

Outlook

November 2021



In this issue:

Chief Executive's statement

2021/22 levy update

2022/23 levy forecast

PRA classes levy breakdown

FCA classes levy breakdown

Payment on account

Contents

Chief Executive’s statement.....	3
Outlook November 2021	4
PRA classes	
Deposits	6
Life and Pension Provision	8
General Insurance Provision	9
FCA classes	
General Insurance Distribution	11
Investment Provision	12
Life Distribution and Investment Intermediation (LDII) ..	14
Home Finance Providers	16
Home Finance Intermediation	17
Debt Management	19
Payment on account	20
Contact us	21

About FSCS

FSCS is a non-profit organisation which is fully funded by the financial services industry to provide assurance to consumers and help protect them when regulated services firms fail.

Firms regulated by the Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA) contribute towards an annual levy which funds the cost of running our services and the compensation we pay out to customers when firms fail.

Chief Executive's statement

Over the past year, we have faced an unprecedented economic situation which has made it particularly difficult to forecast potential failures and the level of compensation we need to pay to our customers.

With this uncertainty in mind, we made the decision back in May to hold off invoicing for the retail pool element of the levy. This is a separate pot that Financial Conduct Authority (FCA) classes are required to contribute to if they have not reached their maximum levy limit, and another class has exceeded its own limit. Holding off invoicing the retail pool gave us time to gain a better understanding of failures for the current financial year.

2021/22 latest forecast

At this year's mid-point, the total levy for 2021/22 is now £717m. This is lower than our previous forecast but an increase of £17m from last year's levy. This means we can now confirm that we will not be calling for a supplementary levy or invoicing the retail pool this financial year.

We must be clear that we are not yet seeing a long-term fall in compensation costs. Instead, a number of failures we expected this year did not happen and we expect may now fall into the next financial year or beyond.

First look at the levy for 2022/23

We have also listened to feedback from the industry and, to help you prepare for the year ahead, in this Outlook we are publishing our indicative levy forecast for 2022/23 of £900m.

This figure includes an approximate amount for our management expenses, which make up a small proportion of the overall levy and which will be consulted on in January 2022. Although subject to change, we hope that publishing this forecast earlier than usual is helpful.

Getting customers back on track and helping build confidence in the industry are two of the main reasons FSCS exists, but our data and insights show that consumers continue to experience harm. This in turn is increasing compensation costs and necessary levy funding by the industry.

To take pensions as an example, excluding self-invested personal pension (SIPP) claims, the number of compensation claims has increased by 26% year-on-year for the last four years. Unfortunately, the number of these customers with losses over our compensation limit increased by 15% last year.

It is important to ensure consumers have the right information so they can make informed financial decisions that are appropriate to their circumstances. We are playing our part in helping to identify and address the root causes of consumer harm. For example, by running consumer awareness campaigns and working with the regulatory family to confront scams, [phoenixing](#) and bad practice.

We are also working closely with the FCA on its Consumer Investments Strategy. This strategy outlines the FCA's aim to help stabilise the level of compensation. Alongside this, we will also be looking closely at how we can contribute to the FCA's Compensation Policy Framework review, which aims to ensure that the current framework is appropriate and proportionate.

Against the backdrop of a sector that contributes £136bn to the UK economy and employs millions, we are a relatively small player, employing a team of 242 people with an annual budget of £91m this year. We cannot and should not tackle the issue of the rising levy alone.

We will continue to highlight the importance of the wider industry in playing its part. It must proactively call out poor behaviour and play a greater role in identifying sources of consumer detriment and practical solutions. It is only through serious action and joint collaboration that we can properly remedy the issues behind the rising levy.

Outlook November 2021

To help the industry prepare for the year ahead, we are also providing our forecasted levy figures for the 2022/23 financial year. While this is an early indication and subject to change, we hope that publishing the 2022/23 forecast earlier than usual is helpful.

2021/22 levy update

- The total levy for the 2021/22 financial year is now £717m, which is lower than the previous forecast of £833m announced in May. This is because we now know that we do not need to invoice the [retail pool](#) for £116m.
- The retail pool is no longer required this year because the [Investment Provision class](#) did not breach its annual levy limit as was expected. Within this class, a number of self-invested personal pension (SIPP) operator failures, that had been expected in this financial year, may occur in 2022/23 or beyond.
- We do not expect to raise any more levies this financial year.

