

Policy Statement | PS3/19

PRA fees and levies: Changes to periodic and transaction fees

February 2019



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1 Overview

1.1 This Prudential Regulation Authority (PRA) Policy Statement (PS) provides feedback to responses to Consultation Paper (CP) 28/18 'PRA fees and levies: Changes to periodic and transaction fees',¹ and sets out the PRA's final policy on:

- a revised approach to periodic fees for designated investment firms (DIFs);
- amending the approach to periodic fees for life insurers;
- updating the Part VII regulatory transaction fees for insurers;
- updating the internal model application fees for insurers;
- updating the internal model application and model maintenance fees for DIFs;
- updating the rules relating to the provision of relief from PRA fees in exceptional circumstances (all firms);
- other minor corrections to PRA fees rules (all firms); and
- updates to Supervisory Statement (SS) 3/16 'Fees: PRA approach and application' (all firms).

1.2 This PS is relevant to all PRA-regulated firms but particularly insurers and DIFs, as well as firms which have, or intend to apply in the future for, Solvency II² or Capital Requirements Regulation (CRR)³ models.

Background

1.3 In CP28/18 the PRA proposed to:

- amend the basis for determining the periodic fees for DIFs, taking into account the change in regulatory reporting from FSA001 and FSA002 to FINREP, to an equal split of 'Total assets' (defined by F01.01-380-010) and 'Total operating income' (defined by F02.00-355-010);
- modify the weightings between 'gross written premiums for fees purposes' (GWP) and 'best estimate liabilities for fees purposes' (BEL) to 60:40 for life insurers;
- introduce a 0.65 scaling factor for unit-linked business conducted by life insurers;
- replace the regulatory transaction fees for insurance business transfers for 'long-term business transfers' and 'all other transfers' with a single regulatory transaction fee of £20,000;
- harmonise the PRA's approach to internal model application fees for insurers by basing the application fee on GWP and BEL and having three size bands to reflect the PRA's approach to the model maintenance fee;

¹ November 2018: <https://www.bankofengland.co.uk/prudential-regulation/publication/2018/pra-fees-and-levies-changes-to-periodic-and-transaction-fees>.

² Solvency II Directive (2009/138/EC) (as amended).

³ Capital Requirements Regulation (575/2013) (CRR).

- modify the internal model application fee and the model maintenance fee for DIFs to ensure consistency with the revised basis for determining their periodic fees;
- amend Fees 2.9, 2.10 and 3.14 to make it clear any decision on a waiver or amendment of the PRA fees rules will be made under the powers set out in FSMA s138A, and to improve their clarity;
- delete a duplicative definition of the ring-fencing implementation fee at Fees 3.5(2);
- delete Fees 4.11 which is no longer relevant following the introduction of the insurance special purpose vehicle (ISPV) regime; and
- update SS3/16 'Fees: PRA approach and application' to add information on the use of the relieving provision, the types of large 'one-off' reinsurance transactions that may be suitable for relief from PRA fees, references to the model maintenance fee and delete an obsolete cross-reference to Fees 4.11.

Implementation

1.4 The implementation date for the 'PRA FEES AMENDMENT INSTRUMENT 2019' and the updated SS3/16 'Fees: PRA approach and application' is Friday 1 March 2019.

2 Feedback to responses

2.1 The PRA received four responses to the CP. The PRA did not receive any responses concerning the proposals to:

- amend the basis for determining the periodic fees for DIFs;
- harmonise the approach for the internal model application fee and the model maintenance fee for insurance firms;
- update the rules relating to the provision of relief from PRA fees in exceptional circumstances;
- make minor corrections to the fees rules; and
- update SS3/16 'Fees: PRA approach and application'.

2.2 Generally respondents were supportive of the PRA's efforts to ensure its fees strategy is appropriate to the risks firms pose to the PRA's objectives by:

- introducing a 0.65 scaling factor for unit-linked business; and
- adjusting the weightings between GWP and BEL for life insurers' periodic fees – while maintaining the existing ratio for general insurance firms.

2.3 Two respondents requested further information on how the PRA determined 0.65 to be the appropriate scaling factor for unit-linked business. The 0.65 scaling factor proposed by the PRA broadly aligns the fee charged for unit-linked business with the level of risk this business line is assessed to pose to the PRA's objectives and the approach used by the PRA to determine how many supervisory resources are dedicated to each firm. In determining the

precise scaling factor, the PRA also considered the impact of the change on the fees paid by all life insurers, in the context of the impact of other changes to fees consulted on in the CP.

2.4 One respondent asked for further information on how the proposed 60:40 weightings represented a better balance between GWP and BEL than 75:25. It also said that, as the weighting change would impact smallest life insurers the most, the existing weightings should be left unchanged for these firms, with the new weighting implemented only for larger insurers.

2.5 The revised weightings for life insurers are intended to provide a fee outcome that is broadly in line with the risks firms pose to the PRA's objectives and the approach used by the PRA to allocate supervisory resources to each firm accordingly. The PRA considered the change necessary because firms with large annuity books which write little new business pay relatively low fees compared to the level of risk they generate. This reasoning applies to all firms, regardless of their size. The PRA therefore does not agree the new weightings should only apply to the larger insurers. The PRA also considers the impact of this change on the fees payable by the smallest insurers is mitigated to the extent all non-directive life insurers only pay the minimum fee.

2.6 One respondent suggested that the proposed changes to the transaction fee for insurance business transfers under Part VII FSMA could act as a deterrent, or make the transaction less attractive, for smaller insurance firms. The proposed transaction fee reflects the PRA's costs to process such applications, which tend not to vary significantly with the size of firm in question. The PRA considers that the charge should not be prohibitive for most firms looking to undertake a Part VII but would consider any application for a fee modification or waiver in line with its usual processes for exceptional cases.

2.7 One respondent said that group reinsurance and back-book transactions should receive relief from PRA fees. This issue was out of scope of CP28/18 and had been previously considered by the PRA as part of its review for CP16/17 and PS28/17.⁴ The PRA therefore does not intend to make any changes to its approach in this area.

2.8 One respondent said it was not clear how CP28/18 applied to all firms. To help address this issue, the PRA will provide further clarification of the firms it expects to have greatest interest in each proposal in future fees consultations.

2.9 One respondent enquired if the 'EU withdrawal Cost Allocation' will continue in the forthcoming fee year (2019/20). The PRA is currently finalising its budget and proposed method of recovery with the final decision set to be published in the annual fee rates CP in the next couple of months.

⁴ 'PRA fees and levies: model transaction fees, fees and levies for insurers and fees for designated investment firms', December 2017: <https://www.bankofengland.co.uk/prudential-regulation/publication/2017/pr-a-fees-and-levies>.

Appendices

- 1 PRA RULEBOOK: PRA FEES AMENDMENT INSTRUMENT 2019, available at:
<https://www.bankofengland.co.uk/prudential-regulation/publication/2018/prafees-and-levies-changes-to-periodic-and-transaction-fees>

- 2 SS3/16 'Fees: PRA approach and application', available at:
<https://www.bankofengland.co.uk/prudential-regulation/publication/2016/fees-pra-approach-and-application-ss>