Financial Services
Compensation Scheme

Outlook

May 2023

www.fscs.org.uk

Contents

About **FSCS**

FSCS is the UK's financial compensation scheme that protects customers of authorised financial services firms if they fail or have stopped trading.

FSCS is independent and can pay compensation if an authorised firm fails and is unable to pay back money it owes its customers. FSCS's service is completely free to use and is funded by the financial services industry.

Chief Executive's statement

In this, our latest *Outlook* publication, we share the updated levy and compensation forecasts for 2023/24. The headline levy figure is that we now expect to need £270m from industry levy payers this year to pay compensation to consumers who need our help.

This is a significant reduction from the initial estimates that we shared in November, however, in total, we still expect to pay £471m in compensation this year - the sixth year in a row that we are close to or above £500m. The gap between the compensation we expect to pay (£471m), and the levy we need to charge (£270m), is covered by the surpluses that we are carrying over from last year.

What sits behind our forecasts for 2023/24

This time last year, the longer-term data suggested that the amount of compensation we pay to customers was likely to continue increasing. Whilst the level of compensation expected this year is lower than it has been in some recent years, we have no evidence that there is a sustained downward trend and compensation costs for 2023/24 are expected to be higher than in 2022/23.

The advice market continues to drive most of the claims we see. Now sitting at £213m, Life Distribution & Investment Intermediation is the only class that has seen its compensation forecast increase slightly since November's *Outlook*. We expect some of the compensation in this class will be paid to former members of the British Steel Pension Scheme, where their advice firm has already failed. The FCA's redress scheme for these former members is now up and running and, by the end of this year, those firms that are still in business should pay any redress they owe.

The FCA's latest business plan includes prevention of harm and higher standards as their first two areas of focus. The plan also includes a commitment to review compensation limits and funding class thresholds which were originally made in the Compensation Framework Review feedback statement last year. This work, together with the continuation of the FCA's Consumer Investments strategy, is something that FSCS welcomes and continues to support. We recently responded to the consultation on core investment advice and are interested in the ongoing discussions around the advice and guidance boundary.

In January, the FCA and PRA jointly consulted on and approved our Management Expenses Levy Limit (MELL) of £109.8m, which was slightly below last year's £110.5m. £10m of the MELL is what we call the 'unlevied reserve', essentially a contingency fund we can charge to firms to meet unforeseen costs. Our management expenses budget is £99.8m.

FSCS's expenses are split into controllable and non-controllable costs. The latter are directly linked to handling the claims we receive from customers. What can get lost in the detail however is the 'invisible effort' that goes on before a single claim is paid against a failed firm. Each year we carry out several intensive investigations into firms, usually those involved in investments or advice, triggered by customers coming to us and making a claim. We must ascertain whether any claims against the firm are valid under our rules, and whether the firm is able to meet these claims. It sounds simple on paper, but there are often legal or regulatory complexities that mean these investigations can take many months to complete. Ultimately, this investigative work or 'invisible effort' may not result in any eligible claims. The effort goes unnoticed to most, and is silent in our compensation figures, but it does incur management expenses.

FSCS's role in building trust and confidence

Our mission as an organisation is to provide a trusted service that helps raise public confidence in the financial services industry. If firms are trusted, and this includes FSCS and other members of the regulatory family, this builds confidence. Confident consumers are far less likely to make impulsive decisions when it comes to their money. This in turn leads to greater stability, which is the best foundation for growth.

You will find much debate about the extent to which consumers can be well-protected in a market that seeks to drive growth and competitiveness, but I believe that sustainable growth simply cannot happen if consumers do not feel safe. Continuing to seek out and eradicate the root causes of harm is key to that trust in the financial system, which is something FSCS continues to play an active role in.

We will continue to closely monitor the volume and complexity of claims throughout the year and will share our next update on the levy in the autumn edition of *Outlook*.

Caroline Rainbird
Chief Executive

2023/24 levy update

The annual levy for 2023/24 is now £270m, this is lower than the indicative levy announced in *Outlook* in November 2022, and a decrease from the final 2022/23 levy which was £625m. Although the levy has decreased, we still expect compensation costs in 2023/24 to be high at £471m.

We do not expect a retail pool levy in 2023/24 as no class is expected to breach its annual levy limit.

