

Policy Statement | PS13/18

Regulated fees and levies: rates for 2018/19

June 2018



BANK OF ENGLAND
PRUDENTIAL REGULATION
AUTHORITY





BANK OF ENGLAND
PRUDENTIAL REGULATION
AUTHORITY

Policy Statement | PS13/18

Regulated fees and levies: rates for 2018/19

June 2018

Contents

| | | |
|----------|---|-----------|
| 1 | Overview | 5 |
| 2 | Feedback to responses | 6 |
| 3 | Annual Funding Requirement for 2018/19 | 6 |
| 4 | AFR shortfall/surplus for 2017/18 | 8 |
| | Appendix | 10 |

1 Overview

1.1 This Prudential Regulation Authority (PRA) Policy Statement (PS) provides feedback to responses to Consultation Paper (CP) 7/18 'Regulated fees and levies: rates proposals 2018/19'.¹ It sets out:

- the final fee rates and rules to recover the PRA's Annual Funding Requirement (AFR) for the financial period 1 March 2018 to 28 February 2019;
- the ring-fencing implementation fee (RFIF) for the financial period 1 March 2018 to 28 February 2019; and
- final rules to implement changes to the Fees part of the rulebook (Appendix).

1.2 This PS is relevant to all firms currently paying PRA fees or expecting to do so within the 2018/19 fee year.

Background

1.3 In CP7/18, the PRA proposed:

- the fee rates to meet the PRA's 2018/19 AFR;
- amendments to the RFIF rules;
- amendments to the International Financial Reporting Standard (IFRS) 9 Implementation Fee rules;
- an amendment to the Model Maintenance Fee rules;
- amendments to the rules for determining fees for non-Directive general insurers and for all firms where data to calculate fees has not been reported;
- how the PRA intends to distribute a surplus from the 2017/18 AFR, the RFIF and the IFRS9 Implementation Fee; and
- how the PRA intends to distribute the retained penalties for 2017/18.

1.4 The PRA received two responses to the CP, neither resulted in changes to the proposals. Details on the feedback received can be found in Chapter 2 of this PS.

1.5 The fee rates for firms in the A4 fee block (life insurers) are 17% higher for gross written premium (GWP) for fees purposes and 5% lower for best estimate liabilities (BEL) for fees purposes than indicated in CP7/18. This is because the indicative fee rates in CP7/18 were based on end-2016 data as the reporting deadline for Directive firms was Sunday 6 May, after the publication of CP7/18 on Monday 9 April. The GWP fee rate also reflects the outcome of an approved application from a life insurer for relief from PRA fees as a result of an exceptional, large, one-off internal reinsurance transaction.

¹ April 2018: www.bankofengland.co.uk/prudential-regulation/publication/2018/regulated-fees-and-levies-rates-proposals-2018-19.

Implementation

1.6 The implementation date for the PRA periodic fees (2018/19) and other fees instrument 2018 is Thursday 28 June 2018.

Online fees calculator

1.7 The Financial Conduct Authority (FCA) provides an online fees calculator¹ to enable firms to calculate their periodic fees for the forthcoming year using the PRA rates in the Appendix. The fees calculator for 2018/19 fees and levies is now available for firms to use.

2 Feedback to responses

2.1 The PRA is required by the Financial Services and Markets Act 2000 (FSMA) to have regard to any representations made to the proposals in a consultation, to publish an account, in general terms, of those representations. The PRA received two responses to CP7/18.

2.2 One respondent said it supported the PRA's commitment to review the methodology for determining the periodic fees for insurance firms in the second half of 2018; the reduction in the cost of the PRA's ongoing regulatory activities (ORA) for 2018/19; and transparency on the offsetting effect the annual model maintenance fee had on the ORA. It also said it supported publishing the fee rates consultation alongside the PRA's strategy and business plan, but went on to say they would like further detail on how the PRA anticipates incurring expenditure and deploying its resources. This feedback will be taken into account when communicating future iterations of the business plan and fee rates consultations.

2.3 One respondent questioned why, excluding the PRA transition fee (which had ended in 2017/18), its fee had increased for 2018/19. There are many reasons why firms will not see their periodic fee drop by the full value of the PRA transition cost they were paying, for example: inflation; the small net increase in the PRA's funding requirement; and/or other costs rising (ie EU withdrawal).