2022/23 levy forecast

- The indicative levy forecast for 2022/23 is £900m. This includes our estimated running costs (management expenses). Please note that this estimation may change and is subject to consultation.
- The Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA) will carry out consultation on our management expenses in January 2022 and further details will be provided then.
- It is important to note that of the £900m levy currently forecast, circa £400m relates to compensation for failures that have not yet occurred.
- This forecast is based on a number of sources of information about when firms are estimated to fail. This is always difficult to predict however and a 20% movement in compensation costs would result in an approximate £90m reduction or increase in the levy.

Our key assumptions behind the 2022/23 forecast

- A significant increase in SIPP operator compensation payouts for the [Investment Provision class](#).
- An ongoing trend of increasing compensation costs for the [Life Distribution and Investment Intermediation \(LDII\) class](#). This includes an increasing number of complex claims related to pensions.
- Increased compensation costs for the [General Insurance Provision class](#) associated with the failures of East West Insurance Company Limited and Gefion Insurance A/S.
- No new legal liability established under [section 27](#) that, if implemented would lead to an increase in FSCS compensation for SIPP operator claims.
- No new [General Insurance Provision](#), [General Insurance Distribution](#), [Debt Management](#) or [Funeral Plan](#) class failures.

Please note: Funeral Plans will be regulated from July 2022 and we are not expecting any failures in the 2022/23 financial year. Newly authorised firms in this class do not pay any levies, including retail pool contributions, in their first year of regulation.

2021/22 latest levy update and 2022/23 forecasts

Classes	2021/22 latest update			2022/23 forecasts			Movement (2021/22 vs 2022/23) (£m)
	Levies for own class (£m)	Levies for other classes (£m)	Total levies (£m)	Levies for own class (£m)	Levies for other classes (£m)	Indicative total levy (£m)	
PRA classes							
Deposits	24.0	5.0	29.0	22.0	25.1	47.1	18.1
Life and Pension Provision	0.0	35.0	35.0		35.0	35.0	0.0
General Insurance Provision	166.0	4.1	170.1	242.0	21.8	263.8	93.7
FCA classes							
General Insurance Distribution	12.9	0.0	12.9	8.3	59.4	67.7	54.8
Investment Provision	150.0	50.0	200.0	187.0	13.0	200.0	0.0
Life Distribution and Investment Intermediation (LDII)	240.0		240.0	240.0		240.0	0.0
Home Finance Providers		1.4	1.4	0.0	3.4	3.4	2.0
Home Finance Intermediation	3.6	0.0	3.6	1.5	7.7	9.1	5.5
Debt Management	0.5	0.0	0.5	0.0	3.8	3.8	3.3
Funeral Plans				0.0	0.0	0.0	0.0
Base costs	24.0		24.0	30.0		30.0	6.0
Total	621.0	95.5	716.5	730.8	169.2	900.0	183.5

Levy breakdown – PRA classes

Deposits

2021/22 update

2021/22 forecast fund balances	May's Outlook forecast (£m)	Latest levy update (£m)	Variance (£m)
Opening balance	2.4	6.7	4.3
Compensation	(10.3)	(10.3)	(0.0)
Recoveries	0.0	1.1	1.1
Management Expenses	(14.9)	(14.9)	0.0
Annual levy receipts	24.0	24.0	0.0
Total closing surplus/(deficit) Please note that the 'Annual levy receipts' excludes provider contributions.	1.3	6.7	5.4

Total levies The 'Total levies' includes provider contributions to other classes. Please note, the 'Total levies' is not the sum of each column. This row shows the May forecast in comparison to the latest levy update.	49.6	29.0	(20.6)
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Approximately £29k has been paid in compensation to customers for the Cardenden & Kinglassie Credit Union Ltd failure that occurred earlier this year.

We have also paid out approximately £580k to customers for the Barrow & District Credit Union Ltd failure which occurred in September 2021. There have been fewer than expected credit union failures overall, however. This has resulted in a class surplus of £6.7m that will be carried over to the 2022/23 financial year.