The updated levy is £208m lower than the indicative levy published in the November *Outlook*. This movement is mainly driven by:

- £97m of lower compensation costs in 2022/23 which have created additional surpluses. The three classes with the largest surplus increases are:
  - the Life Distribution & Investment Intermediation (LDII) class as lower volumes of pension decisions were made as we trained additional pension claims handlers. Also, there were fewer upheld claims as more assessments determined that there was no financial loss; and
  - the Investment Provision class as claims expected in 2022/23 are now expected in 2023/24 and later years; and
  - the General Insurance Provision class as large insurance pay-outs were delayed due to the complex nature of these claims, or settled at lower amounts.
- A decrease of £121m in compensation forecasted for 2023/24. The two classes with the largest decreases are:
  - the General Insurance Provision class with a £56m reduction, partly relating to delays on large loss claims for failed estates; and
  - the Investment Provision class with a £67m reduction, mainly due to fewer SIPP operator claims now expected for potential new failures, and with some claims moving into 2024/25 and beyond.

Surpluses and refunds

- In most classes with surpluses, we are expecting these funds to be utilised in the 2023/24 financial year. The 2022/23 surpluses have been carried forward and used to offset the 2023/24 levy.
- In classes where the surpluses are not expected to be fully utilised in 2023/24, there will be a £4m refund to the Home Finance Intermediation class; a £1m refund to the Home Finance Providers class and a £0.5m refund to the Debt Management class.

We continually review our underlying assumptions as these are affected by when firms fail and the timing and complexity of claims.

This May 2023 *Outlook* provides our latest update and the levy payable by the industry for the 2023/24 financial year. We will publish the next version later in the year.

Payment on account

All PRA and FCA regulated firms will be sent an annual levy invoice in summer 2023.

We have already invoiced firms £242m for payment on account for the 2023/24 levy. For those that made an advanced payment in March 2023, this will be deducted from their annual levy invoice in the summer. Credits to firms, if applicable, will be handled at the same time.

Levy breakdown – PRA classes

Deposits

2023/24 forecast fund balances	November's Outlook forecast (£m)	Latest levy update (£m)	Variance (£m)
Opening balance	2.8	22.9	20.1
Compensation	(12.0)	(12.0)	0.0
Recoveries	0.0	1.0	1.0
Management expenses	(14.1)	(14.1)	0.0
Annual levy receipts	16.0	4.0	(12.0)
Total closing surplus/(deficit) Please note that the 'Annual levy receipts' excludes provider contributions.	(7.3)	1.8	9.1
Total levies The 'Total levies' includes provider contributions to other classes. Please note, the 'Total levies' is not the sum of each column. This row shows the November forecast in comparison to the latest levy update.	**18.2**	**6.1**	**(12.1)**

The Deposits class has seen a decrease in the amount firms will have to pay from £18m to £6m since our indicative levy forecast in November's *Outlook*.

The main reasons for this are that compensation costs were £7m lower than anticipated in 2022/23, and we received an additional £7m in levies from firms which had submitted incorrect tariff data. This has contributed to a £23m class surplus which has been carried forward and used to offset the 2023/24 levy.

Approximately £4m of the levy will be for costs in the Deposits class as we are expecting a small number of credit union failures during 2023/24, and £2m will be provider contributions to the LDII class.

Deposit Acceptors

Note that the Deposit Acceptors class only contributes towards the annual levy if the retail pool is triggered. For 2023/24, a retail pool levy is not currently expected to be required.

Levy breakdown – PRA classes

General Insurance Provision

2023/24 forecast fund balances	November's Outlook forecast (£m)	Latest levy update (£m)	Variance (£m)
Opening balance	14.4	72.4	58.0
Compensation	(240.2)	(183.7)	56.5
Recoveries	1.8	11.8	10.0
Management expenses	(7.2)	(7.6)	(0.4)
Annual levy receipts	232.0	114.0	(118.0)
Total closing surplus/(deficit) Please note that the 'Annual levy receipts' excludes provider contributions.	0.8	6.9	6.1

Total levies The 'Total levies' includes provider contributions to other classes. Please note, the 'Total levies' is not the sum of each column. This row shows the November forecast in comparison to the latest levy update.	**233.7**	**114.0**	**(119.7)**

The levy for this class has decreased from £234m, since our indicative levy forecast, to £114m. The main reasons include:

- The compensation costs for 2022/23 were £43m lower than expected, resulting in higher surpluses to carry forward to 2023/24. This was because:
  - several large loss claims (where a claim is more than £500K) expected in 2022/23 moved into 2023/24 due to the complex nature of these claims. Some other large loss claims between insurers and customers were negotiated and settled at a lower value than originally anticipated; and
  - there were lower compensation costs for Prometheus Insurance Company Ltd as the expected transition from administration to liquidation was delayed and did not occur until March 2023.