2.4 The respondent also questioned why it had to pay the first instalment of its 'on account' fee in February, when the fee rates consultation was not published until later. It requested the first payment be moved to after the final fees rules have been made. The first payment for all 'on account' payees is determined by invoicing it 50% of its fee for the previous year. The PRA considers this a fair arrangement, as firms' fees generally do not fluctuate materially from one year to the next, it enables the largest fee payers to smooth their fee payments, and helps to better align the payment of fees to the financial year to which they relate.

3 Annual Funding Requirement for 2018/19

Change in AFR and allocation to fee blocks relative to CP7/18

3.1 At the time of writing the CP, the impact of external market conditions as at Wednesday 28 February 2018 on the PRA's pension costs for 2018/19 had yet to be fully assessed. This assessment has now taken place and the final ORA for 2018/19 is £234.8 million, a reduction of £1.5 million compared to the CP. The CP indicated that these costs might change and set a tolerance limit of £2.0 million therefore this change is below the limit. Table 1A sets out the allocation of the PRA's ORA to fee blocks and a comparison to the draft allocation set out in the CP and the allocation for 2017/18.

¹ www.fca.org.uk/firms/calculate-your-annual-fee/fee-calculator.

Table 1A Allocation of ORA for 2018/19 to fee blocks and comparison to the draft allocation

| £ million | | Final ORA | Draft ORA | Change | 2017/18 ORA | Change |
|-----------|----------------------------|--------------|--------------|--------------|----------------|---------------|
| A0 | Minimum fees | 0.5 | 0.5 | - | 0.5 | - |
| A1 | Deposit takers | 147.8 | 148.4 | (0.6) | 152.9 | (5.1) |
| A3 | Insurers - general | 32.4 | 32.7 | (0.3) | 35.9 | (3.5) |
| A4 | Insurers - life | 41.0 | 41.6 | (0.6) | 44.8 | (3.8) |
| A5 | Managing agents at Lloyd's | 1.4 | 1.4 | - | 1.4 | - |
| A6 | The Society of Lloyd's | 1.7 | 1.8 | - | 1.8 | - |
| A10 | Firms dealing as principal | 9.9 | 9.9 | - | 10.9 | (1.0) |
| | | 234.8 | 236.3 | (1.5) | 248.3 | (13.2) |

3.2 Table 1B sets out analysis of the final tariff data for 2018/19 used to allocate the PRA's AFR to firms within fee blocks compared to the draft data presented in the CP.

Table 1B Analysis of tariff data for allocation of fees within fee blocks compared to draft tariff data

| Fee block | Tariff basis | 2018/19 final number of firms | 2018/19 draft number of firms | Mvt (%) | 2018/19 final tariff data | 2018/19 draft tariff data | Mvt (%) | Mvt in fee rates from draft |
|--------------|-------------------------------|--|--|------------|---------------------------------|---------------------------------|------------|--|
| A0 | Minimum Fees | 1,356 | 1,368 | (1%) | n.a. | n.a. | n.a. | - |
| A1 | Modified Eligible Liabilities | 826 | 825 | - | £3,255bn | £3,245bn | - | 1% |
| A3 | Gross Written Premiums | 320 | 323 | (1%) | £70bn | £73bn | (4%) | 5% |
| | Best Estimate Liabilities | | | | £143bn | £145bn | (2%) | 5% |
| A4 | Gross Written Premiums | 170 | 179 | (5%) | £124bn | £144bn | (14%) | 17% |
| | Best Estimate Liabilities | | | | £1,310bn | £1,262bn | 4% | (5%) |
| A5 | Active Capacity | 58 | 58 | - | £32bn | £27bn | 20% | (9%) |
| A10 | Total Trading Book Assets | 8 | 8 | - | £1,897bn | £1,897bn | .- | - |
| | Financial & Operating Income | | | | £25bn | £25bn | - | - |
| PE1 | EU Withdrawal Fee | 711 | 725 | (2%) | n.a. | n.a. | n.a. | 1% |

3.3 As noted in the CP, the fee rates presented for consultation were calculated using estimated fee-payer populations and tariff data. The final fee rates for 2018/19 have fallen slightly compared with those in the CP for the A1 fee block, while those for firms in the A10 fee block have risen slightly.

