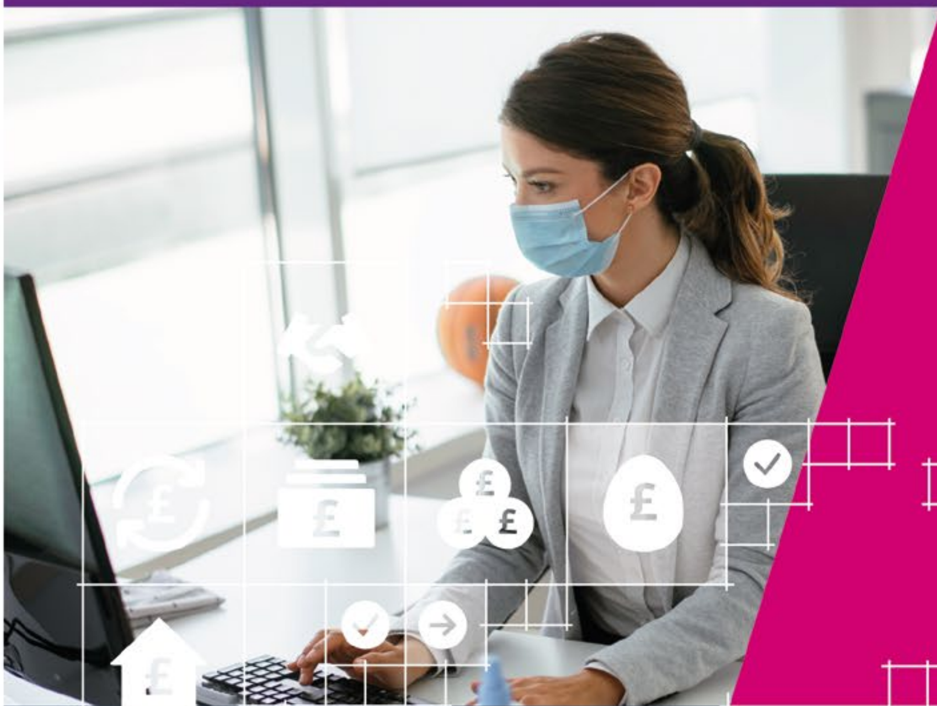
Financial Services Compensation Scheme

Annual Report and Accounts 2020/21



HC 205

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Financial Services Compensation Scheme

Annual Report and Accounts

2020/21

Presented to the House of Commons pursuant to Section 7 of the Government Resources and Accounts Act 2000

Ordered by the House of Commons to be printed on 1 July 2021

HC 205 part i of ii

An accompanying Financial Services Compensation Scheme Annual Report and Class Statements (part ii) was also presented to the House of Commons on 1 July 2021

This publication is available at www.gov.uk/official-documents.

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ISBN 978-1-5286-2536-4

CCS0221042684 07/21

Printed on paper containing 75% recycled fibre content minimum

Printed in the UK by the APS Group on behalf of the Controller of Her Majesty's Stationery Office.

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2020/21 AT A GLANCE

52,623*
Customers helped
Helping to get lives, families and businesses back on track.

84%
(↑ 5% on 2019/20)
Customer satisfaction
Putting people at the heart of everything we do.

£9m
Additional cost for the industry avoided
Using artificial intelligence and automation to avoid additional claims handling costs.

92
Financial services firms failed
Meaning their customers could claim compensation from us.

*For more information, see page 18.

31,737
Claims automatically processed

Making the process simpler and faster for our customers.

100%
(↑ 13% on 2019/20)
Complaints responded to within 20 days

Looking after our customers across their entire journey.

26th
(↑ 14 places on 2019/20)
Most inclusive employer, UK

Reflecting our commitment to making sure we are an inclusive workplace.

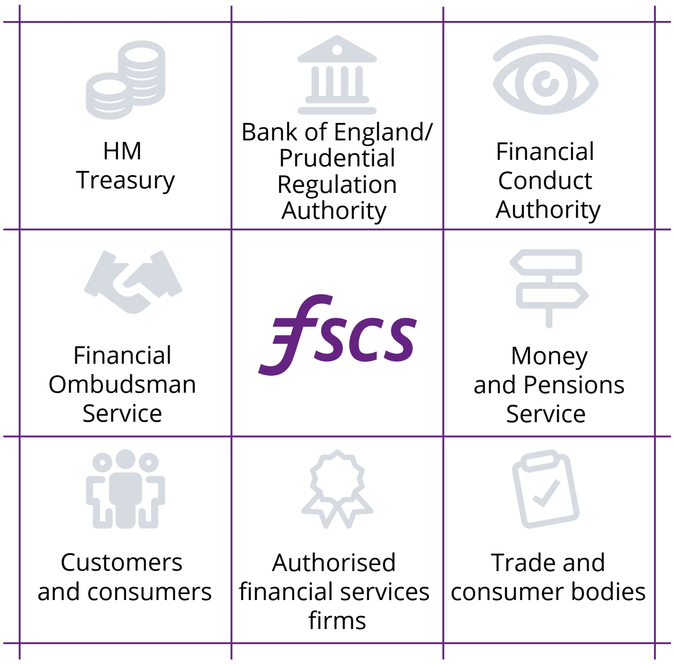
Gold award
More than 50,000 organisations across 66 countries work with the Investors in People (IIP) framework

A gold award places us in the top 17% of all IIP accredited employers.

OUR MISSION AND ROLE

Our mission is to provide a trusted compensation service for customers when financial firms fail. This helps to raise public confidence in the financial services industry.

Our key relationships



Our role

We are here to protect consumers if an authorised financial services firm they have been doing business with fails. We may be able to do this by paying compensation if the failed firm (referred to as the firm being in default) cannot pay, or is likely to be unable to pay, amounts they owe.

We are a non-profit, independent body set up by Parliament under the Financial Services and Markets Act 2000 (FSMA). It is completely free to make a compensation claim directly with us. This means that customers receive the total amount of any compensation owed to them without having to pay extra fees or costs.

The financial services industry funds us by paying levies each year. Section 213 of FSMA gives the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) powers to make rules that govern our work. This includes our powers to raise levies to fund compensation payments.

What we protect

We protect deposits, insurance policies, investments, services of insurance brokers, mortgage advice, pensions, payment protection insurance (PPI) and debt management. For more information on what we cover, see www.fscs.org.uk/what-we-cover.

How we are governed

We are independent, but are accountable to the FCA, the PRA and HM Treasury. We are a private company limited by guarantee, meaning that we do not have any shares or shareholders. We have a Board of Directors to run us independently of the UK regulators. However, we work closely with the UK regulators and the Financial Ombudsman Service to make sure that we can respond effectively when any firm fails (defaults). More details on how we are governed are provided in the Corporate Governance Report, which starts on page 29.

For more information about our relationship with the regulators, visit www.fscs.org.uk/how-we-work/customer-info/financial-protection/.

Our compensation limits

The amount of compensation we can pay depends on the type of claim. We only pay compensation for financial loss caused by failed firms and compensation limits are per person per firm. These limits are explained on our website at www.fscs.org.uk/what-we-cover.

Recoveries

After we have paid a claim, we will try to recover the money, if it is reasonably possible and cost-effective to do so, from the relevant financial services firm that has failed or from its insurers. We may also try to recover money from other third parties who contributed to customers' losses. Our recoveries (the amounts we recover) reduce the levies financial services firms have to pay. There is more information about our recoveries in our Class Statements document which can be found on our website at www.fscs.org.uk/news/fscs-news/annual-report.

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CHAIR'S STATEMENT

Our four pillar strategy, *FSCS into the 2020s: Protecting the future* has now delivered its second year of strategic progress.

Our ambition for each of our pillars, as set out two years ago is:

- **Prepare** – FSCS must be able to protect consumers in a crisis or in the event of major failures to help maintain public confidence and financial stability.
- **Protect** – FSCS is known and trusted for protection that puts people back on track through outstanding customer experience.
- **Promote** – the full range of FSCS protection is known about and trusted.
- **Prevent** – FSCS collaborates with our regulatory and industry stakeholders to help prevent future failures and to reduce compensation costs.

In our Chief Executive's Review, Caroline Rainbird, talks about the progress we have made this year in each of these areas. I would also like to share my highlights. But first, let me be clear: although we have made great progress, there is much more to do. We will continue to work with all our stakeholders to achieve this.

Although we have made great progress, there is much more to do.

Prepare

This year, more than ever and in such exceptional circumstances, it has been crucial to understand the external environment which we are working in. This is so we can assess the risks we need to manage and any threats that may affect us.

Collaborative work with our regulatory partners has helped us to accurately forecast claims volumes and our levy and management expenses so that we are prepared for all possibilities.

Protect

The heart of our business is putting our customers back on track and offering them a fair and efficient service while we do so.

We are always looking to improve our service. Throughout the year we have transformed several key areas to improve our customer experience so that our processes are more efficient. For example, by using artificial intelligence and automation we were able to process claims more quickly for our customers. This new approach is supported by strict manual checks from our expert claims handlers to maintain high levels of accuracy. It has shown great benefits in saving time and reducing costs.

Promote

Promoting the protection we offer to consumers helps them to make informed and confident financial choices. We identified pensions and investments as areas of high risk as they can be complex, and launched a campaign to help people understand our protection in these areas. All of our promotional work explains simply and clearly what consumers can do to make the right choices for themselves.

Prevent

We have continued to make good progress in this area with government, industry and regulators taking a keen interest in our results, data and insights. This year we supported a meeting of regulatory partners where prevention was agreed as a shared aim for all.

It has been rewarding to see our strategy progress throughout the year and I am proud of the direction it has taken. Prepare and Protect have matured to a strong place and form the cornerstones of our business. Our focus in the year ahead will be further developing our Promote and Prevent pillars. We will be working with the industry and regulators to greater understand how FSCS can help prevent consumer harm and the rising costs of the levy.

I could not sign off without recognising the impact that our diverse Board and Executive Team have had on the success of our strategy. Diversity and inclusion are an essential part of our organisation and are key to us being able to understand and serve our varied customers. I would like to thank our Chief Executive, Caroline Rainbird, for all she has done this year in her ongoing drive to improve outcomes for our customers and create a positive environment for our team to work in.

Marshall Bailey
Chair,
Financial Services Compensation Scheme

I would like to start by recognising the extraordinary situation over the past year and the impact this has had on our lives.

I am very proud of how our people smoothly adjusted to working from home early on in the first lockdown – without losing a day of service – and continued to put our customers first throughout the year.

Receiving our highest-ever customer satisfaction score of 86% in a month would be a great achievement at any time. But to gain this during one of our busiest years and during a global pandemic is a tribute to the incredibly hard work of everyone at FSCS.

In 2020/21 92 firms failed, which resulted in £584m of compensation costs. While I am proud of our response to the demands this presented, I am saddened that this represents more difficulties for consumers and a rising levy. The Class Statements we publish alongside this Annual Report talks in more detail about the levy.

Several factors have caused the levy to increase, including:

- an ongoing rise in complex pension advice claims;
- compensation payments related to London Capital & Finance plc (LCF); and
- more self-invested personal pension (SIPP) operator and adviser failures.

I have said before that the levy is far too high, and we must take swift action with the industry and regulators to tackle the causes of the increase. We have been looking at how we can use our data and knowledge to help provide solutions and are working closely with the Financial Conduct Authority (FCA) on this. We meet with the industry regularly to discuss how we can better understand why firms fail and help to reduce future levy bills.

We have worked hard this year to play our part in reducing the levy in the areas we can control. Recovering money from failed firms and third parties is a key part of this. This year we received the final recovery payment from the 2008 banking crisis through the administration of Heritable Bank. This means we have recovered £20bn of the £20.9bn we paid out in compensation as a result of the crisis. In addition, we have recovered more than £280m since 2015 from other failures.

Building on our Chair's highlights of our strategy's progress this year, I would like to mention some of the achievements I am most proud of.

Prepare

We responded quickly to the threat of Covid-19. This helped us to plan our best possible response. We worked with the regulators to assess the potential economic effects. We worked with our partners to develop our service so that we could manage the increase in claims expected.

We also continued to work with the regulators to improve our combined knowledge of firm failures. This helped us with our forecasting and identifying areas of concern to avoid delays in helping our customers.

Our approach to risk management has developed so that we can identify risks and opportunities to help the business go further, faster.

Protect

2020/21 was our most successful operational performance year to date despite an increase in complex claims and our team working remotely due to Covid-19. This included 99,528 claims decisions being made, of which more than 52,000 resulted in compensation being paid out to customers. We also achieved our highest ever customer satisfaction score of 86% and our 12-month average increased by 5% to 84% – a real indicator of how well we looked after our customers.

> We have been looking at how we can use our data and knowledge to help provide solutions.

We transformed several areas to improve our service, including using artificial intelligence (AI) and automation to help us process claims more efficiently. Our specialist team rigorously checks the accuracy of the results and makes the final decision on claims. And we continually apply machine learning to make sure we get the best out of the technology.

AI has saved us a great deal of time and money. Over the year we handled an increase in claims that were more complex than ever before, and we reduced costs by 3% on a like-for-like basis. This meant our customers got decisions on their claims more quickly and we reduced our operating costs which benefits our levy payers.

Promote

Our research shows how vital it is that we help people to make informed financial decisions: 81% of those aware of FSCS said they feel more confident in making financial decisions because they know we are there for them.

We have raised awareness of FSCS by encouraging consumers to ask their providers about FSCS protection before they make a financial choice. We also planned and launched an awareness campaign on pensions and investments, as we know people find these products complex and confusing.

Promoting our 'FSCS Protected' badge also took an important step forward this year. The badge is now displayed in banks and on at least 17 banking apps, and we have worked with the industry to expand into the pensions sector. Three of the largest pension providers – Scottish Widows, Standard Life and PensionBee – now display our badge on their websites and apps.

Our social media channels have made great progress too. Consumers from these channels now spend eight times longer on our website than they did last year.

Prevent

In our mission to help prevent consumer harm, we continue to share data with the FCA and other organisations as part of the Financial Services Regulatory Partners Phoenixing Group. This work has helped identify a number of suspected cases of phoenixing, where directors of failed firms set up new firms, bringing across assets but leaving behind debts.

Using our data and knowledge, the FCA has been working on new rules to ban claims management companies (CMCs) from managing claims where there are phoenixing connections. We also helped the FCA shape some of its views in their proposals. The proposed rules, if implemented, will be a major development that could benefit consumers, levy payers and the whole industry.

As well as putting forward policy proposals for better outcomes in the consumer investment market, we continued working with the wider industry in the fight against scams, again sharing our unique data and knowledge with the FCA to help identify and act against those profiting from consumer misery.

We also raised our concerns with the FCA about the high fees some CMCs charge customers for making claims on their behalf. The FCA took these concerns into account as part of a consultation they launched in January 2021. The FCA's proposals include limiting CMC fees to 15-30% depending on how much compensation the customer is due. This could mean some customers saving several thousand pounds on the fees they pay to CMCs. Of course, it is free for customers if they come directly to us to make a claim.

The fact that we have responded so well to this year's circumstances demonstrates that we can protect and prepare for all possibilities. This part of our strategy has delivered strongly against our aims and will continue to develop in the coming year.

I am thankful that we are in this position and hope the public share this confidence.

Promote and Prevent have become more closely linked than ever in the last year. To prevent consumers needing to come to us in the first place, they have to know that we exist and that awareness of our protection can help them make more informed financial choices. We will escalate our work in these areas in the year ahead and are confident FSCS can play a leading role, along with the industry and regulators, in helping to prevent consumer harm.

This year has shown that the ongoing success of our strategy relies on having a workforce that can respond to the diverse nature of our customers. The diversity of our culture at all levels means we are well set up to understand and meet the different needs and circumstances of our customers.

I would like to end by mentioning something we achieved this year that I am particularly proud of. We have been independently assessed against the Investors in People (IIP) framework (a people management standard) three times since 2015. At first we met the core standard, then achieved the silver standard in 2018. I am delighted to say that we have now been awarded the outstanding gold level standard. More than 50,000 organisations in 66 countries work with the IIP framework, but only 17% of those organisations achieve gold standard. This means the assessors recognise that we have the right policies in place and, more importantly, that everyone takes responsibility for making them come to life.

All in all, 2020/21 has been a very challenging year. We still have a way to go to take the action needed to tackle the rising levy, as well as reducing consumer harm. I look forward to continuing to work with our regulatory partners, stakeholders and industry, and to seeing the progress we can make together this year.

Caroline Rainbird
Chief Executive,
Financial Services Compensation Scheme

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STRATEGIC AND PERFORMANCE REPORT

Our mission:
providing customers with a trusted compensation service which helps raise public confidence in the financial services industry.

Achieving our mission through our strategy: protecting the future
Year 2 review – laying the foundations to achieve our ambitions.

Strategy

PREPARE

Our ambition…

FSCS must be able to protect consumers in a crisis or in the event of major failures to help maintain public confidence and financial stability.

Year 2 headline:

We successfully planned for Covid-19 and worked with the regulators to assess the possible economic impacts. As part of our planning, we made sure we could manage an increase in the number of claims while maintaining excellent customer service.

Other year 2 highlights:

- **We continued working closely with the regulators to develop our shared knowledge.** This helped us to better prepare for firm failures and identify areas of concern. This, in turn, helped us to prevent any delays in helping our customers.
- **We further developed our approach to risk management.** This included improved risk and control reporting, identifying risks and opportunities to help us meet and exceed customer expectations.

Key focus areas for year 3:

- Continue working closely with the regulators to prepare for firm failures, including testing with stakeholders to ensure we have the systems and resources in place to respond. This is vital for identifying ways in which we can improve our services for customers.
- Keep developing our processes for alternative payment methods for deposit failures, so customers can choose how they receive their compensation.

PROTECT

Our ambition…

FSCS is known and trusted for protection that puts people back on track through outstanding customer experience.

Year 2 headline:

We increased our efficiency while processing more claims than ever. For 2020/21, this included making almost 100,000 decisions on claims while making the process simpler and faster for people.

Other year 2 highlights:

- **We more than doubled our production** despite the increase in complex claims and Covid-19 requiring us all to work from home.
- **We used technology to transform our claims handling process.** With the introduction of artificial intelligence and automation we can provide our customers with a faster, more efficient service.
- **We achieved our highest overall customer satisfaction score of 86% in a month.** Our 12-month average also increased by 5% to 84%. Furthermore, we maintained exceptional quality in claims processing averaging over 98%.

Key focus areas for year 3:

- Maintain effective forecasting and planning to deal with predicted increases in firm failures and complex claims.
- Expand our use of artificial intelligence and automation to increase the efficiency of our claims handling, providing quicker decisions for our customers.
- Keep investing in our people so they can best support our customers.

PROMOTE

Our ambition…

The full range of FSCS protection is known about and trusted.

Year 2 headline:

During the year we joined forces with the regulators to raise awareness and encourage consumers to ask their providers about FSCS protection.

Other year 2 highlights:

- **Our social media channels now drive more action than ever.** Consumers from these channels now spend eight times longer on our website than last year.
- **We increased the visibility of our 'FSCS Protected' badge.** Three of the largest pension providers now display the badge on their websites and apps. With branch-use declining, at least 17 banks and building societies now feature it on their apps too.
- **We launched our 'key questions' to help empower consumers.** These help people ask their providers the right questions about FSCS protection.
- **We kept consumer awareness steady at 75%.** Year on year awareness fluctuates between 75% and 80% with our average sitting at 77% across the last five years.