This class was also expected to contribute to the [retail pool](#) as the Life Distribution and Investment Intermediation (LDII) and Investment Provision classes were previously expected to breach their annual levy limits. This contribution is no longer required and explains the circa £20m variance between the May 'total levies' figure and our latest forecast.

2022/23 forecast

Class	2021/22 latest levy update (£m)	2022/23 forecast (£m)	Variance (£m)
Deposits	29.0	47.1	18.1

The levy for the Deposits class is expected to increase by just over £18m, from £29m in 2021/22, to circa £47m in 2022/23. The main reason for this is the £21m contribution the class will be required to make to the retail pool. This is because the LDII class is forecast to breach its annual levy limit and require funding from other classes as part of retail pool.

In line with trends we have seen in previous years, we are also expecting a small number of credit union firm failures during 2022/23

Levy breakdown – PRA classes

Life and Pension Provision

2021/22 update

2021/22 forecast fund balances	May's Outlook forecast (£m)	Latest levy update (£m)	Variance (£m)
Opening balance	0.0	0.0	0.0
Compensation	0.0	0.0	0.0
Recoveries	0.0	0.0	0.0
Management Expenses	0.0	0.0	0.0
Annual levy receipts	0.0	0.0	0.0
Total closing surplus/(deficit)	0.0	0.0	0.0

Total levies The 'Total levies' includes provider contributions to other classes. Please note, the 'Total levies' is not the sum of each column. This row shows the May forecast in comparison to the latest levy update.	35.0	35.0	0.0
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There have been no failures in 2021/22 and we do not expect any for the remainder of this financial year.

The levy for this class is driven by a £35m provider contribution to the Life Distribution and Investment Intermediation (LDII) class.

2022/23 forecast

Class	2021/22 latest levy update (£m)	2022/23 forecast (£m)	Variance (£m)
Life and Pension Provision	35.0	35.0	0.0

The 2022/23 annual levy for this class is forecast to remain the same as the previous financial year at £35m.

We currently do not expect any firm failures to occur during 2022/23.

The levy for this class is driven by provider contributions to the LDII class.

Levy breakdown – PRA classes

General Insurance Provision

2021/22 update

2021/22 forecast fund balances	May's Outlook forecast (£m)	Latest levy update (£m)	Variance (£m)
Opening balance	37.4	37.9	0.5
Compensation	(206.0)	(215.5)	(9.5)
Recoveries	9.3	12.2	2.9
Management Expenses	(6.0)	(6.0)	0.0
Annual levy receipts	166.0	166.0	0.0
Total closing surplus/(deficit) Please note that the 'Annual levy receipts' excludes provider contributions.	0.7	(5.4)	(6.1)
Total levies The 'Total levies' includes provider contributions to other classes. Please note, the 'Total levies' is not the sum of each column. This row shows the May forecast in comparison to the latest levy update.	189.8	170.1	(19.7)

Following on from our May forecast, we are now anticipating a deficit of £5.4m for the General Insurance Provision class. The reasons for this include:

- The failures of the East West Insurance Company Limited and Gefion Insurance A/S. These failures also account for the higher compensation costs than previously forecast (in May's 2021 Outlook); and
- A change in approach to mesothelioma (asbestos) claims resulting in top-ups for customers of Chester Street Insurance Holdings Limited as well as for builder's accident insurance. This has also meant that compensation for this class increased by approximately £15m.

The total levies paid by this class in 2021/22 was slightly over £170m; including £166m for compensation costs within its own class and £4m as provider contributions for the General Insurance Distribution class.

The main reason for the 'total levies' variance (circa £20m) is due to the May 2021 forecast including a retail pool contribution, which is no longer required.

2022/23 forecast

Class	2021/22 latest levy update (£m)	2022/23 forecast (£m)	Variance (£m)
General Insurance Provision	170.1	263.8	93.7

The levy for 2022/23 is forecast to be almost £264m which is approximately £94m higher than in the previous financial year.