- Recoveries received in 2022/23 were £8m higher than expected. A large part of this was in relation to the liquidation of Prometheus Insurance Company Ltd.
- The compensation costs for 2023/24 are now expected to be £56m lower than forecast in November's *Outlook*. This decrease mainly relates to a £22m reduction for Prometheus Insurance Company Ltd and an £11m reduction for East West Insurance Company Ltd as estimated pay-outs have been revised.

We are not expecting any new firm failures in this class and compensation costs expected relate to legacy failures. The expected compensation costs for 2023/24 are £184m which is similar to the compensation paid out in 2022/23 (£188m).

Levy breakdown – PRA classes

Life & Pensions Provision

2023/24 forecast fund balances	November's Outlook forecast (£m)	Latest levy update (£m)	Variance (£m)
Opening balance	(0.3)	(0.5)	(0.2)
Compensation	0.0	0.0	0.0
Recoveries	0.0	0.0	0.0
Management expenses	0.0	0.0	0.0
Annual levy receipts	0.0	0.0	0.0
Total closing surplus/(deficit) Please note that the 'Annual levy receipts' excludes provider contributions.	(0.3)	(0.5)	(0.2)

Total levies The 'Total levies' includes provider contributions to other classes. Please note, the 'Total levies' is not the sum of each column. This row shows the November forecast in comparison to the latest levy update.	**15.4**	**14.7**	**(0.7)**

We do not expect any firm failures to occur in this class during 2023/24.

The levy for this class is driven by provider contributions to the Life Distribution & Investment Intermediation (LDII) class. The levy for 2023/24 will be £15m and is broadly in line with the indicative levy published in November.

Levy breakdown - FCA classes

General Insurance Distribution

2023/24 forecast fund balances	November's Outlook forecast (£m)	Latest levy update (£m)	Variance (£m)
Opening balance	1.0	5.4	4.4
Compensation	(1.2)	(0.7)	0.5
Recoveries	0.0	0.0	0.0
Management expenses	(5.9)	(1.7)	4.2
Annual levy receipts	7.0	0.0	(7.0)
Total closing surplus/(deficit) Please note that the 'Annual levy receipts' includes provider contributions.	0.9	3.0	2.1
Total levies The 'Total levies' excludes provider contributions from other classes. Please note, the 'Total levies' is not the sum of each column. This row shows the November forecast in comparison to the latest levy update.	**5.3**	**0.0**	**(5.3)**

The levy for this class has decreased from £5m, as forecast in the indicative levy, to nil. The year end surplus from 2022/23 is expected to cover the costs for the 2023/24 financial year.

We are not expecting any new firm failures in 2023/24.

Levy breakdown - FCA classes

Life Distribution & Investment Intermediation

2023/24 forecast fund balances	November's Outlook forecast (£m)	Latest levy update (£m)	Variance (£m)
Opening balance	86.5	118.5	32.0
Compensation	(209.5)	(212.8)	(3.3)
Recoveries	6.8	4.9	(1.9)
Management expenses	(27.7)	(30.3)	(2.6)
Annual levy receipts	145.0	139.0	(6.0)
Total closing surplus/(deficit) Please note that the 'Annual levy receipts' includes provider contributions.	1.1	19.3	18.2

Total levies The 'Total levies' excludes provider contributions from other classes. Please note, the 'Total levies' is not the sum of each column. This row shows the November forecast in comparison to the latest levy update.	**105.5**	**101.1**	(4.4)

The levy payable by firms in this class is £101m, a £4m decrease from November's indicative levy. The compensation costs forecast for this class have increased by £3m since November's *Outlook*, but the mix of claims expected has changed.

The main changes in the levy forecast include:

- A £21m reduction relating to the compensation costs for complex pension claims as:
  - the number of claims decisions expected in 2023/24 have decreased for potential new failures; and
  - this is offset partly by higher average compensation. Macroeconomic factors impacting the pension redress calculation model, including increased interest rates and inflation, had resulted in lower average compensation payments during 2022/23. This has now stabilised and so decreases in average compensation are no longer expected.

- A £20m increase across other products, mainly driven by SIPP advice claims, due to an increase in new claims received in 2022/23. This resulted in an increased volume of claims in progress expected to be completed in 2023/24.

This class will be receiving provider contributions from the Life & Pensions Provision (£15m), Investment Provision (£21m) and Deposit Acceptors (£2m) classes.