Key focus areas for year 3:

- Raise awareness and understanding of FSCS pensions and investments protection.
- Continue working with the regulators and the wider finance industry to raise consumer awareness.
- Keep targeting specific types of consumers with paid marketing, where data and knowledge tell us awareness is lowest or harm is greatest.

PREVENT

Our ambition…

FSCS collaborates with our regulatory and industry stakeholders to help prevent future failures and to reduce compensation costs.

Year 2 headline:

This year we began working more closely with our regulatory partners on what more we can do together to prevent consumer harm.

Other year 2 highlights:

- **We continued working with the regulators in the fight against scams and phoenixing**. We shared our data and knowledge with our regulatory partners to help identify and act against those profiting from consumer misery.
- **We worked with the FCA on proposed new rules to ban claims management companies (CMCs) managing claims with phoenixing connections.** These proposed rules, if implemented, will represent a significant milestone in regulation that will benefit consumers and levy payers.
- **We raised concerns about the high fees some CMCs charge customers.** The FCA took these concerns into account when it launched its consultation looking to cap CMC commission fees. If implemented, these proposals could save customers several thousand pounds on the fees they pay.

Key focus areas for year 3:

- Working with the regulators to help tackle the root causes of the rising levy.
- Ensuring prevention is at the heart of everything we do to help reduce compensation claims and consumer harm.
- Making sure we are on the front foot when it comes to the fight against fraud and scams.

Performance

We protect a wide range of financial products and services.

Most financial consumers in the UK benefit from our protection – for example, if they have a bank account, insurance policy, pension or investments.

For deposits and insurance premiums, we use records from the firm in default to automatically return money to eligible customers. For assets held with investment firms, we look to facilitate the transfer of assets to a new provider. Customers with other kinds of products, such as personal pension transfers, will need to make a claim so we can assess eligibility for compensation and the amount due.

We aim to make the claim process simple. We want to help people and their families get their lives back on track as soon as possible.

In 2020/21, our service was financed by levies from 45,227 regulated financial services firms. The levy was reduced through us recovering approximately £19m from the estates of 83 firms. We also recovered over £4m for customers whose claims exceeded our compensation limits. Since the 2015/16 financial year, we have recovered more than £280m.

We also helped 52,623 customers get back on track – by either paying them compensation or enabling them to transfer to a new provider for their investment or insurance policy. In total, we made almost 100,000 decisions on claims. These include claims we unfortunately cannot pay and those we had to revisit as part of our review process or due to the customer's circumstances changing (for example, if an illiquid investment establishes a value).

What do we mean by 'customers helped'?

We often talk about how many customers we've helped, which is different to the number of decisions we make on claims. To us, helping customers means being able to pay them compensation, or put them back on track by ensuring their investments or insurance policies are moved to new providers when theirs have gone out of business. This includes the customers we quickly reunite with their money when their bank, building society or credit union fails. It also includes those customers for whom we settle their debts. We don't include customers who we find we can't pay compensation to, or the many thousands who call or chat to us online each month.

The number of customers we help varies depending on the types of firms that have failed during the year. For example, in 2019/20, we helped more than 250,000 customers as we dealt with some large insurance failures involving tens of thousands of policyholders.

In 2020/21, we paid compensation to customers who had experienced losses from 1,131 different firms, including some of the 92 which failed during the year. It is important to note that we expect to receive additional claims from customers in 2021/22 against firms that defaulted (failed) in 2020/21 and sometimes earlier.

In some cases, we were able to issue compensation with no input at all from customers. During the year, we automatically processed more

£280m
Recoveries made since 2015/16

99,528
Claims decisions

We want to help people and their families get their lives back on track as soon as possible.

than 31,500 claims without any input required from customers. For the first time this included claims for debt management. We also continued to automatically compensate eligible depositors in failed credit unions within seven days, where the credit union was able to provide all the necessary information. In 2020/21, we handled claims related to two credit union failures with 3,382 customers.

During 2020/21, we also focused on reducing the time it takes from submitting a claim to receiving a decision, and we did this without sacrificing quality. We achieved our highest overall customer satisfaction score of 86% in a month. The 12-month average also increased by 5% to 84%.

While achieving high levels of customer satisfaction, we also continued to reduce our operating costs. For example, like-for-like costs of handling claims decreased by 3% from 2019/20 to 2020/21. We made sure that having staff working from home during Covid-19 did not reduce the level of service we provided.

Where customers had general queries, we handled 88% of calls within 60 seconds. We also responded to 97% of webchats within 60 seconds.

Some 98% of customers who made a claim for compensation did so online.

Understandably, some customers asked us to reconsider our decision. In addition, some customers made a complaint about how we handled their claim. This year we received 648 complaints about how we handled claims, and 2,429 customers asked us to review our decision on their claim.

We aimed to respond to customer complaints within 20 working days and we met this target in 100% of cases, with an average response time of five working days. Regarding reviews, we met this target in 89% of cases with an average response time of 11 working days.

Customers can ask us to refer their complaint to the Independent Investigator, who will carry out a review and report to our Board of Directors. This year, we referred one complaint to the Independent Investigator. The Annual Report of the Independent Investigator is on page 22. Customers who are still unhappy with the final decision on a claim may seek a judicial review.

UK withdrawal from the European Union

Like many businesses across the UK, we have spent the last few years making sure we were fully prepared for the Brexit transition. This included working closely with our colleagues at HM Treasury, the FCA and PRA to make sure the information we provide about FSCS protection after Brexit is clear and consistent.

One of the key messages for our customers is that FSCS protection for UK-based consumers of regulated financial services firms in the UK has not changed as a result of the UK leaving the EU. This means that in most cases existing FSCS protection has continued. However, FSCS protection may change for consumers of financial services firms authorised and regulated by the European Economic Area (EEA). The EEA includes EU countries and Iceland, Liechtenstein and Norway.

Please see our website for more information about Brexit and FSCS protection, including a list of common questions and answers at www.fscs.org.uk/about-us/brexit.

86%
Highest customer satisfaction score

98%
Claims made online

Transforming the Way We Handle Claims

We are always looking for opportunities to improve our customer service and keep costs down for our levy payers.

This year we received a higher number of more complex claims, in particular complex pension advice claims, so it became more important than ever for us to work smarter. One solution to this was to find new technology to help us process claims.

Artificial intelligence (AI) is the process of developing machines to have intellectual, human characteristics, such as the ability to reason, discover meaning and learn from past experience.

We used AI to help us process several firm failures this year. The new systems were always backed up by strict accuracy checks from our expert claims handlers before we made any claims decisions.

This change has produced some strong results:

- We handled two years' worth of claims in six months, getting our customers back on track much more quickly.
- We estimate around £18m of compensation went direct to customers rather than to claims management companies.
- We avoided additional claims handling costs of around £9m.

We used AI in the following ways to help us process claims:

Natural language processing tool

When London Capital & Finance plc (LCF) went out of business, we had more than 800,000 call recordings in which to find key words and phrases which indicated customers received regulated advice. This would help us decide whether or not LCF's customers were eligible for compensation. We knew we had to think creatively, so we worked with our partner Capita Consulting to bring in a natural language processing (NLP) tool – also known as 'voice-to-text' – to convert the phone call recordings into text. This meant our claims handlers could easily search the text for key words, rather than having to listen to the whole of each phone call.

The system also told our claims handlers at what point during the call the specific key word or phrase was used, saving even more time. The claims handlers then double-checked the accuracy of the results. This dramatically reduced the processing time and meant we reached decisions on claims two years sooner than if we had used traditional methods. We also estimated it would have cost double the amount to complete this process without the NLP tool.

Resolution Data Lake

We have recently developed a new data lake and search tool called the Resolution Data Lake (RDL). It might sound technical, but the idea is simple and effective. All the data we need to assess each customer's claim is stored in a vast 'lake' and we have developed a search tool to help us quickly find the information we need within it.

> We estimated it would have cost double the amount to complete this process without the NLP tool.

When a firm goes out of business, it is not unusual for us to receive over 1,000 pages of documents for each customer, particularly in relation to self-invested personal pension (SIPP) operators which are usually the most complex claims to deal with.

Often these documents are formatted as PDFs or images, or even as audio files in the case of phone recordings. This makes it impossible to search through them using normal desktop software. Our claims handlers have to read them line by line or listen back to calls in real-time, searching for the key information they need to decide whether or not each customer has an eligible claim. It can be like searching for a needle in a haystack. This is time-consuming and costly, and it inevitably means customers waiting extra days, weeks, or even months to get a decision on their claim.

We extracted the relevant information from the RDL using a combination of optical character recognition (OCR) (technology that converts the text from different kinds of documents, such as PDF files, images and scanned paper documents into machine-readable text) and search functionality. These highlighted key words in the documents and flagged where they appeared, so we did not have to manually sift through every single page in each customer's file. Our claims handlers then carefully reviewed the highlighted documents to make sure the findings were accurate. They reported 100% accuracy in the results.

The RDL reduced the amount of time it took to manually handle each claim. It also reduced the time that a customer had to wait for a decision on their claim as we spent less time requesting information from third parties. We estimate the RDL reduced the total time for assessing each claim and reaching a decision by up to six weeks.

The future use of this tool is very exciting. As well as improving the customer experience, it is helping us prepare for future failures. At a time when things are more uncertain than ever, it is giving us even more confidence in our ability to handle large, and sometimes unexpected, volumes of claims data all at once.

It is also allowing us to begin to proactively analyse and assess the entire set of data from a failed firm, without needing to involve individual customers. This means, for some firms, customers may not even need to make a claim: no application form to complete, no paperwork to find. Customers do not need to consider using a claims management company either, so they will not have to pay a fee. Our service is always free for our customers.

Automated eligibility tool

We used this tool to identify groups of customers eligible for compensation for a failed debt management firm. The tool analysed large sets of detailed data based on rules of eligibility which we entered into it.

The tool reviewed 13,000 customer claims and identified 300 eligible claims. It also worked out the compensation customers were entitled to.

As a result of this technology we saved 23 months in claims processing time and have standardised the automated process for all future debt management failures.

The future of technology

Some of the early results using AI did not meet our high accuracy standards. To solve this, our claims experts trained the machine how to learn (known as 'machine learning') which vastly improved the quality of the results.

We taught the system the financial jargon it needed to accurately analyse phone calls and corrected any mistakes it made at first. An example was the system confusing 'risky' with 'whisky', so we taught it to tell the difference and not to make the same mistakes again.

We will continue to manually check the results and apply machine learning so that our tools constantly improve.

This innovative approach has shown some fantastic results in saving time and money when processing claims. It will form an essential part of our commitment to improving our customers' experiences and delivering an efficient service.

Annual Report of the Independent Investigator

April 2020 to March 2021

This is my second year serving as Independent Investigator for the review mechanism provided by FSCS to complainants who remain dissatisfied with the actions of the organisation, generally in respect of a claim for compensation, and have exhausted all internal review options.

During the year one case was referred to me, which I accepted. I did not uphold the complaint. Although the number of complaints that I consider is quite small, themes do emerge which identify areas for management attention. I prepare a detailed report for each referral which is issued to both the complainant and two designated directors of FSCS.

The majority of referrals centre on claims for compensation that have been unsuccessful. Although it is important to emphasise that my remit extends to any dissatisfaction with FSCS case, query or complaint handling.

I met with the Chief Operating Officer and the Head of Complaints to review progress on addressing recommendations contained within my earlier reports. This is now a standard process and enables me to monitor adoption of my recommendations. Previous recommendations to improve ownership of cases and the clarity and customisation of written communications are now well established. I am also pleased that case handlers are encouraged to talk to complainants directly at an early stage. My observations regarding access to call recordings and their associated retention period have been previously accepted and some progress has been made. Specifically, I now have access to call recordings between the Complaints Team and complainants. There is still some significant work to do to extend the retention period for call recordings.

During the year I was also provided with a detailed update on the London Capital & Finance plc failure and on the associated issues and processes for FSCS. To date, I have received one referral concerning a claim arising out of the LCF failure.

I did not meet with the Board formally this year but had the opportunity to discuss some more strategic themes and observations arising from my reviews with the Chair.

Caroline Trewhitt
Independent Investigator

Our People

The 2020/21 financial year was the 20th anniversary of our launch. It was of course also a year of unforeseen and widespread disruption due to Covid-19.

Covid-19 presented challenges in achieving our goals, but we successfully tackled it head on by delivering a people strategy which:

- supported colleagues through the uncertainty and disruption of the initial weeks of lockdown; and
- provided further benefits throughout the year.

The highlights of this people strategy are listed below.

Smart working flexibility

Our entire workforce was set up to work from home without losing one day of operations.

Smart working guidelines

We published best practice guidance for working from home, including:

- using technology to work together;
- setting up a separate workspace; and
- having a flexible schedule to include breaks.

Smart working surveys

We ran regular surveys with all employees throughout the year to see how they were coping with working from home and their overall happiness.

Wellbeing and mental health support

We regularly communicated about the support available to employees including our Employee Assistance Programme, Virtual GP and mental health first-aiders.

Health and fitness classes

We provided weekly online yoga, pilates, cardio fitness, aerobics and meditation classes: some run by our own colleagues.

New communication channels

We introduced a new customer bulletin, weekly messages from our Chief Executive, digital breakout sessions, web chats, video blogs and digital people briefings, and managers' meetings.

Digital reward and recognition

We wanted to make sure managers could thank employees for going above and beyond during this time, so we introduced a scheme where managers could nominate team members to receive digital vouchers as a thank you.

Social events

We organised virtual social events through Microsoft Teams, with over 100 staff taking part from home with their friends and families. These events allowed staff to interact with each other informally and also raised over £2,500 for NHS charities.

Welcome back packs

Colleagues who chose to return to the office (before the 22 September 2020 Government announcements) received a handy pack to help them on their way. We sent these to their home addresses ready for their first day back. The packs included sanitiser, masks and colour-coded wristbands to help colleagues easily show their level of anxiety about social distancing.

Throughout this period of uncertainty, we have kept up to date with the constantly changing requirements, anticipating and meeting the complex needs of our colleagues and the organisation.

Our people strategy and creative solutions during the pandemic helped us achieve all-time high scores for employee and customer satisfaction, and have been recognised by several national awards.

Diversity and Inclusion

In December 2020, we were listed in *The Inclusive Top 50 UK Employers* for a second year running.

This is the definitive list of UK-based organisations that promote inclusion across all areas of diversity (age, disability, gender, LGBQTIA, race, faith and religion) throughout each level of employment in the organisation. We were recognised as the UK's 26th most-inclusive employer – an increase of 14 places from 2019, and a reflection of our non-stop commitment to making an inclusive workplace a reality.

We are proud to have signed the *Women in Finance Charter* and we exceeded our first target under the charter. As at 31 March 2021:

- 60% of our Board members are women; and
- 57% of our senior managers are women, compared to 33% in 2018.

At FSCS, it isn't just about targets: we are living and breathing the spirit behind the charter.

Our ambition is to create a better gender balance across FSCS. We choose to publish our gender pay gap data, which shows that we are continuing to narrow the difference: our median gender pay gap is 3.3% compared to 15.5%* nationally.

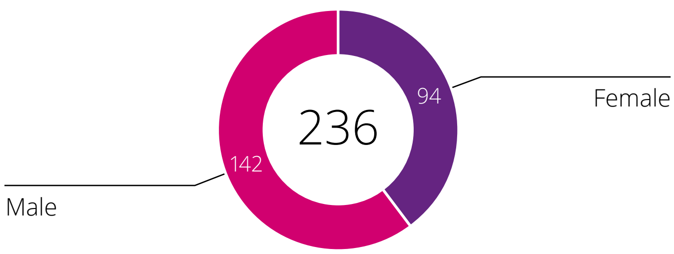
For the first time we were also recognised in the prestigious *Times Top 50 Employers for Women*.

We know that diversity is much broader than just gender, and we continue to embrace inclusivity for all, supported by our fantastic people policies.

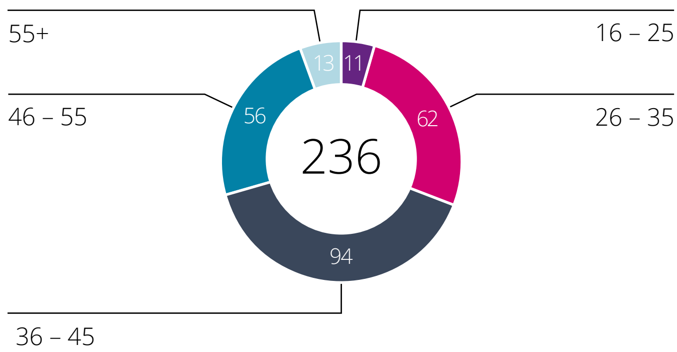
Breakdown of our employees:

Total number of employees as at 31 March 2021 = 236.

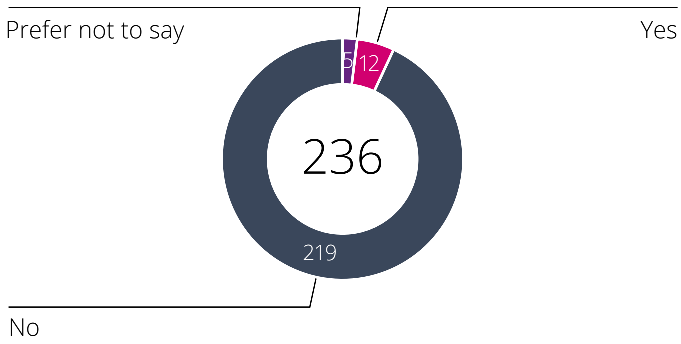
Gender



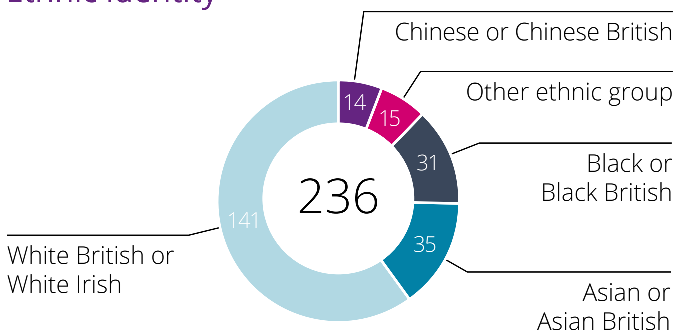
Age



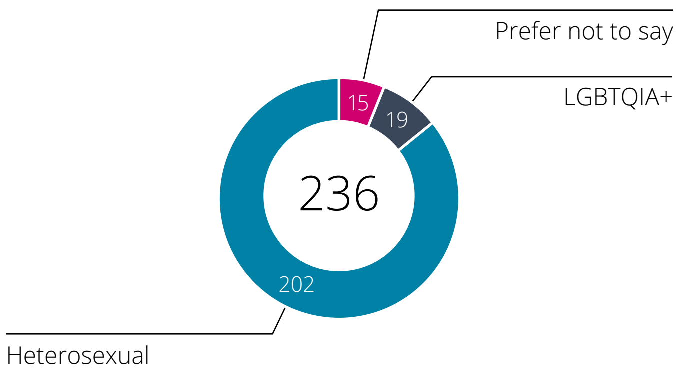
Individuals with disabilities



Ethnic identity



Sexual identity



* Figure source www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/bulletins/genderpaygapintheuk/2020

Environment Report

During this financial year, we used 439,590 kilo-watt hours (kWh) of electricity.