The main reasons for the increase include:

- Circa £16m in compensation costs relating to the failures of East West Insurance Company Limited (declared in default in October 2020) and Gefion Insurance A/S (declared in default in June 2021);
- An approximate £50m movement in opening balances (i.e. £38m surplus in opening balance for 2021/22 and a £5m deficit in opening balance for 2022/23). The 2021/22 deficit will need to be offset against the 2022/23 levy before meeting any further compensation costs for that year; and
- A £19m contribution from this class to the retail pool. This is because the Life Distribution and Investment Intermediation (LDII) class is expected to breach its annual levy limit and will require funds from the other classes.

Levy breakdown – FCA classes

General Insurance Distribution

2021/22 update

2021/22 forecast fund balances	May's Outlook forecast (£m)	Latest levy update (£m)	Variance (£m)
Opening balance	(3.8)	(3.1)	0.7
Compensation	(4.5)	(7.5)	(3.0)
Recoveries	0.0	0.0	0.0
Management Expenses	(7.5)	(7.5)	0.0
Annual levy receipts	17.0	17.0	0.0
Total closing surplus/(deficit) Please note that the 'Annual levy receipts' includes provider contributions.	1.2	(1.2)	(2.4)

Total levies The 'Total levies' excludes provider contributions to other classes. Please note, the 'Total levies' is not the sum of each column. This row shows the May forecast in comparison to the latest levy update.	73.8	12.9	(60.9)
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The small variance in compensation costs from May (£3m) is due to there being more payouts than originally forecast. This is partly due to a £1.6m payout to an Official Receiver for claims relating to Payment Protection Insurance (PPI) policies. This resulted in the General Insurance Distribution class having a deficit of approximately £1m at year end which will be carried over to next year.

The significant difference between the total levies figure for the May forecast and the latest forecast is due to the retail pool not being required in 2021/22. Originally, this class was expected to contribute almost £61m to the retail pool as the Life Distribution and Investment Intermediation (LDII) and Investment Provision classes were expected to breach their annual levy limits.

2022/23 forecast

Class	2021/22 latest levy update (£m)	2022/23 forecast (£m)	Variance (£m)
General Insurance Distribution	12.9	67.7	54.8

The levy for this class is expected to increase from £12.9m in 2021/22 to £67.7m in the 2022/23 financial year. This is mainly driven by the £59m retail pool contribution that will be required from this class as the LDII class is expected to breach its annual levy limit and will require funds from the other classes. This class is forecast to be the biggest contributor to the retail pool levy in 2022/23.

We are not expecting any new failures in 2022/23. However, there is circa £1.5m in compensation payouts expected which relates to firm failures in previous financial years.

Levy breakdown – FCA classes

Investment Provision

2021/22 update

2021/22 forecast fund balances	May's Outlook forecast (£m)	Latest levy update (£m)	Variance (£m)
Opening balance	43.2	55.7	12.5
Compensation	(241.4)	(136.0)	105.5
Recoveries	0.0	0.0	0.0
Management Expenses	(9.7)	(9.7)	0.0
Annual levy receipts	209.0	150.0	(59.0)
Total closing surplus/(deficit) Please note that the 'Annual levy receipts' excludes provider contributions.	1.1	60.2	59.1
Total levies The 'Total levies' includes provider contributions to other classes. Please note, the 'Total levies' is not the sum of each column. This row shows the May forecast in comparison to the latest levy update.	200.0	200.0	0.0

The Investment Provision class had been expected to breach its annual levy limit (£200m) and require a contribution from the [retail pool](#) of £9m. However, claims made against self-invested personal pension (SIPP) operators are approximately £106m lower than originally forecast. This is largely because a number of SIPP operator complaints remain with the Financial Ombudsman Service. When these decisions are made, we expect this to lead to a number of firm failures and FSCS claims. We are currently expecting these claims to come through during 2022/23 or beyond.

This class initially had a surplus of £110m due to lower than expected SIPP operator claims as mentioned above. Due to its surplus, £50m was transferred to the LDII class as a provider contribution. This has helped reduce the 2021/22 shortfall for the LDII class and leaves a surplus of approximately £60m in the Investment Provision class.

As the Investment Provision class is currently expected to hit its levy contribution limit (£200m) in 2022/23, we will retain the £60m surplus. This will help minimise the impact of this class's compensation costs on other classes and help offset the 2022/23 levy. Within this class, a number of SIPP operator failures, that had been expected in this financial year, may now occur in 2022/23 or beyond.

