

Financial Services Compensation Scheme – Management Expenses Levy Limit 2016/17



March 2016

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In this Policy Statement, we report on the main issues arising from Consultation Paper (CP) 16/3 Financial Services Compensation Scheme Management Expenses Levy Limit 2016/17 and publish the final rules.

Please send any comments or queries to:

Douglas Greenshields
Redress Policy
Strategy & Competition Division
Financial Conduct Authority
139 Fountainbridge
Edinburgh
EH3 9QG

Telephone: 0131 301 2153

Email: Douglas.Greenshields@fca.org.uk

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Abbreviations used in this document

CBA Cost Benefit Analysis

CP Consultation Paper

FCA Financial Conduct Authority

FEES Fees manual

FSCS Financial Services Compensation Scheme

MELL Management Expenses Levy Limit

PRA Prudential Regulation Authority

PS Policy Statement

1. Overview

Introduction

- 1.1** We are publishing our rules, effective from 1 April 2016, on the Financial Services Compensation Scheme (FSCS) Management Expenses Levy Limit (MELL) for 2016/17. The MELL will be £72.7m.

Who does this affect?

- 1.2** This is relevant to all authorised firms, but it does not include anything directly relevant to retail financial services consumers or consumer groups which they need to act on. As costs may be passed on to consumers in the form of higher prices, consumers may indirectly meet a part of the FSCS levies. However, an efficient and adequately funded compensation scheme is beneficial to consumers.

Context

- 1.3** The MELL is set annually and jointly by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA). The role of the FSCS is, in general, to provide compensation to consumers of financial services when authorised firms are unable, or likely to be unable, to meet their obligations to do so. So the new rules will primarily support and advance the FCA's operational objective of consumer protection.
- 1.4** A compensation scheme provides a safety net, offering protection to consumers. This in turn leads to greater consumer confidence in their dealings with financial services firms, benefiting all firms and leading to a stronger financial system.
- 1.5** In CP16/3, we proposed setting the MELL at £72.7m for 2016/17, and gave an indicative breakdown of this figure by activity. The management expenses of the FSCS are the non-compensation costs that the FSCS incurs, or expects to incur, when delivering its functions.
- 1.6** The MELL of £72.7m includes FSCS management expenses (or budget) of £67.4m and a contingency of £5.3m. This contingency will allow the FSCS to levy additional funds for management expenses up to this limit to meet costs that were not expected when the annual levy was raised.

Summary of feedback and our response

- 1.7** There were three responses to the CP: two from representative bodies and one from an authorised firm. While all respondents welcomed the year-on-year reduction in the MELL, some expressed concerns.
- 1.8** Two respondents asked for more information on the savings that the FSCS would expect to make as a result of the investments in its strategic change programme. The FSCS's running costs are largely determined by the volume of claims for compensation and any statutory or other mandatory requirements. However, the FSCS is committed to reducing costs over the remaining three years of its current five-year strategic change programme through process efficiencies, increased automation of claims handling and through investments in its IT infrastructure. Since 2010, the FSCS has been making significant investments to improve its processes and its ability to quickly scale up its claims processing operations. The FSCS anticipates that the costs of the strategic change programme will decrease by 19% between 2015/16 and 2016/17.
- 1.9** One respondent requested a statement from the FSCS on what it considers good value for money looks like in the context of its strategic projects. The FSCS does not, at this time, intend to issue a further statement on its targets in relation to value for money beyond the information it has already provided in its' 2016/17 Plan and Budget¹. The Plan and Budget sets out 'Improving our Value for Money' as a key imperative for the FSCS, and contains details of achievements to date and how value for money will continue to be an area of focus. The FSCS Board reviews investment projects before implementation on a project-by-project basis, and the FSCS's expenditure is scrutinised by its external auditor, the National Audit Office. The Plan and Budget also explains that the FSCS has implemented a new senior-level management structure to enhance and strengthen its approach to project management and control.
- 1.10** One respondent expressed concerns that the FSCS could be committed to spending more money on consumer awareness work without a proper assessment of the cost-effectiveness of measures taken to date. The original consumer awareness project was benchmarked through an external research agency. Since that original investment, the FSCS reports that awareness of deposit protection has increased from around 40% in 2011 to 70% of consumers in 2015. The FSCS continually reviews its consumer awareness programme to ensure that it delivers the best possible results for the investments made.
- 1.11** Two respondents also expressed concern about the need to read the separate FSCS Plan and Budget alongside CP16/3 to be able to see the underpinning detail of the MELL. The Plan and Budget was referenced in CP16/3 and published on the day after the publication of CP16/3, and the two documents can easily be read together. Further, the FSCS offers an Industry Day before it publishes the Plan and Budget to give firms and trade bodies early insight into the MELL and the Plan and Budget proposals.
- 1.12** One respondent raised an issue about the compensation costs levy, which was outside the scope of this consultation. The matter was passed to the FSCS for consideration.

Cost benefit analysis and compatibility statement

- 1.13** The cost benefit analysis (CBA) and compatibility statement set out in CP16/3 remain valid and do not require amendment.

Equality and diversity issues

- 1.14** The equality and diversity statement in CP16/3 remains valid and does not require amendment. We received no comments on this statement.
- 1.15** We have made the rule changes to FEES on which we consulted. The final instrument does not differ from that consulted upon, and changes made by this instrument are listed in Appendix 1 of this Notice.

What do you need to do next?

- 1.16** If you have comments or queries, please send them to the address on page 2 to this Policy Statement.

Appendix 1

Made rules (legal instrument)

**FINANCIAL SERVICES COMPENSATION SCHEME (MANAGEMENT EXPENSES
LEVY LIMIT 2016/2017) INSTRUMENT 2016**

Powers exercised

- A. The Financial Conduct Authority makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 (“the Act”):
- (1) section 137T (General supplementary powers);
 - (2) section 213 (The compensation scheme);
 - (3) section 214 (General); and
 - (4) section 223 (Management expenses).
- B. The rule-making powers listed above are specified for the purposes of section 138G(2) (Rule-making instruments) of the Act.

Commencement

- C. This instrument comes into force on 1 April 2016.

Amendments to the Handbook

- D. The Fees manual (FEES) is amended in accordance with the Annex to this instrument.

Citation

- E. This instrument may be cited as the Financial Services Compensation Scheme (Management Expenses Levy Limit 2016/2017) Instrument 2016.

By order of the Board
17 March 2016

Annex

Amendments to the Fees manual (FEES)

In this Annex, underlining indicates new text.

6 Annex 1R Financial Services Compensation Scheme – Management Expenses Levy Limit

This table belongs to FEES 6.4.2R	
Period	Limit on total of all management expenses levies attributable to that period (£)
...	
1 April 2015 to 31 March 2016	£74,429,000
<u>1 April 2016</u> <u>to 31 March</u> <u>2017</u>	<u>£72,694,000</u>

Financial Conduct Authority



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25 The North Colonnade Canary Wharf
London E14 5HS
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