This included our office at Beaufort House and the 10th floor lift area as well as our disaster recovery site at Bank of England offices in Essex.

This represents a significant reduction from 2019/20 when the total amount used was recorded as 734,607 kWh. The reduction was mainly due to staff working from home for most of the year and ensuring that we reduced our electricity supply accordingly.

Using the Department for Business, Energy & Industrial Strategy's 2020 conversion factors, our total electricity consumption for 2020/21 produced 102 tonnes of carbon dioxide. This is a reduction of 86 tonnes of carbon dioxide from the previous financial year. It also means that we have produced 0.00391 tonnes of carbon dioxide for each square foot of office space.

Throughout the year, we managed the amount of electricity we used by:

- only switching the air conditioning on when colleagues were in the office;
- reducing the time automatic lights remained on after people left the room;
- leasing energy efficient vending machines that go into sleep mode when not in use;
- using LED (light emitting diodes) lights; and
- maintaining lighting and air conditioning systems regularly to make sure they were working efficiently.

86 tonnes
CO_2 reduced

295,017 kWh
Electricity reduced

Financial Review

Our financial strategy helps us to deliver an efficient and effective service and helps build people's confidence in the financial services industry. It also contributes to the UK's financial stability.

Compensation payments to customers are funded through levies, paid by regulated financial services firms, as well as through recovering money from the estates of financial firms that have failed. We aim to provide value for money by controlling our costs effectively.

Business planning and budgets

We have an annual business-planning cycle and prepare forecasts every three months that we share with the financial services industry and wider public through our publications. For more information about our publications please see www.fscs.org.uk/industry-resources/other-publications/.

Each year, the Prudential Regulation Committee of the Bank of England and the Financial Conduct Authority Board approve our annual budget after they carry out a public consultation on this information. This information is also made publicly available.

Annual reporting

Each year we publish our Annual Report and a separate Class Statements document. The Class Statements summarise the source of levies and how we used the funds. Our 2020/2021 Annual Report and Class Statements documents are on our website at www.fscs.org.uk/news/fscs-news/annual-report/.

Our accounts are consolidated into HM Treasury's Annual Report and Accounts. We provide HM Treasury with appropriate reassurance on the systems, controls and processes that underpin the production of our accounts within 'relevant levels of materiality' (relevant financial thresholds) which represent a true and fair view.

Summary of financial performance

Levy income

During the year, we had higher compensation costs relating to the Life Distribution and Investment Intermediation (LDII) class than originally forecasted in April 2020. This resulted in the funding requirements for that class being higher than its annual levy limit. The main reasons for this were due to increases in:

- the number of London Capital & Finance plc (LCF) claims upheld;
- the costs of enabling asset and cash transfers to new investment providers; and
- the number of pension advice claims, and the value of the average compensation payout for these claims.

As a result, we announced a supplementary levy of £78m in early 2021. Our total levy income for the year was £600m.

Compensation costs

Compensation costs for the year were £584m, an increase of £57m from 2019/20 (£527m). This figure includes provisions for future compensation payments in relation to some firms that have already failed.

£600m
Levy income

£584m
Compensation costs

The main reason for this higher figure is an increase of £42m in the Investment Provision class, due to the failures of self-invested personal pension (SIPP) providers. Compensation costs relating to Berkeley Burke SIPP Administration Ltd and Guinness Mahon Trust Corporation Ltd during the year, account for the majority of this increase.

There was also a £41m increase in the costs for the LDII class. This increase mainly relates to LCF and to B&G Finance Ltd for the mis-selling of mini-bonds.

This was offset by a reduction of £25m in the General Insurance Provision, General Insurance Distribution and Home Finance Intermediation classes which relate to a reduction in compensation for older failures.

For more information on compensation costs for different funding classes, see the Class Statements (pages 9 –14).

Recoveries

We continue to try to recover compensation we have paid, when it is reasonably possible and cost-effective for us to do so, in order to reduce the levy. In 2020/21 approximately £19m of the amounts we recovered were used to offset levies. We also recovered over £4m on behalf of customers whose claims were above our compensation limits, and we passed this amount on to them. Under International Financial Reporting Standards (IFRS), some of these recoveries were recognised as income in previous years. Some income expected in future years is also recognised this year. Recoveries recognised under IFRS totalled £64m in 2020/21.

For more information on recoveries, see the Class Statements (page 15).

Administration expenses

During the year, administration expenses increased to £80.2m which required us to use £3.7m of the unlevied reserve. The increase was due to a rise in the volume of LCF claims, an increase in pension advice claims and investment in preparing for general insurance failures. These led to increased claims-handling costs, as well as associated resources and legal fees. We absorbed some of these costs by making savings and efficiencies in our controllable costs (that is, costs not affected by changes in the volume of claims).

Balance sheet

Our assets are mainly cash and recoveries receivable, which we treat in line with our accounting policy for recoveries. Our liabilities are mainly levies we have collected but have not yet accounted for as income. Our liabilities also include provisions for compensation we estimate that we will have to pay under our rules as at the year-end.

Approval of the Strategic and Performance Report

This was approved by the Board on 18 May 2021 and signed on its behalf by:

Caroline Rainbird
Chief Executive,
Financial Services Compensation Scheme
21 June 2021

£24m
Recoveries made

£80.2m
Administration expenses

04

ACCOUNTABILITY REPORT

Statement of Accounting Officer's Responsibilities

HM Treasury has designated the Chief Executive as the Accounting Officer for FSCS.

The responsibilities of an Accounting Officer, including accountability for the propriety and regularity of the finances for which the Accounting Officer is answerable, for keeping proper records and safeguarding the assets of the Financial Services Compensation Scheme, are set out in Managing Public Money, published by HM Treasury.

In preparing the accounts, the Accounting Officer is required to have regard for the requirements and principles of the Government Financial Reporting Manual (FReM), and in particular to:

- observe the accounts direction issued by HM Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- prepare the accounts on a going concern basis; and
- confirm that the Annual Report and Accounts as a whole are fair, balanced and understandable and take personal responsibility for the Annual Report and Accounts and the judgements required for what is fair, balanced and understandable.

As the Accounting Officer, I have taken all the steps that I ought to have taken to make myself aware of any relevant audit information and to establish that FSCS's auditors are aware of that information. So far as I am aware, there is no relevant audit information of which the auditors are unaware.

Corporate Governance Report

We are under no obligation to follow the UK Corporate Governance Code (the Code), but our Board of directors (the Board) is committed to meeting high standards of corporate governance. This report sets out how we are governed, in line with the principles of the Code (except for parts of the Code that do not apply to us). The Board considers that, throughout the year, we complied with the Code where it is appropriate to us.

Overview

The Board consisted of ten directors as at 31 March 2021. On 1 May 2021, this reduced to nine directors. Seven of the directors, including the Chair, are non-executives. Details of the directors are shown on pages 31 to 33.

The Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA) appoint and remove members of the Board. The appointment of both the Chair and the Chief Executive must also be approved by HM Treasury.

All directors are appointed (or reappointed) for a period of no more than three years. The process for appointing and reappointing directors is overseen by the Nomination and Governance Committee. The process involves:

- discussing the membership of the Board, including the mix of skills and experience, diversity and the number of members;
- including the FCA and the PRA in the process;
- appointing external consultants to find potential candidates; and
- using a selection panel of FCA, PRA and FSCS representatives to make proposals for the FCA and the PRA to approve (and HM Treasury, in the case of the Chair and Chief Executive).

We have chosen not to have an annual re election process for directors. Instead, we look at potential reappointments towards the end of each director's current term.

The Board considers all the non-executive directors to be independent, within the meaning set out in Provision 10 of the Code. All directors keep to a conflicts of interest policy, in line with the Companies Act 2006 and the company's Articles of Association, to prevent their judgement being biased.

Operation of the Board

The Board has a formal schedule of matters reserved for its decision and is responsible for matters such as:

- setting strategy and values and promoting the culture of the organisation;
- setting policy;
- overseeing operations and reviewing performance;
- approving the business plan and budget;
- approving levies; and
- risk management and internal control systems.

Certain responsibilities are delegated to committees of the Board. These responsibilities are described in terms of reference, which are available on our website and summarised from page 35.

The Board held nine formal meetings during the year and two strategy days, where our strategic direction was considered in more detail. In addition, the Board held four informal sessions to receive updates on important operational issues and developments. As a result of Covid-19, the Board held 'virtual' meetings by using teleconference or video conferencing facilities.

The Board believes it received the information it needed to make appropriate decisions. The directors kept the situation under review to make sure the Board received sufficient, accurate and clear information in good time.

The Company Secretary, appointed by the Board, attended all board and committee meetings, and was responsible for advising on all governance matters as well as making sure that the correct procedures were followed and appropriate records were kept. Directors, supported by the Company Secretary, made sure that they had the processes, information, time and resources they needed to function effectively and efficiently.

Taking account of the interests of stakeholders

Under Section 172 of the Companies Act 2006, directors have a duty to promote the success of FSCS, taking account of the views of our stakeholders. The Board considers matters including the likely consequences any decision could have in the long term, the interests of our employees, the need to foster good business relationships with suppliers, customers and others, and maintaining a reputation for high standards of business conduct. The following section sets out how the Board has considered the interests of our stakeholders in its discussions and decision-making:

- **Customers** – As the customers of financial services firms are at the heart of everything that we do, the Board always considers the implications that decisions have for customers, both in terms of the quality of service that we provide and our role in processing claims for compensation in an efficient, timely and customer friendly way;
- **Levy payers** – As our costs are funded by levies paid by financial services firms, the interests of levy payers are taken into account when setting levies and planning any communications about levies. The Board also takes account of feedback from levy payers, including in situations when significant changes in compensation forecasts may result in extra levies. The potential effect on levy payers is also considered when discussing business failures that might result in significant levies. Directors are also mindful that our service is expected to be cost effective and that we will pursue recoveries that are likely to be reasonably possible;
- **Regulators** – The Board makes sure that we are in regular contact with the FCA and the PRA on matters we share an interest in. Although we are operationally independent of the regulators, we are still accountable to them, as well as to the Bank of England and HM Treasury, so directors make sure we regularly report on our work and specific matters considered by the Board. If the Chief Executive knows about certain views expressed by the regulators, the Bank of England or HM Treasury, the directors are told so that they can consider those views when making decisions. The Board also aims to make sure that we fulfil our obligations in running the compensation scheme efficiently and cost effectively, in line with relevant laws and rules, and it reports our proposed budget to the regulators;
- **Partners and suppliers** – The Board makes sure that we work to high standards of business conduct, with appropriate policies, governance and procedures in place for entering into and managing contracts for the supply of goods and services, together with values and standards expected when dealing with third parties. During the year, the Board also approved our voluntary Modern Slavery Statement, which is on our website at www.fscs.org.uk/about-us/modern-slavery/.
- **Our people** – The directors consider the effect their decisions could have on employees, including issues relating to morale and staffing, and make sure that workplace policies and practices are fair and reasonable. Arrangements have been agreed to enhance the Board's engagement with the workforce, so that the workforce's views on certain matters can be discussed at board and committee meetings. The Chair of the Remuneration and Human Resources Committee is the designated non-executive director leading on the Board's workforce engagement, with the Committee overseeing and receiving reports on this engagement.

The Board of Directors

Executive directors

Caroline Rainbird
(Chief Executive, appointed 13 May 2019)

NG

Caroline brings a wealth of global experience from a career spanning 30 years within the financial services sector encompassing senior regulatory, strategic, commercial, operational, investment banking, and client-led roles.

Between 2009 and 2017 she held senior positions at Royal Bank of Scotland (RBS) working most recently as Managing Director of Regulatory Affairs, where she was responsible for defining and delivering the bank's strategic and proactive engagement and profile with its global regulators, advising the Bank's Board and Executive on its regulatory engagement and compliance, as well as monitoring bank-wide upstream regulatory risks and delivering mandatory regulatory change programmes.

Prior to this, Caroline was Director of RBS's Corporate Services Division, where she was responsible for the global strategy, operations, service delivery, financial performance and risks of one of the largest cost areas within RBS. From 1995 to 2009 she worked at ABN AMRO, undertaking a number of leadership and transactional roles within Group Shared Services, Finance, Change Management and Structured Finance.

Fiona Kidy
(Chief Financial Officer, appointed 1 July 2020)

Fiona joined FSCS in 2016 as Head of Financial Management and Funding. Following a period as Acting Chief Financial Officer, Fiona was appointed as Chief Financial Officer and Executive Director on 1 July 2020.

Fiona is a chartered accountant who brings diverse and extensive experience spanning over 20 years in the financial services sector, including senior positions at JPMorgan and HSBC. Much of her career has been spent building and leading high-performing finance teams. At JPMorgan, from 2007 onwards she was a director and held senior positions, including Global Controller roles in corporate finance, business management and strategic client initiatives in both London and New York. Prior to joining FSCS, Fiona was at HSBC as a Senior Manager for Global Finance and Technology functions.

Non-executive directors

Marshall Bailey OBE
(Chair appointed 1 April 2018)

NG RHR

Marshall is a well-established figure within financial services, with substantial experience in leading complex international committees and boards. His background spans a range of sectors, including banking and capital markets, government regulation and public policy, and he has taken a particular interest in working with codes of conduct.

Marshall is currently Chair of MUFG Securities EMEA plc. He is also the former Chair of CIBC World Markets Limited and LCH Group Holdings Limited and was an independent director of London Stock Exchange Group plc.

Additionally, he is a representative of the Saudi Arabian Public Investment Fund on the Board of the National Commercial Bank in Jeddah, where he chairs the Group Risk Committee. Marshall also volunteers as a member of the global Board of Governors of the CFA Institute.

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A Audit Committe R Risk Committee NG Nomination and Governance Committee RHR Remuneration and Human Resources Committee Committee Chair

Patrick Neville
(appointed 1 July 2017)

A R

Patrick is a chartered accountant and has had an extensive career in financial services, operating in leadership roles across banking, asset management and insurance. Formerly Chief Financial Officer at Aviva Investors, Patrick was also Finance Operations Director for Aviva's UK Life and General Insurance businesses and spent 16 years with Royal Bank of Scotland, latterly as Finance Director of the Cards and Direct Finance business.

He brings to the Board a strong track record in the delivery of large-scale change and a deep understanding of the implementation and operation of risk and control frameworks in financial services. Patrick is also non-executive Chair of PATAC Ltd, an investment trust administration company, and a director of Decisioning Blueprints Ltd.

Helen Parker
(Deputy Chair and Senior Independent Director, appointed 1 July 2017)

NG RHR

Helen brings an in-depth understanding of consumer research, policy and communications across a range of essential markets. She was Deputy Chief Executive of Which?, Europe's largest independent consumer organisation and, before that, served as its Director of Policy, Editorial Director, and Editor of *Which?*

Her non-executive experience now includes being a committee member of Healthwatch England, the independent consumer champion for users of health and social care. She also has a number of consumer challenge roles. These include being a member of the Independent Consumer Challenge Group established by the energy regulator Ofgem; Aegon's Independent Governance Committee, whose role is to challenge the company on the quality and value for money offered to its workplace pensions customers; and the Office of Rail and Road's Consumer Expert Panel. She is also a Trustee of Aegon's Master Trust pension scheme.

Richard Parkin
(appointed 1 July 2019)

A R RHR

Richard is an independent management consultant specialising in pensions and retirement. He works with pension providers, asset managers and other organisations, helping them with strategy, policy and proposition development and management. He also conducts independent research focusing on the UK retirement and defined contribution markets.

Richard's main area of interest is in developing better retirement solutions to help consumers get the most from their retirement savings. He has 30 years' experience in the pensions sector, most recently at Fidelity International where he held a variety of senior roles including Head of Retirement and Head of Pensions Policy. He also has extensive knowledge of investment-linked insurance, having launched and led Fidelity's insurance business in Ireland and been an executive director of its UK insurance company. Prior to Fidelity, Richard held senior product development roles at UBS Global Asset Management and was a pensions consultant with what is now Willis Towers Watson. He is a well-known industry figure having chaired the Association of British Insurers' Retirement Working Group and led a working group on retirement for the Investment Association.

Nicky Morgan
(appointed 1 September 2020)

A R

The Rt Hon Baroness Morgan of Cotes began her political career as a Conservative MP for Loughborough back in 2010. During her time in Westminster, she served as Secretary of State for Digital, Culture, Media and Sport from 24 July 2019 to 13 February 2020, Chair of the House of Commons Treasury Select Committee between 2017 to 2019, and Education Secretary and Minister for Women and Equalities from July 2014 to July 2016. She served as Assistant Whip in the coalition government until her appointment as Economic Secretary to the Treasury in October 2013. A qualified solicitor, Nicky practised corporate law before entering politics.

Wendy Williams CBE
(appointed 1 September 2020)

R RHR

Wendy is HM Inspector of Constabulary, and HM Inspector of Fire & Rescue Services. She has responsibility for 13 police forces across Wales and the West of England, and 11 fire and rescue services in the West of England. She was previously a Chief Crown Prosecutor with the Crown Prosecution Service, and a solicitor and partner in private practice.

More recently, in 2020 she published a report into the Windrush scandal, following her review of the Home Office. Wendy received a CBE for her public service in the 2021 New Year's Honours list.

Cathryn Riley
(appointed 1 February 2021)

A NG

Cathryn is highly experienced in the insurance and financial services sector. She has held numerous executive roles at Aviva plc, including Group Chief Operating Officer and Group Chief Information Officer. Cathryn is currently a non-executive director of Automobile Association Insurance Services Limited and Liberty Managing Agency Ltd. She has also been a non-executive director of International Personal Finance plc and a board member of a number of insurance organisations.