3.4 In CP7/18, the PRA noted that the fee rates shown in the consultation for firms in the A3 and A4 fee blocks were likely to be poor indicators of the final fee rates because 2017 data used to calculate the final rates were not available at the time of publication. In addition, the CP noted that there was greater uncertainty over the draft fee rates for life insurers in the A4 fee block due to limitations in the data reported by some firms, and the fact that several large life reinsurance and back-book transactions were undertaken during 2016 which significantly increased the measure of GWP for fees purposes for that year. Final fee rates based on 2017 data were therefore thought likely to be higher than the draft rates.

3.5 In line with these expectations, the final fee rate for life insurers based on GWP has increased to £255.17 compared with £217.58 consulted in the CP. In contrast, the final fee rate for BEL is £7.86 lower than the figure consulted on £8.24, reflecting an increase in the tariff base during 2017. For general insurers in the A3 fee block, the final fee rates are higher than consulted in the CP at £494.81 for GWP (up from £469.90) and £29.07 for BEL (up from £27.79).

3.6 Despite the change in fee rates from the consultation, the overall allocation to the A3 and A4 fee blocks has reduced by a total of £0.9 million in the final ORA.

2018/19 Annual Funding Requirement (AFR)

3.7 The PRA proposed an AFR for 2018/19 of £243.0 million, £25.3 million lower than the AFR for 2017/18 of £268.3 million. The 9% reduction in the AFR was primarily driven by the end of transitions costs relating to the establishment of the PRA and the introduction of the Model Maintenance Fee. The impact of the Model Maintenance Fee on the AFR was described within the CP.

EU withdrawal

3.8 The PRA proposed that it would recover £8.3 million of costs associated with work arising from the United Kingdom's withdrawal from the EU through an EU Withdrawal Cost Allocation as part of the AFR. This figure remains unchanged from the CP.

Ring-fencing implementation fee (RFIF)

3.9 The PRA proposed that, as in 2017/18, a RFIF would apply to firms that were ring-fencing their core activities in line with the requirements of the Banking Reform Act ahead of the Government's Tuesday 1 January 2019 deadline. The fee would recover PRA costs associated with the implementation of ring-fencing, estimated at £16.4 million in 2018/19. This figure remains unchanged from the CP.

4 AFR shortfall/surplus for 2017/18

Changes in surplus for 2017/18 relative to CP7/18

4.1 A net amount of £0.1 million will be refunded to firms to cover the AFR surplus for 2017/18. This figure has been updated from the estimated £0.4 million contained in the CP

following finalisation of the PRA's annual accounts and a correction of the allocation across fee blocks to ensure correct application of the rules.¹

4.2 Table 4A sets out the 2017/18 surplus.

Table 4A Allocation of AFR shortfall for 2017/18 to fee blocks and comparison to the draft allocation

| £ million | Final | Draft | Change |
|--------------------------------|--------------|--------------|---------------|
| A1 Deposit takers | (0.0) | (0.2) | 0.2 |
| A3 Insurers - general | (0.1) | (0.1) | - |
| A4 Insurers - life | 0.0 | (0.4) | 0.4 |
| A5 Managing agents at Lloyd's | 0.0 | 0.0 | - |
| A6 The Society of Lloyd's | (0.0) | 0.1 | (0.1) |
| A10 Firms dealing as principal | (0.0) | 0.3 | (0.3) |
| Surplus | (0.1) | (0.4) | 0.3 |

Allocation of surplus from 2017/18

4.3 There will be a refund to RFIF fee payers of unspent RFIF for 2017/18 of £3.4 million. This figure has been confirmed following the finalisation of the PRA's accounts and remains unchanged from the CP.

4.4 There will be a refund to IFRS 9 Implementation Fee payers of unspent IFRS 9 Implementation Fee for 2017/18 of £0.6 million. This figure has been confirmed following the finalisation of the PRA's accounts and remains unchanged from the CP.

4.5 For 2017/18, there are retained penalties of £57,934, which the PRA will allocate across fee blocks using firm population data for 2017/18 (the financial year to which the retained penalties relate). Details of the distribution of retained penalties to firms remain unchanged from the CP.

¹ The PRA's statement of accounts for the year ended 28 February 2018 is available in the Bank of England Annual Report and Accounts 2018: www.bankofengland.co.uk/annual-report/2018.

Appendix

PRA RULEBOOK: PRA PERIODIC FEES (2018/19) AND OTHER FEES INSTRUMENT 2018,
available at: www.bankofengland.co.uk/prudential-regulation/publication/2018/regulated-fees-and-levies-rates-proposals-2018-19