2022/23 forecast

Class	2021/22 latest levy update (£m)	2022/23 forecast (£m)	Variance (£m)
Investment Provision	200.0	200.0	0.0

The 2022/23 levy payable by firms in this class is expected to be £200m, the same as for 2021/22. This is also the annual levy limit for this class. As mentioned above, the Investment Provision class is carrying forward a surplus of approximately £60m. Without this surplus, this class would have triggered the retail pool, requiring funding from the other classes.

Of the £200m levy forecast, £187m is the total levy for compensation expected to be required for its own class. Circa £13m would then be the provider contributions for the LDII class.

It is also forecast that there will be a £136m increase in compensation payouts in comparison to 2021/22, relating to SIPP operator failures. It was initially anticipated that these firms would fail in 2021/22. It is now likely that these failures will occur during 2022/23 and 2023/24.

Levy breakdown – FCA classes

Life Distribution and Investment Intermediation (LDII)

2021/22 update

2021/22 forecast fund balances	May's Outlook forecast (£m)	Latest levy update (£m)	Variance (£m)
Opening balance	8.7	2.5	(6.2)
Compensation	(376.9)	(331.4)	45.5
Recoveries	3.4	3.5	0.1
Management Expenses	(21.5)	(21.5)	0.0
Annual levy receipts	387.0	330.0	(57.0)
Total closing surplus/(deficit) Please note that the 'Annual levy receipts' includes provider contributions.	0.6	(17.0)	(17.6)

Total levies The 'Total levies' excludes provider contributions to other classes. Please note, the 'Total levies' is not the sum of each column. This row shows the May forecast in comparison to the latest levy update.	240.0	240.0	0.0
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The latest compensation forecast for the LDII class is just over £331m. This is approximately £45m lower than was forecast in May. This is because we received fewer claims than expected related to complex pension advice and more claims related to self-invested personal pension (SIPP) advice. The SIPP advice claims tend to have lower average compensation payouts (circa £20k per claim) than the more complex claims related to pension advice (circa £50k per claim).

As previously forecast, the total levy for this class is £240m which is also its annual levy limit.

It is also important to note that this class received £90m in provider contributions from other classes; £50m from the Investment Provision class; £35m from the Life and Pensions Provision class and £5m from Deposit Acceptors. While this has helped reduce the shortfall in this class, the projected year-end deficit is currently £17m. As this is below £20m, the retail pool will not be triggered this year and the deficit will be carried over to the next financial year.

2022/23 forecast

Class	2021/22 latest levy update (£m)	2022/23 forecast (£m)	Variance (£m)
Life Distribution & Investment Intermediation (LDII)	240.0	240.0	0.0

The 2022/23 levy payable by firms in the LDII class is expected to be £240m, the same as for 2021/22.

The expected amount of funding required for this class in 2022/23 is £406m which exceeds its annual class levy limit of £240m. This means £53m will need to come from provider contributions and the remainder (£113m) will need to be funded by the retail pool.

The compensation payouts for this class are forecast to be £373m, which is £42m higher than the latest 2021/22 forecast (£331m). This increase is largely due to the shift we are seeing in the types of claims being made. We are expecting to see more complex claims related to pension advice in 2022/23.

Levy breakdown – FCA classes

Home Finance Providers

2021/22 update

2021/22 forecast fund balances	May's Outlook forecast (£m)	Latest levy update (£m)	Variance (£m)
Total levies	4.3	1.4	(2.9)

Please note that home finance provision is not FSCS protected. However, Home Finance Providers are required to pay provider contributions to the Home Finance Intermediation class and contribute to the [retail pool](#).

The reason for the variance in the table above (circa £3m) is due to the retail pool contributions not being required in this financial year as previously forecast.

2022/23 forecast

Class	2021/22 latest levy update (£m)	2022/23 forecast (£m)	Variance (£m)
Home Finance Providers	1.4	3.4	2.0

For 2022/23, we currently forecast that this class will need to contribute circa £3m towards the retail pool. The retail pool would be required as the Life Distribution and Investment Intermediation (LDII) class is expected to breach its annual levy limit and will require funds from the other classes.