A Audit Committe R Risk Committee NG Nomination and Governance Committee
RHR Remuneration and Human Resources Committee ◯ Committee Chair

Directors during 2020/21:

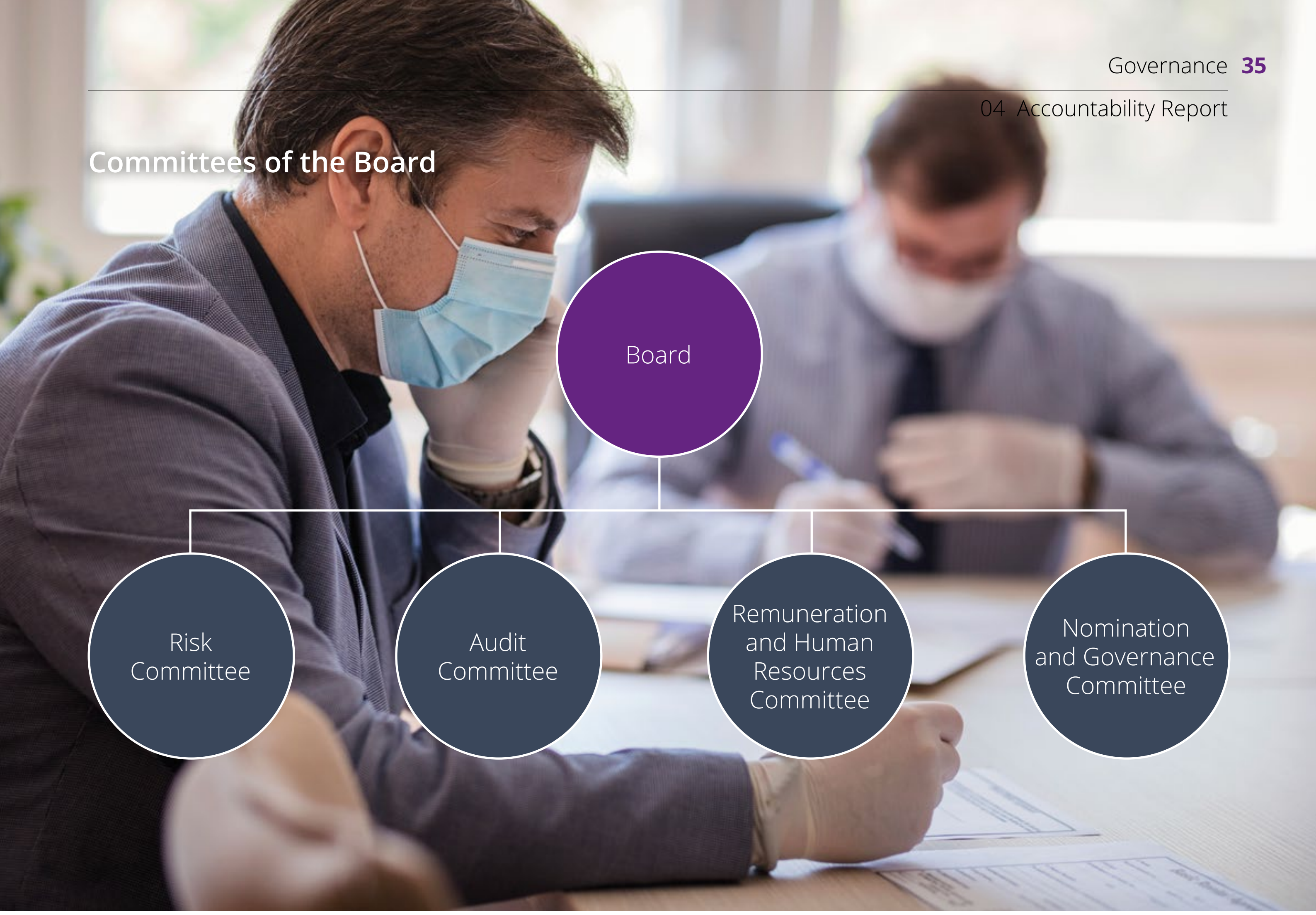
Name	Position	Date originally appointed	Date appointment ended or will end
Mark Adams	Non-executive director	1 June 2015	23 April 2020
Marshall Bailey OBE	Non executive director – Chair	1 April 2018	31 March 2024
Jimmy Barber	Executive director – Chief Operations Officer	4 January 2016	30 April 2021
Steven Cooper	Non-executive director	1 July 2017	30 June 2020
Fiona Kidy	Executive director – Chief Financial Officer	1 July 2020	30 June 2023
Alex Kuczynski	Executive director – Chief Corporate Affairs Officer	1 February 2010	9 April 2020
Charles McKenna	Non-executive director	1 February 2013	31 January 2021
Baroness Morgan of Cotes (Nicky Morgan)	Non-executive director	1 September 2020	31 August 2023
Patrick Neville	Non-executive director	1 July 2017	30 June 2023
Helen Parker	Non-executive director – Deputy Chair and Senior Independent Director	1 July 2017	30 June 2023
Richard Parkin	Non-executive director	1 July 2019	30 June 2022
Caroline Rainbird	Executive director – Chief Executive	13 May 2019	12 May 2022
Cathryn Riley	Non-executive director	1 February 2021	31 January 2024
Wendy Williams CBE	Non-executive director	1 September 2020	31 August 2023

Further details of terms of appointment are given on page 39 .

Deputy Chair and Senior Independent Director

Helen Parker is our Deputy Chair and Senior Independent Director (SID), and has performed these roles since 1 February 2021. Before this, Charles McKenna was our Deputy Chair and SID from 1 July 2017 to 31 January 2021. The SID acts as a sounding board to the Chair and is available to other directors when necessary.

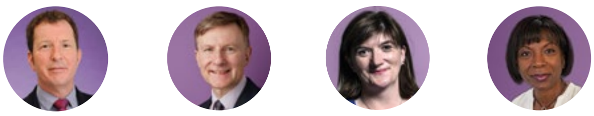
Committees of the Board



The roles and responsibilities of the committees are set out in their terms of reference. These are available on our website at www.fscs.org.uk/about-us/org-info/org-struc/committees

Risk Committee

Committee members as at 31 March 2021



Richard Parkin *(Ctte. Chair)*

Patrick Neville

Nicky Morgan

Wendy Williams

The Committee met four times during the year and reported to the Board after each meeting.

Roles and responsibilities

The Committee's main responsibilities are to review our approach to risk management, our risk tolerance, and our actions to mitigate risks. The Committee also reviews our arrangements for contingency planning and our disaster recovery plans.

During the year, the Committee:

- reviewed our risk profile, risk tolerances and risk appetite;
- considered our response to Covid-19;
- reviewed the Risk Management Policy;
- reviewed our resilience profile, including contingency planning and disaster recovery arrangements; and
- reviewed its terms of reference.

A report on our risk and control framework is given on page 45. This includes a description of the Board's assessment, through the mechanisms described, of the principal and emerging risks.

Audit Committee

Committee members as at 31 March 2021


Patrick Neville *(Ctte. Chair)*


Richard Parkin


Nicky Morgan


Cathryn Riley

The Committee met four times during the year and reported to the Board after each meeting. The Committee also held discussions with both internal and external audit without the Executive.

Roles and responsibilities

The Committee's main responsibilities are to review the financial reporting process, the system of internal control, the audit process and FSCS's process for making sure we comply with laws and regulations.

The Board is satisfied that at least one member has recent and relevant financial experience and that the Audit Committee has competence relevant to FSCS's role.

During the year, the Committee:

- reviewed the internal control arrangements and received assurance reports;
- set and reviewed the internal audit plan, considered internal audit reports and action plans to follow audit recommendations, and reviewed the internal audit function;
- considered the accounting policies and significant accounting judgements and estimates;
- reviewed the Annual Report and Class Statements and made recommendations to the Board, following which the Board decided that the Annual Report and Accounts, taken as a whole, were fair, balanced and understandable, and provided enough information for the company's performance, business model and strategy to be assessed;
- reviewed the external audit function and process;
- received reports on health and safety, whistleblowing, data protection, fraud and money laundering;
- considered reports on other matters, including quality assurance, directors' expenses and corporate insurances; and
- reviewed the effectiveness of the Committee and its terms of reference.

Continued from previous column:

The external auditors did not provide any non-audit services during the year.

Provision 31 of the Code suggests that directors make a viability statement to explain how they have assessed the company's prospects, over what period, and why that period is appropriate. However, the Audit Committee has previously considered this matter and decided that, given our function, the nature of our work and the way we are funded, it is not appropriate for us to produce a viability statement.

As described in the Directors' Report on page 49, the Comptroller and Auditor General is the statutory auditor of FSCS, as required under the Financial Services Act 2012. As a result, the Audit Committee does not consider matters relating to appointing and removing auditors.

The Board carried out an annual review of the effectiveness of the risk management and internal control systems, and a full report on our risk and control arrangements is given on pages 45 to 47.

Remuneration and Human Resources Committee

Committee members as at 31 March 2021

Helen Parker
(Ctte. Chair)

Marshall
Bailey

Richard
Parkin

Wendy
Williams

The Committee met four times during the year and reported to the Board after each meeting.

Roles and responsibilities

The Committee's main responsibilities include setting and making recommendations for the remuneration of the executive directors, our broader remuneration policy, employee benefit structures, the ongoing development of the People Strategy, monitoring corporate responsibility, and overseeing diversity and inclusion.

During the year, the Committee:

- made recommendations to the Board for approving the Chief Executive's remuneration package and set the remuneration of other executive directors (based on performance and information provided by external consultants);
- made recommendations to the Board on the proposed salary budget, and reviewed annual bonus metrics;
- reviewed succession planning, talent management and executive directors' priorities;
- considered our approach to diversity and inclusion, and corporate social responsibility;
- received reports on staff turnover and exit interviews;
- reviewed the Board's engagement with the workforce (this is described on page 23);
- reviewed our Remuneration Policy and the latest People Survey; and
- reviewed the effectiveness of the Committee and its terms of reference.

We hired Twentysix Consulting as remuneration consultants. Twentysix Consulting has no other connection with us.

A report on directors' remuneration is given in the Directors' Remuneration Report on page 40.

Nomination and Governance Committee

Committee members as at 31 March 2021

Marshall
Bailey
(Ctte. Chair)

Caroline
Rainbird

Helen
Parker

Cathryn
Riley

The Committee met three times during the year and reported to the Board after each meeting. Extra discussions about appointments and reappointments of directors were also held outside formal meetings.

Roles and responsibilities

The Committee's main responsibilities include reviewing Board composition and succession planning, reviewing membership of committees of the Board, liaising with the PRA and the FCA on appointing or reappointing Board members, and overseeing the Board's governance arrangements and other corporate governance issues. The process for appointing and reappointing directors is described on page 29.

During the year, the Committee:

- reviewed the composition of the Board and oversaw the appointing and reappointing of directors;
- reviewed the diversity of Board members (described on page 39);
- made recommendations to the Board for changes to the members of the committees;
- considered succession planning for directors; and
- reviewed the effectiveness of the Committee and its terms of reference.

We hired Audeliss and Sapphire Partners as external consultants for Board recruitments during the year. Neither firm had any other connection with us.

Attendance at Board and Committee meetings

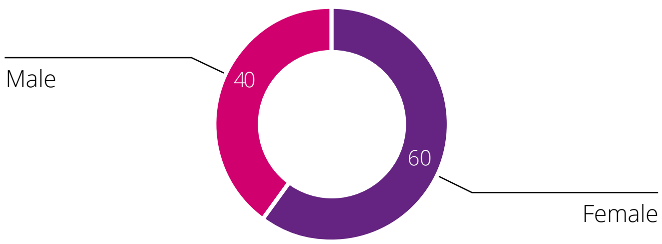
	Board	Audit Committee	Remuneration and Human Resources Committee	Nomination and Governance Committee	Risk Committee
Number of meetings held	9	4	4	3	4
Number of potential meetings attended by each committee member:					
Mark Adams	2 of 2				1 of 1
Marshall Bailey	9 of 9		4 of 4	3 of 3	
Jimmy Barber	9 of 9				
Steven Cooper	2 of 3	1 of 1	1 of 1		
Fiona Kidy	6 of 6				
Alex Kuczynski	1 of 1				
Charles McKenna	7 of 7	3 of 3		3 of 3	4 of 4
Nicky Morgan	5 of 5	2 of 2			2 of 2
Patrick Neville	9 of 9	4 of 4			4 of 4
Helen Parker	9 of 9		4 of 4	3 of 3	
Richard Parkin	9 of 9	3 of 3	4 of 4		4 of 4
Caroline Rainbird	9 of 9			3 of 3	
Cathryn Riley	2 of 2	1 of 1			
Wendy Williams	5 of 5		1 of 2		2 of 2

Board diversity

Board appointments continue to be based on merit and objective criteria, considering the skills and experience the individual can bring to the Board. FSCS is committed to creating an inclusive organisation and actively seeks to promote diversity, including age, disability, gender, race (which includes colour, nationality and ethnic or national origins), sexual orientation, socio-economic background, cognitive and personal strengths on the Board. FSCS has published measurable objectives of how it will continue to ensure Board diversity by 2024.

As well as making sure that diversity is always considered in the Board recruitment process, the Board has met its objective of having at least one racially diverse Board member by 2024. In addition, the Board's gender balance as at 31 March 2021 was 60% female and 40% male. From 1 May 2021, this figure was 67% female and 33% male.

Board gender balance as at 31 March 2021



Induction and training

New directors were involved in a comprehensive induction process so they could quickly become familiar with us and our work. Their induction included meeting existing Board members and staff from several key business areas, and receiving detailed briefings.

Directors were also offered training as part of their continuing professional development. They have the opportunity to refresh their knowledge and skills so they can stay up to date on specific FSCS issues, their duties as directors, and industry and regulatory changes. External speakers, including senior officials from the FCA and the PRA, are also invited to discuss relevant matters with the Board from time to time, outside formal board and committee meetings.

Director appraisal

The Chair carried out annual performance reviews with each non-executive director and the Chief Executive. These reviews took account of feedback from other directors. The Senior Independent Director (Deputy Chair) carried out the Chair's performance review on behalf of the Board, after getting the views of other Board members. The Chief Executive carried out the annual performance reviews of the other executive directors.

Review of the Board's effectiveness

The Board carries out formal and rigorous evaluations of its own performance, and that of its committees, usually once a year. These evaluations are externally facilitated every three years. The last internal review was carried out in December 2019. The last external evaluation was carried out in 2017. One was due to be carried out in late 2020, but the Board reconsidered the timing of this external review in the light of the difficulties in holding face to face meetings caused by Covid-19. The Board felt that it would be more beneficial to hold key discussions and observations in person rather than by video conference.

For this reason, the Board decided to commit to having an external evaluation when face to face meetings can be held, rather than conduct the assessment by 'virtual' meetings. The external evaluation was rescheduled to start in April/May 2021, with the aim of completing the majority of it by October 2021. The outcome of the evaluation will be reported in the 2021/22 Annual Report.

Directors' Remuneration Report

Certain parts of this Directors' Remuneration Report are subject to audit, and these parts are marked 'audited section' in the relevant sections.

Annual report on remuneration

Non-executive directors' fees are reviewed and set by the FCA and the PRA. We are responsible for setting the remuneration of executive directors. The Remuneration and Human Resources Committee considers the full remuneration package for the Chief Executive and makes recommendations to the Board for approval. The Chief Executive is not present when this remuneration package is being considered. The remuneration packages of the other executive directors are set by the Remuneration and Human Resources Committee. A description of the work of the Remuneration and Human Resources Committee is given on page 37.

Directors' remuneration table for 2020/21

Audited section	2020/21					
	Banded fees and salary[1] £'000	Taxable benefits[2] £'000 (nearest £100)	Banded performance-related bonus[3] £'000	Pension[4] £'000	Compensation for loss of office[5] £'000	Banded total £'000
Non-executive						
Mark Adams[6]	**0–5**	**–**	**–**	**–**	**–**	**0–5**
Marshall Bailey	**75–80**	**–**	**–**	**–**	**–**	**75–80**
Steven Cooper[6]	**5–10**	**–**	**–**	**–**	**–**	**5–10**
Marian Glen[6]	**–**	**–**	**–**	**–**	**–**	**–**
Charles McKenna[6]	**20–25**	**–**	**–**	**–**	**–**	**20–25**
Nicky Morgan[6]	**10–15**	**–**	**–**	**–**	**–**	**10–15**
Patrick Neville	**25–30**	**2.0**	**–**	**–**	**–**	**30–35**
Helen Parker	**30–35**	**–**	**–**	**–**	**–**	**30–35**
Richard Parkin[6]	**25–30**	**–**	**–**	**–**	**–**	**25–30**
Cathryn Riley[6]	**0–5**	**–**	**–**	**–**	**–**	**0–5**
Wendy Williams[6,7]	**0[7]**	**–**	**–**	**–**	**–**	**0–5[7]**
Executive						
Jimmy Barber	**275–280**	**2.5**	**50–55**	**40**	**230[5]**	**600–605**
Fiona Kidy[6]	**150–155**	**1.9**	**10–15**	**14**	**–**	**180–185**
Alex Kuczynski[6]	**5–10**	**–**	**–**	**–**	**–**	**5–10**
Mark Neale[6]	**–**	**–**	**–**	**–**	**–**	**–**
Kathryn Sherratt[6]	**–**	**–**	**–**	**–**	**–**	**–**
Caroline Rainbird[6]	**290–295**	**2.4**	**25–30**	**22**	**–**	**340–345**
Highest paid director's banded total remuneration[8] (£'000)						**330-335**
Median total remuneration for FSCS staff[8] (£)						**60,269**
Remuneration ratio[8]						**5.5**

Audited section	2019/20					
	Banded fees and salary[1] £'000	Taxable benefits[2] £'000 (nearest £100)	Banded performance-related bonus[3] £'000	Pension[4] £'000)	Compensation for loss of office[5] £'000	Banded total £'000
Non-executive						
Mark Adams[6]	25–30	3.7	–	–	–	30–35
Marshall Bailey	75–80	0.1	–	–	–	75–80
Steven Cooper[6]	20–25	–	–	–	–	20–25
Marian Glen[6]	20–25	5.3	–	–	–	25–30
Charles McKenna[6]	25–30	–	–	–	–	25–30
Nicky Morgan[6]	–	–	–	–	–	–
Patrick Neville	20–25	4.9	–	–	–	25–30
Helen Parker	25–30	0.7	–	–	–	25–30
Richard Parkin[6]	15–20	–	–	–	–	15–20
Cathryn Riley[6]	–	–	–	–	–	–
Wendy Williams[6,7]	–	–	–	–	–	–
Executive						
Jimmy Barber	315–320	2.6	50–55	39	–	410–415
Fiona Kidy[6]	–	–	–	–	–	–
Alex Kuczynski[6]	230–235	2.5	–	22	380[5]	635–640
Mark Neale[6]	30–35	–	–	2	–	30–35
Kathryn Sherratt[6]	35–40	0.2	–	3	–	35–40
Caroline Rainbird[6]	235–240	0.7	40–45	14	–	290–295
Highest paid director's banded total remuneration[8] (£'000)						310–315
Median total remuneration for FSCS staff[8] (£)						57,748
Remuneration ratio[8]						5.4

Notes:

1 The Chair and other non-executive directors are paid fees, and executive directors are paid salaries. Executive directors do not receive fees or any extra remuneration for their roles as directors. Salaries and fees are stated for the financial year they are earned in and relate to each director's period of appointment. For executive directors, the figures in the "Fees and salary" column are made up of basic salary, non-taxable benefits, other benefits paid through PAYE and any other payments or special allowances agreed from time to time. More details on directors' salaries and fees are given in the relevant section below.

2 "Taxable benefits" represent the gross (pre-tax) value of benefits, whether cash or non-cash, that UK income tax is charged on. The figures in this column include certain employee benefits taken up by executive directors, as outlined below under "Other benefits", and any taxable expenses directly and properly incurred by directors in the performance of their duties. Some of these taxable expenses relate to non-executive directors' travel (and any associated accommodation, meals and refreshments) for attending board and committee meetings. The figures shown include the associated income tax and National Insurance liability, which we pay in line with HM Revenue & Customs guidelines.

3 "Banded performance-related bonus" is shown for the financial year it is earned in. More details on the bonus framework are given in the relevant section below.

4 "Pension" figures are shown as the amounts we paid to defined contribution pension schemes and as cash in lieu of (instead of) pension contributions. Other details are given below under "Directors' pension entitlements".

