreased. In the context of an increase to the deposit limit, the PRA considers that this requirement would be disproportionate.

## Stability

2.6 The majority of respondents agreed with the PRA that frequent changes to the deposit limit would be undesirable and could lead to confusion and a lack of confidence. One respondent welcomed the PRA's statement that it will seek to avoid further changes of the deposit limit, barring unforeseen circumstances.

2.7 The PRA reiterates that, guided by its statutory regulatory principles, it will seek to maintain a stable deposit protection limit through the uncertainty in foreign exchange markets resulting from the referendum and the associated structural shift in the GBP/EUR exchange rate. The PRA will continue to monitor fluctuations in the exchange rate but, barring unforeseen events, will seek to avoid making further adjustments to the deposit protection limit. In particular, the PRA sees the merits of maintaining a stable deposit protection limit through this period of uncertainty to avoid depositor confusion and to reduce the regulatory burden on firms.

2.8 One respondent requested that the PRA publish a formal process for future changes in the limit. The PRA has considered this request, but does not intend to publish a formal process, as variations in the process may be necessary depending upon the facts and circumstances at the time of any adjustment. In making future rules, the PRA will give consideration to the needs of depositors and the impact on firms of any future change in the deposit limit.

## Transitional provisions

2.9 Respondents generally welcomed the 5-month transitional period that allows for the separation of effective dates of the rules, recognising that this approach will enable customers to benefit from the higher deposit limit earlier (as of 30 January 2017) while also recognising the time it takes firms to update their systems and amend customer-facing materials.

2.10 However, one respondent expressed concerns that the transitional provisions in the draft rules that allow for a staggered approach to implement changes to disclosure materials are open to interpretation and are not flexible enough for complex firms. The respondent stated that it would be difficult for firms (including those operating complex branch networks and different brands) simultaneously to change all customer-facing materials (DGSD disclosure materials, product literature, advertising, web information, posters and stickers) on a single date.

2.11 The PRA has given further consideration to the issues raised by this respondent and the PRA has decided to remove the requirement for firms to make all changes to customer-facing materials on a single date (preceded by a notification to the PRA). Instead, the final rules require firms to make all changes required to implement the new deposit limit as soon as practicable after 30 January 2017 and in any event on or before 30 June 2017. This will allow firms greater flexibility and will not require firms to notify as required in the draft rules. The PRA encourages firms to consider the possibility that depositors may receive conflicting information and expects firms to ensure messaging is consistent, as far as practicable.

2.12 The SS sets out the PRA's expectation that firms train their customer-facing staff to answer questions from customers about the change in the deposit protection limit by 30 January 2017 or as soon as practicable after 30 January 2017 regardless of when a firm's written materials are amended.

2.13 Respondents also welcomed that the PRA is not requiring individual letters to depositors to notify them of the limit change.

### **Clarifications**

2.14 One respondent noted that Annex 3 of the Depositor Protection Part of the PRA Rulebook (the exclusions list) requires some extra language supporting the 2015 implementation of the DGSD to be deleted as of 1 January 2017. The respondent requested confirmation that such changes to the exclusions list and the changes required to the information sheet<sup>1</sup> in the final rules could be made simultaneously. The PRA agrees that there would be no detriment to depositors as a result of combining these changes at a time after 30 January 2017. The SS has been amended to reflect this change.

2.15 Firms should note that these final rules do not impact the implementation or effective date of Chapters 12 to 15 of the Depositor Protection Part. Chapters 12 to 15 came into effect on 1 December 2016 and impose new requirements in respect of firms' SCV systems, Bank Recovery and Resolution Directive marking, continuity of access and associated reporting.

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<sup>1</sup> Annex 1 of the Depositor Protection Part.

## Appendices

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- 1 PRA RULEBOOK: CRR FIRMS, NON CRR FIRMS, NON-AUTHORISED PERSONS: DEPOSITOR PROTECTION (COVERAGE LEVEL) INSTRUMENT 2017, available at: [www.bankofengland.co.uk/pr/Pages/publications/ps/2017/ps117.aspx](http://www.bankofengland.co.uk/pr/Pages/publications/ps/2017/ps117.aspx)**
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- 2 SS18/15 'Depositor and dormant account protection' UPDATE available at [www.bankofengland.co.uk/pr/Pages/publications/ss/2017/ss1815update.aspx](http://www.bankofengland.co.uk/pr/Pages/publications/ss/2017/ss1815update.aspx)**
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