Levy breakdown – FCA classes

Home Finance Intermediation

2021/22 update

2021/22 forecast fund balances	May's Outlook forecast (£m)	Latest levy update (£m)	Variance (£m)
Opening balance	2.8	5.4	2.6
Compensation	(5.1)	(3.0)	2.1
Recoveries	0.0	0.0	0.0
Management Expenses	(2.1)	(2.1)	0.0
Annual levy receipts	5.0	5.0	0.0
Total closing surplus/(deficit) Please note that the 'Annual levy receipts' includes provider contributions.	0.6	5.2	4.6
Total levies The 'Total levies' excludes provider contributions to other classes. Please note, the 'Total levies' is not the sum of each column. This row shows the May forecast in comparison to the latest levy update.	11.5	3.6	(7.9)

The compensation costs for this class are approximately £2m lower than forecast in May 2021 which has resulted in a surplus of just over £5m. The relatively small variance (£2.1m) in compensation is related to fewer payouts than previously forecast.

The reason for the variance in 'total levies' is due to the May forecast including an £8m retail pool contribution for the Life Distribution and Investment Intermediation (LDII) and Investment Provision classes. We now know the retail pool levy will not be required in 2021/22.

2022/23 forecast

Class	2021/22 latest levy update (£m)	2022/23 forecast (£m)	Variance (£m)
Home Finance Intermediation	3.6	9.1	5.5

We currently estimate that the annual levy will rise from £4m in 2021/22 to £9m in 2022/23. This is mainly due to an expected £8m retail pool contribution that will be required in the 2022/23 financial year. This will be needed as the LDII class is expected to breach its annual levy limit and will require funds from across the other classes.

For the 2022/23 financial year, this class is carrying forward a surplus of £5m from 2021/22 which will be used to offset the 2022/23 levy. The compensation costs for the Home Finance Intermediation class are currently forecast to be approximately £5m. This takes into account firm failures from previous financial years.

We are not currently expecting any new firm failures during 2022/23.

Levy breakdown – FCA classes

Debt Management

2021/22 update

2021/22 forecast fund balances	May's Outlook forecast (£m)	Latest levy update (£m)	Variance (£m)
Opening balance	(0.2)	(0.0)	0.2
Compensation	(0.1)	(0.0)	0.1
Recoveries	0.0	0.0	0.0
Management Expenses	0.0	0.0	0.0
Annual levy receipts	0.5	0.5	0.0
Total closing surplus/(deficit)	0.3	0.5	0.2

Total levies Please note, the 'Total levies' is not the sum of each column. This row shows the May forecast in comparison to the latest levy update.	4.4	0.5	(3.9)
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For 2021/22, the Debt Management class was levied £0.5m, which was the cost of compensation relating to its own class. This class was not required to contribute to the retail pool as originally forecast. This explains the variance (3.9m) in the 'total levies' figure and from May's Outlook.

We are not expecting any failures for the remainder of 2021/22.

2022/23 forecast

Class	2021/22 latest levy update (£m)	2022/23 forecast (£m)	Variance (£m)
Debt Management	0.5	3.8	3.3

We are not expecting any failures for the Debt Management class during the 2022/23 financial year.

The levy in this class is primarily being driven by the class's contribution to the retail pool, which is forecast to be approximately £4m. This is because the Life Distribution and Investment Intermediation (LDII) class is forecast to breach its annual levy limit and trigger the retail pool during 2022/23.

Payment **on account**

So you can prepare, this is when we will send your 2022/23 invoices:

March 2022: We will invoice the largest 1,000 regulatory fee payers an advance payment (50%) towards the annual levy. This ensures we have enough funds to pay compensation and meet our running costs for the coming year.

Summer 2022: All PRA and FCA regulated firms will be sent an annual levy invoice. For those that made an advance payment in March, this will be deducted from their annual levy.

Please note, although the **retail pool** is currently predicted to be required for 2022/23, this will not be invoiced as part of the March or summer levies, as was the case with 2021/22. This will be raised later in the year, if required, and when the amounts needed are more certain.

Contact us



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