5 Payments in respect of compensation for loss of office are outlined below under "Compensation for loss of office".

6 Mark Neale left the Board on 3 May 2019. Caroline Rainbird joined the Board on 13 May 2019. Kathryn Sherratt left the Board on 23 May 2019. Richard Parkin joined the Board on 1 July 2019. Marian Glen left the Board on 31 January 2020. Alex Kuczynski left the Board on 9 April 2020. Mark Adams left the Board on 23 April 2020. Steven Cooper left the Board on 30 June 2020. Fiona Kidy joined the Board on 1 July 2020. Nicky Morgan joined the Board on 1 September 2020. Wendy Williams joined the Board on 1 September 2020. Charles McKenna left the Board on 31 January 2021. Cathryn Riley joined the Board on 1 February 2021. Jimmy Barber left the Board on 30 April 2021.

7 By mutual agreement with the Home Office, Wendy Williams has taken up her role as a director of FSCS on a pro bono basis. As a result, she does not receive Board fees.

8 This section of the table shows the relationship between the remuneration of the highest paid director and the median (midpoint average) remuneration of our workforce. The remuneration band of the highest paid director in 2020/21 was £330,000-£335,000 (2019/20: £310,000-£315,000). This was 5.5 times (2019/20: 5.4 times) the median remuneration of the workforce, which was £60,269 (2019/20: £57,748). For the purpose of this section of the table, total remuneration includes basic salary, bonuses and taxable benefits. It does not include pension contributions or cash in lieu of pension contributions. To keep comparisons consistent, it also does not include compensation for loss of office or any one off or special additional payments. Details of the remuneration of the highest paid director are given in Note 10 to the financial statements.

Directors' remuneration framework

Audited section

Directors' fees and salaries

Non-executive directors

The fees we currently pay to non-executive directors, including the Chair, were set in April 2011. They have not changed since then.

The fees paid to the Chair in 2020/21 were £75,000 a year, and fees paid to other independent non-executive directors were £24,500 a year. Additional fees paid to each of the chairs of the Audit Committee, Risk Committee and Remuneration and Human Resources Committee were £5,000 a year. All of these fees were unchanged from 2019/20.

The Chair of the Board was also the Chair of the Nomination and Governance Committee, but does not receive an additional fee for this role. From 1 February 2021, it was agreed to pay the Deputy Chair and Senior Independent Director (a combined role) an additional £5,000 a year.

Executive directors

The Remuneration and Human Resources Committee applied certain principles when reviewing the remuneration of executive directors.

The first principle was that any growth in the salaries of individual executive directors should take account of external benchmarks. This is in line with the approach across our workforce. For this purpose, we regard the median (midpoint average) salary for equivalent roles in the general UK workforce to be the appropriate benchmark. This is to make sure that we broadly match market rates, in order to motivate and retain staff but not necessarily to pay significantly more or less generously than the market.

The second principle was that executive directors get the same starting salary and salary increase procedure as other staff. The set pay increase for the coming year is 1%. In some circumstances, we may allow salaries to increase faster than the annual rise in inflation to reflect specific market pressures or recruitment challenges for certain roles, or where the loss of critical people would jeopardise our performance.

Salaries for executive directors occasionally change due to independent pay reviews carried out across the organisation by external consultants. Otherwise, benchmarks and salaries generally increase in line with the overall uplift in the salary bill, as agreed by the Remuneration and Human Resources Committee and the Board.

In 2020/21, the salaries of executive directors were reviewed and set in line with the principles as previously described, and were based on individual performance and comparisons with appropriate benchmarks.

Performance-related bonus

Audited section

Executive directors were eligible to be considered for performance-related bonuses. These bonuses are not available to non-executive directors.

The main principle of the bonus system is that bonuses should be non-consolidated awards (that is, one off payments that do not count towards pension entitlements) reflecting the contribution the executive director concerned has made to our performance. Objectives are set for each executive director and include a strategic element linked to the performance of the organisation as a whole. These are measured and reviewed during the course of the year and at year-end, along with other aspects of individual performance. The maximum bonus is 20% of salary.

Executive directors' bonuses may be clawed back if information comes to light that would have materially affected the bonus decisions had it been known when the bonuses were awarded. This information would include failures in control systems and misreporting of performance information.

Directors' pension entitlements

Audited section

During the year, one director (2019/20: one) had a prospective entitlement to a defined benefit pension as well as accruing retirement benefits under the money purchase pension scheme. Three additional directors (2019/20: four) also accrued retirement benefits during the year under the money purchase pension scheme only. The non-executive directors are not entitled to a pension funded by FSCS. The executive directors in post during the year were members of the defined contribution (money purchase) pension scheme, on the same terms as for other employees.

The defined benefit (final salary) pension scheme closed to future accrual on 30 June 2011. Defined benefit pension entitlements accrued for Alex Kuczynski as a result of participation in the defined benefit pension scheme from his date of joining the pension scheme to the date of the pension scheme closing to future accrual on 30 June 2011. Mr Kuczynski left FSCS on 9 April 2020.

The accrued pension is the pension that the member is entitled to receive when he reaches pension age, albeit that this increases in line with the pension scheme's rules between 31 March 2021 and his normal retirement date (age 60). Mr Kuczynski may elect to retire earlier than his normal retirement date, but the pension will be subject to an actuarial reduction. Due to the nature of these defined benefit pension rights being different from retirement benefits accruing in a defined contribution scheme, further details are given in the table below:

Alex Kuczynski				
Accrued pension at 31 March 2021 £'000	Real increase in pension £'000	CETV at 31 March 2020 £'000	CETV at 31 March 2021 £'000	Real increase/ (decrease) CETV
35	0	1,411	1,296	(122)

Definitions

- A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the defined benefit pension scheme benefits accrued by a member at a particular point in time. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement if the member chooses to leave a scheme and transfer their accrued benefits.

- The real increase/(decrease) in CETV reflects the change in CETV using actuarial factors based on market conditions at the start and end of the period, and is net of the increase in accrued pension due to inflation.

Compensation for loss of office

Audited section

Jimmy Barber left FSCS under redundancy terms on 30 April 2021. He received a gross (pre tax) settlement payment of £229,908 and a bonus payment. These are included in the Directors' remuneration table on pages 40–41.

Alex Kuczynski left FSCS under redundancy terms on 9 April 2020. Details of his settlement payment were given in the 2019/20 report.

Other benefits

Executive directors are entitled to receive other benefits under our flexible benefits programme. Some of those benefits are taxed and some are paid through salary sacrifice (where the director's salary is reduced by the amount of the benefit, so they then pay tax only on the reduced salary). Taxable benefits are shown in the Directors' remuneration table on pages 40–41.

Remuneration for executive directors holding other non-executive positions

Executive directors may be non-executive directors of other organisations. Decisions on whether they may retain any remuneration from such appointments are made on a case-by-case basis.

Risk Management Report

Our risk management framework:

Risk monitoring and reporting
- Key risk indicators
- Assurance plan
- Thematic reviews

Risk appetite
- Defined risk appetite statement
- Defined level for risk appetite
- Qualitative risk statements and target risk levels

Risk response
- Risk acceptance and mitigation
- Risk management and prioritisation
- Risk challenge

Risk identification
- Key categorisation and sources
- Horizon scanning
- Event reporting

Risk assessment
- Risk analysation
- Risk evaluation
- Control environment

Our approach to risk management

We recognise that there are always risks involved in organising and managing processes, systems and people. As such, risk management is central to our aims and ways of working. We want to make sure that risks are identified, assessed and controlled without restricting innovation and excellent customer service.

To manage risk and achieve our aims, we use a framework of five key stages. These are shown in the diagram above.

Risk appetite

Our Board sets the level of risk that we are prepared to accept (the risk appetite) to achieve our aims. The Board is responsible for maintaining reliable risk management and internal control systems.

Overall, we have a low to cautious risk appetite. This is important in helping us to maintain stability in the financial services sector and achieving our goal “to provide a trusted compensation service for customers, which helps raise public confidence in the financial services industry”.

However, we also recognise that it is not always possible, or useful, to remove all the risks attached to our activities. We have to accept some risk to improve our effectiveness and efficiency, and to encourage innovation. We also recognise that the sector we operate in is ever-changing, so we need to be flexible in how we manage risk.

To help us remain flexible, and open to change and yet cautious where necessary, this year we developed separate risk categories and risk appetites for each of the following key areas of our business.

Strategic: current or future risks to meeting our legal responsibilities as a result of changes in the business environment;

Governance: risks which prevent us from carrying out suitable reviews, managing decision-making and achieving results and performance targets;

Financial: risks caused by poor economic conditions, unexpected management expenses and increases in compensation claims;

Information technology and security: risks associated with owning, using and adapting information technology; and

Operational: missed opportunities as a result of problems with processes, people or external events.

Identifying risk

We recognise that risk is constant and extends beyond today. We search widely to understand what threats may affect us and become risks for us to manage (emerging risks). We also look for the opportunity in those threats.

As a result of Covid-19, there is the potential that we will see a large increase in compensation claims into the next financial year and beyond. To prepare for this, we are working with the regulators and our partners to develop and strengthen our position and to plan ahead. This will allow us to respond quickly and effectively to industry and customer needs.

Risk assessment and response

The principal risks that we operate amongst are contained within these risk categories and managed through the implementation of controls which are independently tested. Any risks assessed as outside of the agreed appetite levels are reported to the Risk Committee and actions are taken to correct them. The Risk Committee meets every three months and reports to the Board after each meeting.

Risk monitoring and reporting

We use a risk approach based on the three lines of defence model. This promotes a joint approach to monitoring and reporting.

The second line also keeps a central risk register that provides a risk profile to the Executive Team and the Risk Committee every three months.

The following areas are also key to our risk monitoring and reporting procedures.

Our management structure

We have a clear Board and Executive Management structure which sets out who is accountable and who has powers of delegation.

Policies

Our policies are all approved by the Chief Executive, the Board or the relevant Board committee. Policy owners are responsible for:

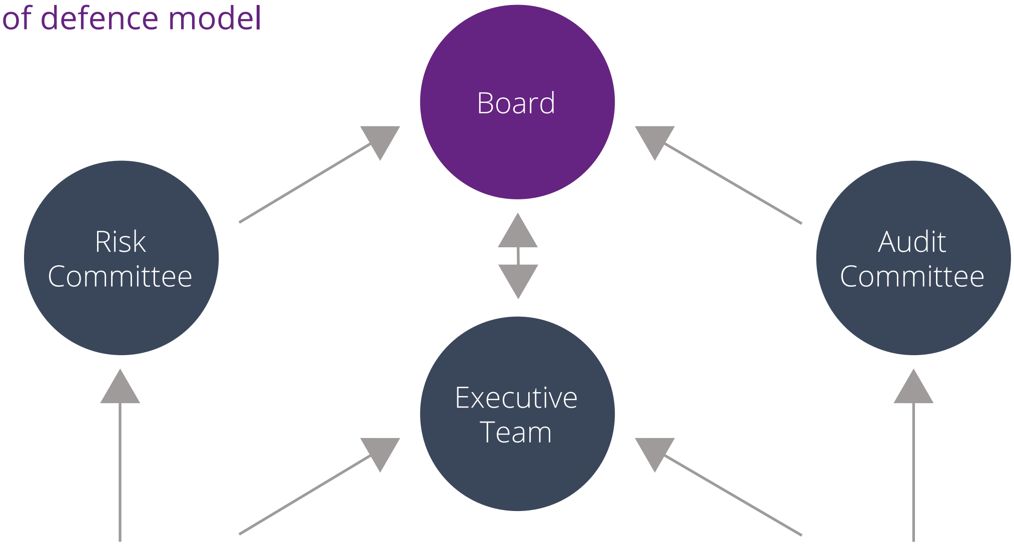
- maintaining and communicating their policies;
- making sure the policies are followed;
- logging any breaches of policy; and
- assessing how any failure to follow the policy will affect the organisation or its work.

Internal auditing

We use an independent company to carry out our internal audits. This gives us an unbiased view of our activities. This year the auditors provided a risk-based audit plan which was a key source of assurance for our Executive Team and Board.

The auditors continue to provide regular, independent challenge which supports us in continuously improving our risk management framework. This has made our risk management activities more effective and efficient – for example, by centralising and streamlining of some of our control processes.

Three lines of defence model



Second line of defence[1]

Organisational risk and resilience (the risk function)

Third line of defence[2]

Internal audit

First line of defence[3]

Business risk management

1 The Risk Team is a centralised function that provides oversight and independent challenge to the effectiveness of our risk decisions. The team also provides advice, conducts independent testing of key controls and reports on our risk profile to ensure that any mitigating actions are appropriate.

2 Our internal auditing provides independent assurance to the Audit Committee and the Board through reviews, engaging with committees and executive management, providing opinion, challenge and informal advice. The Internal Audit Team is an independent internal function which reports to the Audit Committee.

3 Each business area has responsibility for identifying, managing and controlling risks within their areas of accountability. They do this in line with our overarching risk management policy and associated framework, and acting within our risk appetite parameters which are set and approved by the Board.

Whistleblowing

Whistleblowing arrangements are in place, so that concerns can be raised in confidence and investigated appropriately.

Continuous improvement

Throughout the year we continued to refine our risk management framework, developed our approach to risk appetite, continued to apply risk indicators and developed a new risk reporting system. This system allows us to be consistent in the way we record and manage risks and controls, and improves how we report risk and control to the Executive Team and Risk Committee.

It means that we can more easily manage risk within risk appetite limits. It also allows the Risk Team to provide an unbiased assessment of overall risk across the organisation in comparison to our risk appetite and the effectiveness of associated controls. This approach goes beyond risk tolerance and reflects the ongoing development of our approach.

Looking ahead, we are maturing our approach to integrated assurance to provide senior management and our Board with an overall view of our assurance activity.

Directors' Report

The directors of Financial Services Compensation Scheme Limited (FSCS) present their report, together with the audited financial statements on pages 57 to 59, for the year ended 31 March 2021.

The directors have prepared these financial statements in line with International Financial Reporting Standards (IFRS). This has been done to enhance the quality of the financial information, with the aim of making the financial statements easier to compare and understand internationally, and to increase transparency.

The directors

Names of the directors who held office during the year and up to the date of signing the financial statements are given in the table on page 34 in the Corporate Governance Report, which forms part of the Directors' Report.

Directors' remuneration

Details of directors' remuneration are set out in the Directors' Remuneration Report on pages 40 and in Note 10: Directors' remuneration.

Directors' indemnity and insurance

Under the Financial Services and Markets Act 2000, FSCS has the benefit of an exemption from liability in damages for anything done or omitted in relation to the discharge, or purported discharge, of its statutory functions, provided that such acts or omissions are done in good faith and do not infringe section 6(1) of the Human Rights Act 1998. FSCS maintains insurance to indemnify its directors and its officers against claims arising from its operations. The company has also granted qualifying third-party indemnities (as defined in the Companies Act 2006) to directors in relation to acts or omissions arising in the ordinary course of their duties. Indemnities were in force during the financial year to 31 March 2021 and at the date of the approval of this report.

Statement of disclosure of information to auditors

Each of the persons who is a director at the date of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- he/she has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information, and to establish that the company's auditors are aware of that information.

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with IFRS as adopted by the European Union and those parts of the Companies Act 2006 applicable to companies reporting under IFRS. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the income or expenditure of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable International Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Corporate governance and financial risk management

A statement of corporate governance, including financial risk management and principal risks and uncertainties, is contained earlier in this Accountability Report. Information on the use of financial instruments by the company is disclosed in Note 16. In particular, the company's exposure to credit risk, liquidity risk and interest rate risk is separately disclosed in that note.

Going concern

The directors are satisfied that FSCS is in a position to meet its obligations as they fall due. As such, FSCS is a going concern and it is appropriate that these financial statements are prepared under the going concern basis.

Independent auditor

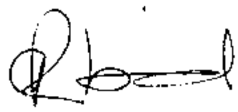
Under the Financial Services Act 2012, the Comptroller and Auditor General is the statutory auditor of FSCS.

Approval of the Accountability Report

The Accountability Report is made up of the following:

- Statement of Accounting Officer's responsibilities
- Corporate Governance Report
- Directors' Remuneration Report
- Risk Management Report
- Directors' Report

This was approved by the Board on 18 May 2021 and signed on its behalf by:



Caroline Rainbird
Chief Executive,
Financial Services Compensation Scheme
21 June 2021

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AUDITOR'S REPORT

THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSES OF PARLIAMENT

Opinion on financial statements

I certify that I have audited the financial statements of Financial Services Compensation Scheme Limited (FSCS) for the year ended 31 March 2021 which comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Cash Flows and the related notes, including the significant accounting policies.

The financial reporting framework that has been applied in their preparation is applicable law and the International Accounting Standards in conformity with the requirements of the Companies Act 2006.

I have also audited the information in the Remuneration Report that is described in that report as having been audited.

In my opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2021 and of the deficit for the year then ended; and
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; and

- have been prepared in accordance with the requirements of the Companies Act 2006 and HM Treasury directions issued under the Financial Services and Markets Act 2000.

Opinion on regularity

In my opinion, in all material respects the income and expenditure recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Basis for opinion(s)

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK), and applicable law and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my certificate.

Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2019. I have also elected to apply the ethical standards relevant to listed entities. I am independent of the FSCS in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

The framework of authorities described in the table below has been considered in the context of my opinion on regularity.

Conclusions relating to going concern

In auditing the financial statements, I have concluded that the FSCS's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

My evaluation of the director's assessment of the entity's ability to continue to adopt the going concern basis of accounting included consideration of the FSCS's funding arrangements, including plans for future levies, and assessment of whether any conditions exist which may cast significant doubt on the FSCS's ability to continue to operate. My key observations were that funding is secured by statutory levies raised on the FSCS's behalf and that no events or conditions exist which may cast significant doubts on the ability to continue operations. I noted that the United Kingdom's withdrawal from the European Union may give rise to future changes to the regulatory landscape in which the FSCS operates, but there is no reason to believe this casts significant doubt on the FSCS's ability to continue to operate. I also considered the ability that FSCS would have to access more funds at short notice should this be required. There are a number of credit options already in place with both HMT and financial institutions should this be required.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the FSCS's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In relation to the entities reporting on how they have applied the UK Corporate Governance Code, I have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the director's considered it appropriate to adopt the going concern basis of accounting.

My responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this certificate.

Framework of authorities	
Authorising legislation	Financial Services and Markets Act (FSMA) 2000; Financial Services Act 2012; The Financial Services (Banking Reform) Act 2013
Parliamentary authorities	None
HM Treasury and related authorities	Managing Public Money; FSCS and HMT Framework Document 2012

Overview of my audit approach

Key audit matters

Key audit matters are those matters that, in the my professional judgment, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditor, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of the audit of the financial statements as a whole, and in forming my opinion thereon. I do not provide a separate opinion on these matters.

I have not identified any key audit matters throughout the course of my audit.

Application of materiality

Materiality

I applied the concept of materiality in both planning and performing my audit, and in evaluating the effect of misstatements on my audit and on the financial statements. This approach recognises that financial statements are rarely absolutely correct, and that an audit is designed to provide reasonable, rather than absolute, assurance that the financial statements are free from material misstatement or irregularity. A matter is material if its omission or misstatement would, in the judgement of the auditor, reasonably influence the decisions of users of the financial statements.

Based on my professional judgement, I determined overall materiality for the FSCS's financial statements as per the table below.

Performance materiality

I set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 75% of materiality for the 2020-21 audit (2019-20: 75%). In determining performance materiality, I considered the uncorrected misstatements identified in the previous period as well as the fact that this is not a new entity.

Other materiality considerations

As well as quantitative materiality there are certain matters that, by their very nature, would if not corrected influence the decisions of users, for example, any errors reported in the Accountability Report. Assessment of such matters would need to have regard to the nature of the misstatement and the applicable legal and reporting framework, as well as the size of the misstatement.

Materiality	£9,400,000
Basis for determining materiality	1.5% of forecast gross expenditure at December 2020 (mid-year) of £627,880,000 (2019-20: 1.5% of gross expenditure at December 2019 of £540,350,000)
Rationale for the benchmark applied	I considered gross expenditure to be the most sensitive aspect of the account, as well as the primary focus of the business as it exists to compensate consumers. Because of this primary focus, I consider that users of the accounts will be most interested in the compensation amounts that are being paid out. These amounts will, in part, influence the level of levies raised on industry which is of significant interest to levy payers. The percentage applied (1.5%) reflects that there is an element of public interest in the FSCS, whilst recognising that such interest is below that of HM Treasury, where I use 1%. This also applies to the financial services industry, who will have a heightened interest in FSCS because of their ability to raise levies. The materiality is based on a mid-year forecast of gross expenditure, which I first used during my interim engagement work. Because this forecast remained lower than the gross expenditure recorded at year end, I continued to use it as a measure of prudence.

I applied the same concept of materiality to my audit of regularity. In planning and performing audit work in support of my opinion on regularity and evaluating the impact of any irregular transactions, I took into account both quantitative and qualitative aspects that I consider would reasonably influence the decisions of users of the financial statements.

Error reporting threshold

I agreed with the Audit Committee that I would report to it all uncorrected misstatements identified through my audit in excess of £188,000, as well as differences below this threshold that in my view warranted reporting on qualitative grounds. I also report to the Audit Committee on disclosure matters that I identified when assessing the overall presentation of the financial statements.

Total unadjusted audit differences reported to the Audit Committee have impacted net expenditure and assets by £0.

Audit scope

The scope of my audit was determined by obtaining an understanding of the entity and its environment, including entity-wide controls, and assessing the risks of material misstatement. It was designed to address the key risks and took account of materiality as set out above. I audited FSCS's income from both levies and recoveries, with particular focus on the receivable portion of recoveries. I also performed detailed testing giving assurance on materially all expenditure and assets, I considered FSCS's framework of authorities throughout my testing, and ensured controls reviewed and transactions tested were consistent with these. This work gave me the evidence I needed for my opinion on the financial statements as a whole.

Other information

The other information comprises information included in the Annual Report, but does not include the parts of the Remuneration Report described in that report as having been audited, the financial statements and my auditor's report thereon. The directors are responsible for the other information. My opinion on the financial statements does not cover the other information and except to the extent otherwise explicitly stated in my certificate, I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact.

I have nothing to report in this regard.

Opinion on other matters

In my opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with HMT Directions made under the Financial Services and Markets Act 2000.

In my opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements and those reports have been prepared in accordance with applicable legal requirements.

Matters on which I report by exception

In the light of the knowledge and understanding of the FSCS and its environment obtained in the course of the audit, I have not identified material misstatements in the strategic and performance report or the directors' report.

I have nothing to report in respect of the following matters where I am required to report to you if, in my opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or

- the financial statements and the parts of the Directors’ remuneration report to be audited are not in agreement with the accounting records and returns; or certain disclosures of director’s remuneration specified by law are not made; or
- a corporate governance statement has not been prepared; or
- I have not received all of the information and explanations I require for my audit.

Corporate governance statement

The Listing Rules require me to review the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Report relating to the FSCS's compliance with the provisions of the UK Corporate Governance Code specified for my review.

Based on the work undertaken as part of my audit, I have concluded that each of the following elements of the Corporate Governance Report is materially consistent with the financial statements or my knowledge obtained during the audit:

- Directors' statement with regards the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified;
- Directors’ explanation as to its assessment of the entity’s prospects, the period this assessment covers and why the period is appropriate;
- Directors' statement on fair, balanced and understandable;
- Board’s confirmation that it has carried out a robust assessment of the emerging and principal risks;
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and
- The section describing the work of the audit committee.

Responsibilities of the Directors for the financial statements

As explained more fully in the Statement of directors’ responsibilities, the directors are responsible for:

- the preparation of the financial statements in accordance with the applicable financial reporting framework and for being satisfied that they give a true and fair view;
- such internal controls as directors determines are necessary to enable the preparation of financial statement to be free from material misstatement, whether due to fraud or error; and
- assessing the FSCS’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors anticipates that the services provided by the FSCS will not continue to be provided in the future.

Auditor’s responsibilities for the audit of the financial statements

My responsibility is to audit, certify and report on the financial statements in accordance with the Financial Services and Markets Act 2000.

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a certificate that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

I design procedures in line with my responsibilities, outlined above, to detect material misstatements in respect of non-compliance with laws and regulation, including fraud.

My procedures included the following:

- inquiring of management, the FSCS’s head of internal audit and those charged with governance, including obtaining and reviewing supporting documentation relating to the FSCS’s policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;

- detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
- the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations including the FSCS's controls relating to Financial Services and Markets Act 2000.

- discussing among the engagement team regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, I identified potential for fraud in the following areas: revenue recognition, posting of unusual journals; estimates involving recoveries receivable and provisions;
- obtaining an understanding of the FSCS's framework of authority as well as other legal and regulatory frameworks that the FSCS operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the FSCS. The key laws and regulations I considered in this context included Financial Services and Markets Act (FSMA) 2000; Financial Services Act 2012; The Financial Services (Banking Reform) Act 2013; FSCS and HMT Framework Document; Managing Public Money; Relevant employment law and taxation legislation; and
- testing a sample of compensation claims paid to ensure payments were only made to a relevant person, who was not on the sanctions list, relating to a regulated firm (per sections 213-217 of the Financial Services and Markets Act 2000).

In addition to the above, my procedures to respond to identified risks included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, the Audit Committee and in-house legal counsel concerning actual and potential litigation and claims;
- reading minutes of meetings of those charged with governance and the Board; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

I also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and significant component audit teams and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

A further description of my responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of my certificate.

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the income and expenditure reported in the financial statements have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

Report

I have no observations to make on these financial statements.

Gareth Davies
Comptroller and Auditor General (Statutory Auditor),
National Audit Office
157-197 Buckingham Palace Road
London
SW1W 9SP
24 June 2021

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FINANCIAL STATEMENTS AND NOTES

Statement of comprehensive income

	Note	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000
Income:			
Levy income in respect of compensation costs		519,720	503,176
Other levy income		79,795	73,203
Total levy income	4	599,515	576,379
Recoveries	5	63,983	24,246
Total income		663,498	600,625
Expenditure:			
Compensation costs	6	(583,703)	(527,422)
Administrative expenses	7, 8	(80,213)	(72,714)
Interest payable	14	(25)	(41)
Net interest on defined benefit pension scheme	20	207	194
Total expenditure		(663,734)	(599,983)
Surplus/(deficit) before tax		**(236)**	**642**
Surplus/(deficit) after tax		**(236)**	**642**
Other comprehensive income			
Remeasurements on defined benefit pension scheme	20	236	(642)
Total comprehensive result for the year		**–**	**–**

All of FSCS's operations are continuing.

A statement of changes in equity has not been presented as there were no equity balances brought forward or any changes in equity balances during the year.

The notes on pages 60 to 87 form part of these financial statements.

Statement of financial position

	Note	As at 31 March 2021 £'000	As at 31 March 2020 £'000
ASSETS			
Non-current assets			
Property, plant and equipment, and ROU assets		1,317	2,740
Other non-current financial assets	11	46,228	1,921
Employee benefit assets	20	10,075	8,000
		57,620	**12,661**
Current assets			
Trade and other receivables	11	73,430	100,212
Cash and cash equivalents	12	250,100	246,558
		323,530	**346,770**
Total assets		**381,150**	**359,431**
EQUITY AND LIABILITIES			
Equity			
Reserves		–	–
Total equity		**–**	**–**
Non-current liabilities			
Other non-current financial liabilities	13	56,303	9,921
Provisions	15	516	774
Lease liabilities	14	189	964
		57,008	**11,659**
Current liabilities			
Bank overdraft	12	–	2,762
Trade and other payables	13	284,553	259,544
Provisions	15	38,814	84,462
Lease liabilities	14	775	1,004
		324,142	**347,772**
Total liabilities		**381,150**	**359,431**
Total equity and liabilities		**381,150**	**359,431**

The notes on pages 60 to 87 form part of these financial statements. These financial statements are exempt from the requirements of Part 16 of the Companies Act 2006 by virtue of Section 482 (non-profit making companies subject to public sector audit) of that Act.

The financial statements on pages 57 to 87 were approved by the Board of Financial Services Compensation Scheme Limited (registered number 3943048) on 18 May 2021 and signed on its behalf on 21 June 2021 by:

Caroline Rainbird
Chief Executive,
Financial Services Compensation Scheme

Statement of Cash Flows

	Note	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000
Operating activities			
Net cash generated from operations	*17*	7,560	118,953
Net cash flows from operating activities		**7,560**	**118,953**
Investing activities			
Purchases of property, plant and equipment		(227)	(780)
Net cash flows used in investing activities		**(227)**	**(780)**
Financing activities			
Returns on investments and servicing of finance	*14*	(1,029)	(1,029)
Net cash flows used in financing activities		**(1,029)**	**(1,029)**
Net increase/(decrease) in cash and cash equivalents		6,304	117,144
Cash and cash equivalents at 1 April	*12*	243,796	126,652
Cash and cash equivalents at 31 March	*12*	**250,100**	**243,796**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

1 Constitution

Financial Services Compensation Scheme Limited (FSCS) is a company incorporated and domiciled in the UK under the Companies Act 2006 as a company limited by guarantee. The members of the company are the directors of the company, and liability is limited to an amount not exceeding £1 for each member. FSCS has no share capital and no ultimate controlling party.

FSCS was established as the designated Scheme Manager under Section 212 of the Financial Services and Markets Act 2000 (FSMA). FSCS, as Scheme Manager, operates eight broad funding classes based on identifiable industry sectors – Deposits; General Insurance Provision; General Insurance Distribution; Life and Pensions Provision; Life Distribution and Investment Intermediation; Investment Provision; Home Finance Intermediation; and Debt Management.

The registered office is 10th Floor, Beaufort House, 15 St Botolph Street, London EC3A 7QU.

2 Accounting policies

Basis of preparation

The financial statements have been prepared on a going concern basis in accordance with the Companies Act 2006, International Financial Reporting Standards (IFRS) as adopted by the EU and the Accounts Direction issued by HM Treasury. The directors are satisfied that FSCS is in a position to meet its obligations as they fall due, given its statutory rights to raise levies on Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA) authorised firms. As such, FSCS is a going concern and it is appropriate that these financial statements are prepared under the going concern basis.

Section 218 of the FSMA requires us to prepare a statement of the value of each of the funds established by FSCS (the Scheme Manager). These statements, referred to as the Class Statements, are separate from the statutory financial statements of the Scheme Manager and have not been prepared under the basis of IFRS. The Class Statements are prepared by the Scheme Manager in accordance with the FCA Handbook and the PRA Rulebook. These statements can be found at www.fscs.org.uk.

Due to rounding, numbers presented throughout this document may not add up precisely to the totals provided.

The principal accounting policies for the Scheme Manager are set out below.

a) Revenue recognition

Levies for compensation costs
FSCS recognises levies receivable in respect of compensation costs on an accruals basis to match compensation costs net of recoveries recognised as income during the period. Any excess funds are ultimately repayable to the levy payer (with shortfalls similarly recoverable from the levy payer), by way of a return or a reduction in next year's levy, in accordance with the funding rules set by the FCA and the PRA.

Recoveries
Recoveries are recognised when received or, if earlier, on receipt of notification in respect of dividends from insolvency practitioners, or when notified and agreed in respect of other recoveries. Where no notification is received or agreed, recoveries are also recognised when it is probable that the future economic benefits will flow to FSCS and the value can be measured reliably (based on the best information available to the directors). This differs from the treatment in the Class Statements, where recoveries are only recognised on receipt or notification.

Other operating income
FSCS recognises levy revenue raised from authorised firms in respect of management fees to cover the administration costs of FSCS when incurred. The management expenses levy is used to fund FSCS's overheads and is split between base costs and specific costs. All firms contribute to the base costs, which are the costs of running FSCS and are not dependent on levels of activity. Specific costs are the costs of assessing claims, making payments and any other costs which can be directly attributable to a particular class.

Any deficit or surplus in the defined benefit pension scheme will eventually be funded through, or used to reduce, future levies on levy paying firms. Consequently, an asset and accrued levy income, or a liability and deferred levy income, is recognised in these financial statements.

b) Compensation costs

Compensation costs are only recognised when the eligibility and quantum of the claim is known, or for reinstatement cases when fully valued. In most cases, this is when the claim has been assessed and a decision has been made, as before that point the eligibility and quantum of the claim cannot be known.

In the case of deposit defaults, Special Administration Regime (SAR) defaults and return of premium cases, these do not generally require an application form or decision to be made by FSCS; therefore, the expenditure is recognised when the firm is declared in default. In addition, compensation costs payable under various Orders (referred to as deemed compensation) are recognised when the firm is declared in default.

c) Financial instruments

Trade and other receivables
Trade and other receivables are measured at amortised cost using the effective interest rate method. FSCS has applied the simplified approach to impairment of financial assets by providing for expected lifetime credit losses as permitted by IFRS 9. These provisions are based on an assessment of risk of default and expected timing of collection estimated by reference to past default experience, adjusted as appropriate for current observable data. Levy receivables are also reviewed periodically to assess if any objective evidence has been identified which indicates that a specific impairment for uncollectable amounts is required.

This excludes recoveries receivable, which are measured at fair value through profit and loss at each reporting date.

Allowance losses for levies receivable are included within levy income in the statement of comprehensive income.

Trade and other payables
Payables are recognised in the statement of financial position when FSCS becomes a party to the contractual provisions of the instrument. Payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Cash and cash equivalents
Cash and cash equivalents comprise cash in hand, deposits and other short-term liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Borrowings
Borrowings are recognised in the statement of financial position when FSCS becomes a party to the contractual provisions of the instrument. Borrowings are measured initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Interest is charged to the statement of comprehensive income over the term of the borrowings. Interest accrued within a financial period becomes due and payable in accordance with the terms of the loans.

d) Provisions and contingent liabilities

A provision is recognised in the statement of financial position when there is a legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and the value can be reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the liability. No provision is established where a reliable estimate of the obligation cannot be made.

On occasion, legal proceedings are threatened or initiated against or by FSCS. A provision is made for the estimated full cost in respect of any such proceedings where at the end of the year it is probable that there is an obligation which will require an outflow of economic benefit.

Provisions for compensation costs only include claims where FSCS is able to determine their eligibility and can reliably estimate the quantum of those claims. Generally, this would only apply to deposit defaults, Special Administration Regime (SAR) defaults and return of premium cases as these do not require an application form or decision to be made by FSCS and an estimate can be made based on records held by the failed firm. Liabilities and provisions are not recognised for other types of claims until they have been assessed because the eligibility and therefore obligation is not known before that point.

Contingent liabilities are possible obligations whose existence depends on the outcome of uncertain future events or those present obligations where the outflows of resources are uncertain or cannot be measured reliably. Contingent liabilities are not recognised in the financial statements but are disclosed unless they are remote.

e) Interest payable

Interest received on cash deposits is credited to the classes in proportion to their relative fund balance.

f) Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the start of the month in which the transaction occurred. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date. All differences are charged to the classes.

g) Third-party arrangements as agent

FSCS works for and makes compensation payments on behalf of third parties, as agent; these are recoverable from such parties. Any amounts so due from third parties are shown in the statement of financial position.

Management expenses incurred in performing work on behalf of third parties are recovered from such parties by FSCS and not allocated to the classes or funded by levy payers.

h) Taxation

FSCS is only liable to pay corporation tax on investment income. The related tax on interest income is charged to the classes as shown in the statement of fund movements.

i) Pension Scheme

FSCS operates both a defined benefit pension scheme (Pension Scheme) and a money purchase scheme.

The pension costs for the Pension Scheme are accounted for in accordance with International Accounting Standard (IAS) 19 'Employee Benefits'. The aggregate Pension Scheme asset/liability recognised in the statement of financial position is the excess or deficit of the present value of the Pension Scheme's assets over the value of the Pension Scheme's liabilities. Any deficit will be funded by future levies and any surplus used to reduce future levies. The deficit or surplus for funding purposes will be that calculated for the Pension Scheme, which is required by The Pensions Regulator to be prepared on a prudent basis. This may differ from the IAS 19 deficit or surplus shown in these financial statements.

The costs of the money purchase scheme are charged to the statement of comprehensive income as incurred.

Further details are contained in Note 20.

j) Changes in accounting policy

i. New and amended standards adopted by FSCS:

There were no IFRS or IFRS Interpretations Committee interpretations effective for the first time in the financial year beginning on or after 1 April 2020 that have a material impact on the company.

ii. New standards, amendments and interpretations issued but not effective for the financial year beginning on or after 1 April 2020 and not early adopted:

There were no IFRS or IFRS Interpretations Committee interpretations not yet effective that would be expected to have a material impact on the company.

3 Accounting judgements and key estimation uncertainties

In applying the accounting policies as set out in Note 2, there are a number of uncertainties that could impact on the amounts recognised in the financial statements.

The key area of judgement identified in the financial statements is:

- in preparing these financial statements, a fundamental judgement has been applied to revenue recognition in respect of levy income. Levy income represents fees to which FSCS deemed it was entitled during the financial year, after taking into account costs associated with running the compensation scheme, including compensation costs less recoveries and management expenses incurred. Any surplus or deficit against levy income in the year is therefore held payable or receivable on the statement of financial position as the intention is to return any surplus, by way of a refund or a reduction in next year's levy, or claim any deficit in the following year.

The key areas of judgement and estimation uncertainties identified in the financial statements are:

- the value and expected timing of recoveries through dividends from the estates of failed firms, as explained in Note 11;
- the value and expected timing of provisions for compensation costs, as explained in Note 15; and
- the current valuation of the defined benefit pension scheme, as explained in Note 20.

4 Levy income

In FSCS's financial statements, levies are recognised on an accruals basis, taking into account the costs which have been incurred and any recoveries FSCS has made. The table below shows the total of all constituent parts of levy income for the year reported in the statement of comprehensive income (SoCI):

	Year ended 31 March 2021	Year ended 31 March 2020
	£'000	£'000
Levy income recognised in SoCI		
Levy income in respect of compensation costs	**519,720**	**503,176**
Other levy income:		
Levy income in respect of base costs	25,977	21,340
Levy income in respect of specific costs	55,868	53,055
Levy income in respect of interest payable	25	41
Levy income in respect of pension obligations	(2,075)	(1,233)
	79,795	**73,203**
Total levy income	**599,515**	**576,379**

5 Recoveries income

Recoveries income recognised in the statement of comprehensive income of FSCS is analysed as below:

	Year ended 31 March 2021	Year ended 31 March 2020
	£'000	£'000
2008/09 banking failures	588	561
Other defaults	63,395	23,685
	63,983	**24,246**

6 Compensation costs

The table below provides an analysis of the compensation cost by funding class:

	Year ended 31 March 2021	Year ended 31 March 2020
	£'000	£'000
Funding class		
Deposits (excluding 2008/09 banking failures)	2,682	5,148
General Insurance Provision	110,804	125,667
General Insurance Distribution	15,364	20,756
Life Distribution and Investment Intermediation	322,659	282,026
Investment Provision	130,502	88,105
Home Finance Intermediation	1,664	5,720
Debt Management	28	–
Total compensation costs	**583,703**	**527,422**

7 Administrative expenses and interest payable

Administrative expenses and interest payable incurred by FSCS which were specifically levied to levy payers are shown in the table below by levy class:

	Year ended 31 March 2021	Year ended 31 March 2020
	£'000	**£'000**
Deposits	11,690	12,308
General Insurance Provision	6,102	5,875
General Insurance Distribution	5,435	6,740
Life and Pensions Provision	206	22
Life Distribution and Investment Intermediation	25,781	20,996
Investment Provision	5,322	5,252
Home Finance Intermediation	1,363	1,912
Debt Management	(6)	(9)
Base costs	25,977	21,340
IAS 19 pension adjustments	(1,632)	(1,681)
Other – interest payable	(25)	(41)
Total administrative expenses	**80,213**	**72,714**
Other – interest payable	25	41
Total administrative expenses and interest payable	**80,238**	**72,755**

8 Administrative expenses

	Note	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000
Staff costs	9	19,737	16,070
Accommodation and office services		2,007	1,721
IT maintenance costs		4,820	3,878
Outsourced claims-handling costs		18,130	17,383
Contractors		5,674	3,075
Change including IT development costs		6,258	6,295
Depreciation		1,390	1,408
Press and communications		3,270	3,188
Auditor's remuneration			
Statutory audit of the financial statements		159	159
Other audit services		–	–
Legal and professional fees		6,357	6,743
Bank charges		6,679	6,783
Other		5,732	6,011
		80,213	**72,714**

9 Staff costs

	Year ended 31 March 2021	Year ended 31 March 2020
	£'000	**£'000**
Wages and salaries, including the executive directors	16,054	13,045
Social security costs	1,955	1,599
Pension costs	1,728	1,426
	19,737	**16,070**

The employer's pension contributions shown above include the liability for contributions in respect of service during the year.

The average number of employees of FSCS during the year was as follows:

	Year ended 31 March 2021	Year ended 31 March 2020
Average number of employees:		
Executive Team	8	5
Operations	143	112
Other	75	77
	226	**194**

Other includes Finance, Legal and People Teams.

10 Directors' remuneration

As at 31 March 2021, there were seven independent non-executive directors (2020: seven) and three executive directors (2020: three). The directors of the company who were in office during the year can be found within the Directors' Report. Total remuneration paid to directors is as follows:

	Year ended 31 March 2021	Year ended 31 March 2020
	£'000	£'000
Aggregate remuneration	1,042	1,224
Pension contributions	76	80
	1,118	**1,304**

Retirement benefits during the year accrued to one director (2020: one) under FSCS's defined benefit scheme and four under the money purchase scheme (2020: five).

The highest paid director, the Chief Operating Officer (2020: Chief Operating Officer), received aggregate remuneration of £334,472 (comprising basic salary of £263,574, bonus of £52,715 and other emoluments of £18,183) (2020: £373,589 (comprising basic salary of £258,406, bonus of £51,681 and other emoluments of £63,502)). Payments of £39,536 have been made for pension (2020: £38,761). The Chief Operating Officer did not receive any additional remuneration in respect of his role as director.

The fees paid to the Chairman are set at £75,000 per annum (2020: £75,000) and the fees paid to the independent non-executive directors, or their employers, are set at £24,500 per annum (2020: £24,500). Additional fees paid to the chair of the Audit Committee, Remuneration and Human Resources Committee, and Risk Committee were set at £5,000 per annum (2020: £5,000). From 1 February 2021, an additional fee of £5,000 per annum was also payable to the Deputy Chair and Senior Independent Director. In addition, business-related expenses totalling £1,967 (2020: £14,765) were reimbursed to the independent non-executive directors. The Chairman and the other independent non-executive directors are not entitled to a pension funded by FSCS.

11 Receivables

Trade and other receivables: amounts falling due within one year

	Note	31 March 2021 £'000	31 March 2020 £'000
Amounts due from the FCA	18	11,580	19,112
Levies receivable			
General Insurance Provision		1,156	813
General Insurance Distribution		4,353	54
Life Distribution & Investment Intermediation		2,443	1,202
Investment Provision		1,035	5
Home Finance Intermediation		428	4
Debt Management		550	–
FCA Retail Pool		–	1
In respect of base costs		119	34
Net amounts due from levy payers in the following classes:			
General Insurance Distribution		442	7,903
Life and Pensions Provision		43	–
Life Distribution & Investment Intermediation		29,467	49,656
Recoveries receivable in respect of the 2008/09 banking failures	13	–	5,206
Recoveries receivable in respect of other defaults	13	15,263	10,807
Other receivables		596	813
Prepayments		5,955	4,602
		73,430	**100,212**

Other non-current financial assets: amounts falling due after more than one year

		31 March 2021	31 March 2020
	Note	**£'000**	**£'000**
Recoveries receivable in respect of other defaults	*13*	46,228	1,921
		46,228	**1,921**

Total recoveries receivable in respect of other defaults of £61,491,000 (2020: £12,728,000) include £44,959,000 (2020: £nil) which FSCS expects to receive from firms declared in default in General Insurance Provision class; £16,479,000 (2020: £12,728,000) from firms declared in default in the Life Distribution and Investment Intermediation class; and £53,000 (2020: £nil) from firms declared in default in the Investment Provision class. A corresponding amount has been recognised to reflect the amounts payable to the levy payers in respect of recoveries receivable and distribution of surplus owed to customers (see Note 13).

The timing and value of recoveries receivable are estimated based on information available to the directors up to the date of signing these accounts, including Insolvency Practitioners' statements of estimated outcome and other reports published as part of the various insolvency processes; however, the timing and final outcome are uncertain. Recoveries receivable are categorised as level 3 within the fair value hierarchy as they are based on Insolvency Practitioners' statements of estimated outcome and other reports. These amounts could change significantly if administrator assessments change.

The movements in net recoveries receivable in the statement of financial position are analysed below:

	Receivable at 31 March 2019	Movements in recoveries receivable	Receivable at 31 March 2020	Movements in recoveries receivable	Receivable at 31 March 2021
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Current recoveries receivable:					
2008/09 banking failures	9,935	(5,586)	4,349	(4,349)	–
Other defaults	2,488	5,826	8,314	5,813	14,127
Non-current recoveries receivable:					
2008/09 banking failures	18,789	(18,789)	–	–	–
Other defaults	8,812	(7,008)	1,804	43,635	45,439
	40,024	**(25,556)**	**14,467**	**45,099**	**59,566**

Balances with other government bodies

	31 March 2021	31 March 2020
Amounts falling due within one year	**£'000**	**£'000**
Balances with other central government bodies	–	–
Balances with public corporations	11,580	19,112
Sub-total: intra-government balances	**11,580**	**19,112**
Balances with bodies external to government	61,850	81,100
Total receivables	**73,430**	**100,212**

	31 March 2021	31 March 2020
Amounts falling due after more than one year	**£'000**	**£'000**
Balances with other central government bodies	–	–
Sub-total: intra-government balances	**–**	**–**
Balances with bodies external to government	46,228	1,921
Total receivables	**46,228**	**1,921**

12 Cash and cash equivalents, overdraft, facilities and class borrowings

As at 31 March 2021, FSCS had bank facilities of £1,500m, comprising a 364-day sterling Revolving Credit Facility of £1,450m expiring on 15 March 2022, and an overdraft facility of £50m. Any drawdown of the Revolving Credit Facility is subject to Board approval.

	31 March 2021	31 March 2020
	£'000	**£'000**
Cash at bank	250,100	246,558
	250,100	**246,558**
Bank overdraft	–	(2,762)
	250,100	**243,796**

Prior to the UK's exit from the EU, the recast Deposit Guarantee Schemes Directive required the FSCS to have ex-ante funding of 0.8% of the amount of covered deposits of its members (to be built up by 2024). The Government used the bank levy to meet this funding requirement. FSCS will continue to be permitted to access this fund from HM Treasury, through the National Loans Fund or any other appropriate source, for a term and at an interest rate to be agreed at the time. The amount of the borrowing facility available to FSCS is determined by HM Treasury. As at 31 March 2021, this facility was not utilised. Any amounts drawn from this facility will be replenished by means of FSCS levies on the Deposits class in subsequent years.

13 Payables

Trade and other payables: amounts falling due within one year

	Note	31 March 2021 £'000	31 March 2020 £'000
Compensation payable		4,671	4,209
Net amounts held on behalf of levy payers			
Deposits		6,437	16,514
General Insurance Provision		23,557	18,090
Life and Pensions Provision		-	163
Investment Provision		54,797	28,954
Home Finance Intermediation		5,803	6,437
Debt Management		536	9
FCA Retail Pool		-	1
Payments on Account		157,118	149,554
Social security and other taxes		681	493
Accruals		7,954	8,118
Deferred income in respect of base costs		3,939	5,475
Distribution of surplus owed to customers	*11*	788	3,350
Amounts due to levy payers of the Deposits class in respect of the 2008/09 banking failures	*11*	–	4,349
Net amounts due to levy payers in respect of recoveries receivable	*11*	14,127	8,314
Other payables		4,145	5,514
		284,553	**259,544**

Non-current liabilities: amounts falling due after more than one year

	Note	31 March 2021 £'000	31 March 2020 £'000
Net amounts due to levy payers in respect of recoveries receivable	11	45,439	1,804
Distribution of surplus owed to customers	11	789	117
Amounts due to levy payers in respect of pension surplus		10,075	8,000
		56,303	**9,921**

Under revised funding rules, the FCA instructed the largest 1,000 levy payers to make payments on account for FSCS's 2021/22 levy. These firms were invoiced in February, with a due date of 1 April 2021. As at 31 March 2021, invoices totalling £252,676,000 (2020: £207,253,000) were issued, of which £156,553,000 (2020: £149,500,000) was collected, leaving amounts due from levy payers of £96,123,000 (2020: £57,754,000). The amounts received are held to the credit of those individual firms rather than to any particular funding class and are shown separately in Note 13 and in the Class Statements. These funds will be applied to reduce the payments of these firms when the 2021/22 annual levies are invoiced in July 2021, which are allocated against funding classes. FSCS has presented the receivable and the liability on a net basis in the statement of financial position after considering the fundamental principles in the International Accounting Standards Board (IASB) Conceptual Framework and the requirements of IFRS 15.

Balances with other government bodies

	31 March 2021	31 March 2020
Amounts falling due within one year	**£'000**	**£'000**
Balances with other central government bodies	681	493
Sub-total: intra-government balances	**681**	**493**
Balances with bodies external to government	283,872	259,050
Total payables	**284,553**	**259,544**

	31 March 2021	31 March 2020
Amounts falling due after more than one year	**£'000**	**£'000**
Balances with other central government bodies	–	–
Sub-total: intra-government balances	**–**	**–**
Balances with bodies external to government	56,303	9,921
Total payables	**56,303**	**9,921**

14 Lease liabilities

On 20 December 2011, FSCS entered a lease agreement for its premises at 10th Floor, Beaufort House, 15 St Botolph Street, London. The lease term is from 31 December 2011 to 30 December 2021. On 24 March 2016, FSCS entered another lease agreement for its premises at the Bank of England, Debden. The lease term is from 24 March 2016 to 23 March 2026. At the date of implementation, the remaining lease liability was £2,956,000 based on discounted lease payments. The rate used to discount the lease payments for IFRS 16 purposes was 1.74% as quoted by the Public Works Loan Board.

	31 March 2021	31 March 2020
Lease liabilities movements:	**£'000**	**£'000**
Value of discounted future cash flows on ROU assets at implementation	–	2,956
Brought forward	1,968	–
Payments during the year	(1,029)	(1,029)
Interest expense on lease liabilities	25	41
Lease liabilities at 31 March	**964**	**1,968**

	31 March 2021	31 March 2020
Lease liabilities fall due as follows:	**£'000**	**£'000**
Within 1 year	775	1,004
Within 2 to 5 years	189	915
Within 6 to 10 years	–	49
Greater than 10 years	–	–
Lease liabilities at 31 March	**964**	**1,968**

15 Provisions

	As at 31 March 2020	Change in the year	Utilised in the year	Unwinding of discount	As at 31 March 2021
	£'000	£'000	£'000	£'000	£'000
Compensation cost	83,940	(3,943)	(41,819)	–	38,178
Levy provision	522	205	(91)	–	636
Other	774	(258)	–	–	516
Total provisions	**85,236**	**(3,996)**	**(41,910)**	–	**39,330**
Current	84,462	(3,738)	(41,910)	–	38,814
Non-current	774	(258)	–	–	516
	85,236	**(3,996)**	**(41,910)**	–	**39,330**

Compensation cost provision
The provision for compensation costs of £38,178,000 (2020: £83,940,000) includes estimates for return of funds, return of premiums, general insurance claims, and other claims settlements agreed. This takes into account our best estimate of the most likely number of claims FSCS expects to receive and of the amount of these claims, using the best information available to the directors at this time.

This provision includes a remaining estimate of £8,543,000 for SVS Securities plc and £13,560,000 estimated for Reyker Securities plc. These are based either on estimates provided by or ongoing discussions with the administrators as to how much FSCS would be liable to contribute towards investors' losses and is the best information available to the directors at this time. The overall costs will depend on the outcome of the distribution plan and the finalisation of the return of client assets, which are still subject to change. These changes can have a significant impact on the overall cost, so the outcome could be higher or lower. We made a provision of £35,500,000 for SVS Securities plc in 2019/20. This was reduced by £2,500,000 in light of the latest information from the administrators. We also made interim payments totalling £24,457,000 during 2020/21, leaving a provision of £8,543,000 remaining for SVS. During 2019/20, we also made a provision of £20,000,000 for Reyker Securities plc. This was increased by £3,621,000 in light of the latest information from the administrators. We also made interim payments totalling £10,062,000 during 2020/21, leaving a provision of £13,560,000 remaining for Reyker. Significant judgements had to be made in arriving at these estimates, such as the timing of the return of remaining client assets on some estates, which are still subject to change. These changes can have a significant impact on the overall cost, so the provision could be different to the final outcome.

Compensation costs also include an amount of £8,502,000 (2020: £10,198,000) for other general insurance claims. This is an estimate of unpaid compensation claims that were accepted on or before 31 March 2021. The provision is based on submissions from Run-Off Agents who receive the acceptance of offers, where possible, or a review of post-year-end payments to determine the value of claims likely to have been accepted on or before 31 March 2021. Due to other third parties being involved, the Run-Off Agents may not be aware of all acceptances unless these third parties provide notification. These are not expected to be material. A risk adjustment of 7% has been applied to the amounts submitted. There are significant judgements that had to be made in arriving at this estimate because FSCS does not hold all the information pertaining to general insurance claims, and the final outcome could be different.

Levy provision
A number of firms applied for a reduction in the amount levied and requests for refunds were received from levy payers due to errors in the tariff data submitted by them to the FCA. Based on the best information available to the directors, a provision of £636,000 (2020: £522,000) has been made in the accounts for credit notes to be raised.

16 Financial risk management

The company's financial risk management policy is disclosed below.

Liquidity risk

Liquidity risk is the risk that FSCS is unable to meet its payment obligations associated with its financial liabilities as they fall due. FSCS manages its liquidity by carefully monitoring the projected income and expenditure related to its day-to-day business. Each month, FSCS identifies liquidity up to the point when it next expects to levy the majority of fees. FSCS also has available to it, for liquidity purposes, £1,500m of facilities, comprising a 364-day sterling Revolving Credit Facility of £1,450m expiring on 15 March 2022 and an overdraft facility of £50m at a fixed margin above bank rate. Any usage of the Revolving Credit Facility would be subject to Board approval.

In the event that FSCS is unable to raise sufficient levies and the facilities mentioned above do not provide adequate funds, FSCS would request a loan from HM Treasury.

The table below summarises the maturity profile of the company's financial liabilities based on expected undiscounted payments:

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
As at 31 March 2021	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Interest bearing loans and borrowings	–	–	–	–	–	–
Trade and other payables	–	12,780	271,773	56,303	–	340,856
Lease liabilities	–	–	775	189	–	964
Loan interest payable	–	–	–	–	–	–
	–	**12,780**	**272,548**	**56,492**	**–**	**341,820**

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
As at 31 March 2020	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Interest bearing loans and borrowings	–	–	–	–	–	–
Trade and other payables	–	14,126	245,418	9,921	–	269,465
Lease liabilities	–	–	1,004	915	49	1,968
Loan interest payable	–	–	–	–	–	–
	–	**14,126**	**246,422**	**10,836**	**49**	**271,433**

Interest rate risk

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The company is not exposed to significant interest rate risk.

Any interest rate risk to FSCS is mitigated by the ability to raise levies on the financial services industry as a whole, therefore any interest rate risk is ultimately passed on to and absorbed by the levy payers.

Credit risk
Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with FSCS, resulting in a financial loss to FSCS. FSCS's principal financial assets are cash and cash equivalents, together with levies and recoveries receivable.

FSCS's credit risk falls into three main categories:

i. the collection of levies from the financial services industry: the FCA, which collects the levies on behalf of FSCS, has a strong record in collecting levies;

ii. the placement of those levies as deposits with various counterparties: FSCS only invests with those financial institutions that meet its minimum credit rating as assigned by credit-rating agencies; and

iii. recoveries receivable from claims against institutions where FSCS has paid compensation (most often made through an insolvency process).

Any credit risk to FSCS is mitigated by the ability to raise levies on the financial services industry as a whole, therefore any loss due to credit risk will be absorbed by the levy payers.

Currency risk
FSCS is recovering funds from a number of institutions where the recoveries will be in foreign currencies. Changes in the exchange rate for US dollars or euros may affect the value recovered. Any currency risk to FSCS is mitigated by the ability to raise levies on the financial services industry as a whole, therefore any loss due to currency risk will be absorbed by the levy payers. The company is not exposed to significant currency risk.

Fair values
The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

- Cash and short-term deposits, trade receivables, trade payables, other current assets and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.
- The fair value of unquoted instruments, such as recoveries receivable (financial assets) is calculated by discounting management's estimate of future expected cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities. These receivables are categorised as level 3 within the fair value hierarchy as their valuation uses inputs which are not based upon observable market data.

For the level 3 financial assets, changing certain estimated inputs to reasonably possible alternative assumptions does not change the fair value significantly. The loss on revaluation of the level 3 financial assets in the year was not material.

The carrying amounts of the company's financial assets and financial liabilities are a reasonable approximation of fair value.

17 Reconciliation of the profit/(loss) on ordinary activities before interest and tax to net cash inflow from operating activities

The statement set out below relates cash flows to items shown in the statement of comprehensive income and statement of financial position movements.

	Note	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000
Surplus on ordinary activities before tax		(236)	642
Interest payable		25	41
		(211)	683
Depreciation		1,390	1,408
Loss on disposal		1	1
Decrease/(increase) in receivables	11	(17,525)	9,770
Increase/(decrease) in payables	13	71,392	79,249
IFRS 16 - lease adjustments		258	429
Difference between pension charge and cash contributions		(1,839)	(1,875)
Increase/(decrease) in provisions for liabilities and charges	15	(45,906)	29,288
Net cash inflow from operating activities		**7,560**	**118,953**

18 Transactions with related parties

During the year, FSCS entered into transactions with the FCA as a related party. The FCA and the PRA appoint, and have the right to remove, directors to the Board of FSCS and they establish the rules under which FSCS operates. The FCA and the PRA are considered to be related parties but not controlling parties during the year.

During the year, the FCA provided an agency service to FSCS to collect tariff data, issue levy invoices and collect levy monies on its behalf. Levy invoices, net of credit notes, were raised for £748,688,000 (2020: £639,976,000) during the year, including £49,983,000 raised as a supplementary levy and credit notes issued to the Deposits class totalling £4,998,000 during February 2021. Collections of £693,749,000 (2020: £640,669,000) were received from levy payers. The fee for the agency service was £425,000 (2020: £407,000).

Overall, payments of £701,281,000 (2020: £659,860,000) were made by the FCA to FSCS, leaving amounts due from the FCA to FSCS at 31 March 2021 of £11,412,000 (2020: £10,622,000). The FCA also held £168,000 of funds on behalf of FSCS, which will be returned to firms in the Deposits class. The total of these two balances amounted to £11,580,000.

In addition, a total of £59,000 was paid to the FCA for seconded staff.

During the year, FSCS did not enter into any transactions with the PRA.

HM Treasury is not considered to be a related party or a controlling party. However, in the interest of transparency, full disclosure of the transactions with HM Treasury has been made. These transactions with HM Treasury comprise loan drawdowns and repayments, loan interest fees, loan commitment fees and compensation payments on behalf of HM Treasury. There were no such transactions during the year.

The remuneration of key management personnel is set out in the Directors' Remuneration Report on page 40.

19 Contingent liabilities and contingent assets

Compensation costs
As at 31 March 2021 and 31 March 2020, compensation payments may become due as a result of claims made to us by customers of authorised financial services firms which have failed. To qualify for compensation customers must be eligible under our rules. These rules are outlined in the FCA Handbook and in the PRA Rulebook sections on depositor protection and policyholder protection. FSCS can only pay compensation for financial loss and there are limits to the amounts of compensation FSCS pays. There is significant uncertainty around the number of claims we will receive from customers, the likelihood of eligible claims, the type or product of those claims, the amount of compensation we will pay, and the timing of those payments. Therefore, it is not practicable to provide an estimate of the costs of potential claims we may receive or claims we have received but not yet decided on.

Recoveries receivable
FSCS has a statutory duty to pursue recoveries that are reasonably possible and cost-effective to pursue, which will offset some of the compensation FSCS will payout. At 31 March 2021 and 31 March 2020, FSCS had a number of ongoing recoveries actions against failed firms, the insurers of those failed firms, or other third parties, which are deemed probable to succeed. However, some of these have not been recognised as assets in the statement of financial position because their existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of FSCS.

London Capital & Finance plc (LCF)
LCF was declared in default on 9 January 2020. Since LCF entered administration, FSCS carried out an extensive and complex investigation into how LCF and its marketing company Surge Financial Ltd operated. The aim of this was to determine if any of the activities LCF carried out were regulated, as this is the only way its customers could be eligible for FSCS compensation.

FSCS considered that LCF did not carry out a regulated activity in issuing its own mini-bonds and, therefore, such claims would not be eligible under FSCS's compensation rules. Some bondholders disagreed with FSCS's analysis on this point and commenced a judicial review of our decision in relation to LCF ISA mini-bonds. On 29 March 2021, the court agreed with FSCS's decision which involved some complex legal issues. The claimants have been granted permission to appeal the court's decision to the Court of Appeal.

The total value of LCF non-ISA mini-bonds was £129,050,000 and the total value of LCF ISA mini-bonds was £108,157,000, based on the latest administrator's report available. There is significant uncertainty around the number of claims we will receive from these customers, the likelihood of eligible claims, the amount of compensation we will pay, and the timing of those payments. Therefore, it is not practicable to provide an estimate of the total compensation costs in relation to this default. FSCS would only compensate up to a maximum of £85,000 per eligible customer.

Our investigation revealed that LCF gave some customers misleading advice, which is a regulated activity and, therefore, something we are able to protect. We have now identified and contacted all LCF customers who we believe are eligible for FSCS compensation. In total, we have now paid out £57.6m to 2,871 LCF bondholders who held 3,900 LCF bonds.

FSCS has a statutory duty to pursue recoveries that are reasonably possible and cost-effective to pursue, which may offset some of the compensation FSCS pays out.

There are no other material contingent liabilities or contingent assets identified at the reporting date.

20 Retirement benefits

FSCS operates both a money purchase scheme and a defined benefit pension scheme (the Pension Scheme), which was closed to new staff and closed to future accrual on 30 June 2011.

Money purchase scheme
A non-contributory money purchase pension scheme, for permanent and fixed-term contract staff, was set up with effect from 1 February 2001. Until 31 March 2019, FSCS made contributions of 6%, with incremental increases of 2% after two years' service, and a further 2% after five years. FSCS matched voluntary contributions made by employees up to a further 5%. From 1 April 2019, FSCS makes contributions equal to 9% of the basic annual salary so long as the permanent or fixed-term contract staff pays a minimum employee contribution of 1%. FSCS increases this contribution to 11% after three years' service. If staff choose to increase their employee contribution above 1% the FSCS will match this with an employer's contribution up to a maximum of an additional 4% of their basic annual salary.

Amounts paid by FSCS into the money purchase scheme amounted to £2,322,000, and £nil was outstanding to be paid at 31 March 2021 (2020: £2,022,000 and £nil respectively).

Defined benefit pension scheme with money purchase underpin (hybrid pension scheme)
FSCS operates a funded scheme with defined benefits payable that are underpinned by the value of notional money purchase units allocated to members in respect of service prior to 1 April 2002. Assets are held in separate Trustee-administered funds. An actuarial valuation of the Pension Scheme was carried out as at 1 April 2018. The valuation used the projected unit method and was carried out by professionally qualified actuaries.

The Trustees have the primary responsibility for governance of the Pension Scheme. Benefit payments are from Trustee-administered funds and the Trust is governed by UK regulation. Responsibility for governance of the Pension Scheme, including investment decisions and contribution rates, lies jointly with the company and the Trustees. The Trustees comprise representatives of FSCS and members in accordance with the Trust Deed and Rules. FSCS is entitled to recover any surplus contribution upon wind-up of the pension scheme.

Principal actuarial assumptions at the statement of financial position date are:

	31 March 2021	31 March 2020
	% (p.a.)	% (p.a.)
Discount rate	2.10	2.35
Pension increase rate (where increase is based on RPI inflation capped at 5% p.a.)	3.15	2.60
Pension increase rate (where increase is based on CPI inflation capped at 3% p.a.)	2.25	1.85
RPI inflation assumption	3.30	2.60
CPI inflation assumption	2.60	1.95

The following standard mortality tables published by the Institute and Faculty of Actuaries and projections of future mortality improvements have been used:

Pre- and post-retirement: 100% S2PMA light for males and 100% S2PFA light for females, with future improvements to mortality projected using the Continuous Mortality Investigation (CMI) mortality projections model 2019, with a 1.25% per annum long-term trend rate for males and 1.25% per annum long-term trend rate for females from 2008 onwards, allowing for an individual member's year of birth.

	31 March 2021	31 March 2020
Key assumptions		
Life expectancy at 60 for male aged 60	27.6	27.6
Life expectancy at 60 for female aged 60	28.8	28.7
Life expectancy at 60 for male aged 45	28.7	28.6
Life expectancy at 60 for female aged 45	30.0	29.9

For the 31 March 2021 disclosures, 75% of retiring members are assumed to exercise their option to commute the maximum amount of their pension for a Pension Commencement Lump Sum using the cash commutation factors in place as at 31 March 2021. The proportion of members commuting the maximum cash available is also consistent with last year's assumption.

For the 31 March 2021 disclosures, 80% of male and 75% of female members are assumed to have eligible adult dependants of the opposite sex, with males assumed to be three years older than females.

The assumptions were chosen by FSCS, with professional advice.

At 31 March 2021, the Pension Scheme's assets were invested in a diversified portfolio that consisted primarily of equities and diversified growth funds.

The fair values of the Pension Scheme's assets are set out below:

As at 31 March 2021	Quoted £'000	Unquoted £'000	Total £'000
Global equities	12,788	–	12,788
Property	–	2,125	2,125
Indexed-linked gilts	6,271	–	6,271
UK corporate bonds	4,216	–	4,216
Diversified growth funds	–	13,424	13,424
Cash and net current assets	489	–	489
Alternative	3,970	–	3,970
Total assets	**27,734**	**15,549**	**43,283**

As at 31 March 2020	Quoted £'000	Unquoted £'000	Total £'000
Global equities	8,083	–	8,083
Property	–	2,092	2,092
Indexed-linked gilts	5,625	–	5,625
UK corporate bonds	3,518	–	3,518
Diversified growth funds	–	11,327	11,327
Cash and net current assets	463	–	463
Alternative	3,640	–	3,640
Total assets	**21,329**	**13,419**	**34,748**

The assets as at 31 March 2021 are consistent with the Pension Scheme's investment strategy as set by the Trustees. As the Pension Scheme matures, it is intended to reduce the level of investment risk by moving towards a position that is predominantly liability matching in nature. This involves an asset liability management framework that has been developed to achieve long-term investments that are in line with the obligations under the Pension Scheme. Within this framework, the objective is to match assets to the pension obligations by investing in long-term fixed interest and index-linked securities with maturities that match the benefit payments as they fall due and in the appropriate currency. FSCS actively monitors the duration and the expected yield of the investments that are matching the expected cash flows arising from the pension obligations.

The Pension Scheme does not invest in the sponsor's own financial instruments, including property or other assets owned by the sponsor.

The amounts recognised in the statement of financial position are as follows:

	31 March 2021	31 March 2020
	£'000	£'000
Fair value of assets	43,283	34,748
Present value of obligations	(33,208)	(26,748)
Funded status	**10,075**	**8,000**
Adjustment in accordance with paragraph 64 of IAS19 (the 'asset ceiling')	–	–
Net defined benefit asset/(obligation)	**10,075**	**8,000**

	Year ended 31 March 2021	Year ended 31 March 2020
Movement in net defined benefit asset/(obligation) over the year	£'000	£'000
Net defined benefit asset/(obligation) at beginning of the year	8,000	6,767
Employer contributions	1,920	1,920
Expense recognised in income statement	(81)	(45)
Remeasurement gain/(loss) recognised in other comprehensive income	236	(642)
Net defined benefit asset/(obligation) at end of the year	**10,075**	**8,000**

	Year ended 31 March 2021	Year ended 31 March 2020
Changes in present value of the defined benefit obligation	£'000	£'000
Opening defined benefit obligation	26,748	28,545
Past service cost	4	–
Interest cost	626	719
Distributions	(256)	(688)
Experience (gains)/losses	–	–
Losses (gains) on curtailments	–	–
Actuarial (gains)/losses	6,086	(1,828)
Closing defined benefit obligation	**33,208**	**26,748**

Sensitivity analysis of the Pension Scheme liabilities

The sensitivity of the principal assumptions used to measure the Pension Scheme liabilities is set out below:

	Change in assumption	Value of Scheme liabilities
		£'000
No change to the assumptions		33,208
Discount rate reduced by	0.25%	35,194
Discount rate increased by	0.25%	31,368
Inflation and associated pension increases increased by	0.25%	35,056
Inflation and associated pension increases reduced by	0.25%	31,717
Life expectancy increased by	1 year	34,508

Description of risks to which the Pension Scheme exposes FSCS

If the Pension Scheme assets do not move in line with Pension Scheme liabilities, then a deficit may arise. As the Pension Scheme matures, FSCS intends to reduce the level of investment risk by moving towards a position that is predominantly liability matching in nature. The majority of benefits are linked to inflation and so increases in inflation will lead to higher liabilities (although in most cases there are caps in place which protect against extreme inflation). Increases in life expectancy will increase pension scheme liabilities. The inflation-linkage of the benefits also means that inflationary increases result in a higher sensitivity to increases in life expectancy.

	Year ended 31 March 2021	Year ended 31 March 2020
Changes in fair value of the Pension Scheme assets	£'000	£'000
Opening fair value of assets	34,748	35,312
Contributions paid by employer	1,920	1,920
Interest income	833	913
Return on Scheme assets excluding interest income	6,322	(2,470)
Distributions	(256)	(688)
Administration expenses	(284)	(239)
Closing fair value of assets	**43,283**	**34,748**

Expenses recognised in the income statement	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000
Past service cost	4	–
Administration expenses	**284**	**239**
Net interest on the net defined benefit obligation/(asset)	(207)	(194)
Total expense/(income)	**81**	**45**

Remeasurement effects recognised in other comprehensive income	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000
Return on Pension Scheme assets excluding interest income	6,322	(2,470)
Experience (losses) arising on the Pension Scheme liabilities	–	–
Changes in financial assumptions underlying the present value of the Pension Scheme liabilities	(6,086)	2,192
Changes in demographic assumptions underlying the present value of the Pension Scheme liabilities	–	(364)
Net actuarial gains/(losses) recognised in the period	**236**	**(642)**

	£'000
Best estimate of employer contributions to be paid over following year	570

Expected future benefit payments	
Year ending 31 March 2022	463
Year ending 31 March 2023	372
Year ending 31 March 2024	542
Year ending 31 March 2025	457
Year ending 31 March 2026	662
Five years ending 31 March 2031	4,052

As required by IAS 19, the projected unit method has been used to determine the liabilities.

FSCS has agreed with the Trustees that the funding objective is to aim to ensure that the Pension Scheme has sufficient and appropriate assets to cover its technical provisions (which are effectively the liabilities in respect of service already completed) under the scheme specific funding regulations (the Pension Scheme operates under the Pensions Act 2004 regulatory framework).

The valuation of the Pension Scheme's liabilities for accounting purposes has been carried out at a different date from when the Pension Scheme's last actuarial valuation was carried out to determine the funding position and using some different assumptions. Therefore, the figures quoted in this Note are different from those disclosed in the last actuarial valuation report as would usually be expected. The figures set out in this Note are calculated according to the requirements of IAS 19. Separate calculations will be carried out for the Trustees and possibly the sponsor, to monitor and control the funding of the Pension Scheme using assumptions selected by the Trustees.

FSCS estimates the duration of the Pension Scheme liabilities on average to fall due around 23 years.

21 Other disclosures

HM Treasury has issued an Accounts Direction requiring FSCS to disclose the following information:

Sickness absence
FSCS actively promotes the health, safety and well-being of its staff, aware this helps to boost morale, staff engagement and, in turn, excellent performance. The average number of working days lost to sickness absence during the year to 31 March 2021 was 2.4 days per person (2020: 5.4 days per person).

Exit packages
FSCS is required to disclose summary information on the use of exit packages, in accordance with the Accounts Direction issued by HM Treasury. The following table includes exit packages as they relate to all employees, and exit packages are accounted for in full in the year of departure.

	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band
Exit package cost band	**Year ended 31 March 2021**	**Year ended 31 March 2021**	**Year ended 31 March 2021**	**Year ended 31 March 2020**	**Year ended 31 March 2020**	**Year ended 31 March 2020**
≤ £10,000	–	–	–	–	–	–
£10,001-£25,000	–	–	–	1	2	3
£25,001-£50,000	3	1	4	3	–	3
£50,001-£100,000	1	–	1	2	–	2
£100,001-£150,000	–	–	–	–	–	–
£150,001-£200,000	–	–	–	–	–	–
Over £200,001	1	–	1	1	–	1
Total number of exit packages by type	**5**	**1**	**6**	**7**	**2**	**9**
Total resource cost (£'000)	**417**	**30**	**447**	**624**	**30**	**654**

FSCS is not required to follow the provisions of the Civil Service Compensation Scheme as its principal governance arrangement is with the FCA/PRA. Any FSCS exit packages are approved in line with our own internal procedures.

Special severance payments
There were four special severance payments made during the year to 31 March 2021 totalling £21,242 (2020: seven special severance payments totalling £95,114).

Losses and special payments
Total losses and special payments were £432,653 (2020: £462,135) during the year to 31 March 2021. There were no individual losses or special payments exceeding £300,000. The majority of this is made up of claims overpayments which is further explained below.

During the year, the mix of our claims has become increasingly complex. This rising complexity also brings associated risks to the accuracy of our compensation service. The average compensation paid in relation to these more complex claims has also increased, and therefore, any error leads to potential increases in any resulting payment error. Our error rates for the year were 0.12% of compensation paid.

During the year, FSCS has increased the number of quality assurance (QA) checks performed. These checks did not identify any systemic failings in our controls or claims processes. Through our robust quality checks, and specific reviews of the General Investment workstream we have made further enhancements to the guidance, training and accreditation of our claims processing function, including:

- collaborative calibration sessions for complex workstreams (e.g. General Investment workstream);
- accreditation of claims handlers and reviewers – ensuring that all compensated claims are peer reviewed by skilled and knowledgeable staff;
- ensuring all our claims processes and procedures are fully documented with only FSCS experienced staff able to amend any documentation; and
- for new defaults requiring amendments to existing established claims processes, set up a model office, to simulate the claims process prior to 'Go Live'.

For 2020/21, QA and other checks that FSCS performed of claims processed, identified net compensation calculation errors of £425,725, of which there was an outstanding recovery balance of £367,253 as at 31 March 2021.

22 Events after the reporting period

On 20 April 2021, FSCS signed a new 10-year lease for its office premises at 10th Floor, Beaufort House, 15 St Botolph Street, London. The new lease term is from 31 December 2021 to 30 December 2031. The new lease has been treated as a lease modification in accordance with IFRS 16. The remeasured lease liability of circa £8.1m has been calculated as the present value of the remaining lease payments at circa £8.8m, discounted using an expected interest rate of 1.42% based on a 10.5-year loan from the Public Works Lending facility. A corresponding adjustment will be made to the right of use asset. The lease arrangement has a one year rent free period from 31 December 2021 and a further six months' rent free period from 31 December 2026 if the lease is not terminated. The contract provides for a rent review on 31 December 2026.

There were no other material events after the reporting period. The Board authorised these financial statements for issue on 24 June 2021.

ISBN 978-1-5286-2536-4
CCS0221042684

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ISBN 978-1-5286-2536-4
CCS0221042684

Printed on paper containing 75% recycled fibre content minimum.

Printed in the UK by the APS Group on behalf of the Controller of Her Majesty's Stationery Office.