Levy breakdown - FCA classes

Investment Provision

2023/24 forecast fund balances	November's Outlook forecast (£m)	Latest levy update (£m)	Variance (£m)
Opening balance	90.6	118.9	28.3
Compensation	(128.0)	(61.1)	66.9
Recoveries	0.0	0.0	0.0
Management expenses	(9.7)	(7.0)	2.7
Annual levy receipts	48.0	0.0	(48.0)
Use of surplus to fund provider contribution*	0.0	(21.0)	(21.0)
Total closing surplus/(deficit) Please note that the 'Annual levy receipts' excludes provider contributions.	0.9	29.8	28.9

Total levies The 'Total levies' includes provider contributions to other classes. Please note, the 'Total levies' is not the sum of each column. This row shows the November forecast in comparison to the latest levy update.	**70.0**	**0.0**	(70.0)

Since the indicative levy was published in November, the forecast for this class has decreased from £70m to nil. The main reasons include:

- The 2022/23 compensation costs for this class were £31m, a £17m reduction on the indicative levy forecast. This reduction is largely due to fewer SIPP operator claims, as claims related to recent failures such as DAC Pensions Ltd, expected in 2022/23 have moved into 2023/24. This contributed to a £17m increase in the year end surplus for the class against November's forecast.
- The compensation costs for 2023/24 are now expected to be £67m lower, primarily as SIPP operator claims decisions have decreased by around 1,600 claims. This is partly due to some claims moving into 2024/25 and beyond, and lower claims volumes now expected for potential new failures.

*The provider contribution to the LDII class is £21m, which will be covered by the Investment Provision class surplus and will not be levied on firms.

Levy breakdown - FCA classes

Home Finance Intermediation

2023/24 forecast fund balances	November's Outlook forecast (£m)	Latest levy update (£m)	Variance (£m)
Opening balance	7.0	7.4	0.4
Compensation	(0.7)	(0.7)	0.0
Recoveries	0.0	0.0	0.0
Management expenses	(1.0)	(0.8)	0.2
Annual levy receipts	0.0	(5.0)	(5.0)
Total closing surplus/(deficit)	5.3	0.9	(4.4)

Total levies Please note, the 'Total levies' is not the sum of each column. This row shows the November forecast in comparison to the latest levy update.	**0.0**	**0.0**	**0.0**

We are not expecting any new firm failures in this class in 2023/24 and the annual levy remains nil as per the indicative levy published in November.

The Home Finance classes will be receiving a £5m refund in total as the 2022/23 surplus in the Home Finance Intermediation class is not expected to be fully utilised in the next financial year. The refund will be split with £4m refunded to the Home Finance Intermediation class and £1m to the Home Finance Providers class.

Home Finance Providers

Please note that the Home Finance Providers class is not FSCS protected. Home Finance Providers pay provider contributions to the Home Finance Intermediation class and contribute to the retail pool levy if required.

The Home Finance Provider class is not required to pay any contributions in 2023/24 to the Home Finance Intermediation class, or any other class as we are not expecting a retail pool levy this year.

As noted above the Home Finance Providers class will be refunded £1m in provider contributions.

Levy breakdown - FCA classes

Debt Management

2023/24 forecast fund balances	November's Outlook forecast (£m)	Latest levy update (£m)	Variance (£m)
Opening balance	0.5	0.5	0.0
Compensation	0.0	0.0	0.0
Recoveries	0.0	0.0	0.0
Management expenses	0.0	0.0	0.0
Annual levy receipts	0.0	(0.5)	(0.5)
Total closing surplus/(deficit)	0.5	0.0	(0.5)

Total levies Please note, the 'Total levies' is not the sum of each column. This row shows the November forecast in comparison to the latest levy update.	**0.0**	**0.0**	**0.0**

As per November's indicative levy, we are not expecting any firm failures or compensation costs for the Debt Management class during the 2023/24 financial year and the levy remains nil.

There will be a £0.5m refund for firms in this class as the 2022/23 surplus is not expected to be fully utilised in the next financial year.

Levy breakdown - FCA classes

Funeral Plans

2023/24 forecast fund balances	November's Outlook forecast (£m)	Latest levy update (£m)	Variance (£m)
Opening balance	0.0	0.0	0.0
Compensation	0.0	0.0	0.0
Recoveries	0.0	0.0	0.0
Management expenses	0.0	0.0	0.0
Annual levy receipts	0.0	0.0	0.0
Total closing surplus/(deficit)	0.0	0.0	0.0

Total levies Please note, the 'Total levies' is not the sum of each column. This row shows the November forecast in comparison to the latest levy update.	**0.0**	**0.0**	**0.0**

The 2023/24 financial year will be the first full year of the Funeral Plans funding class since it became regulated on 29 July 2022.

In 2023/24, we are not expecting any firm failures or compensation to be paid to customers, therefore no levy is payable, as per the indicative levy forecast.

Contact us

Contact us

For more information
call: 0800 678 1100
email: publications@fscs.org.uk
visit: www.fscs.org.uk

Head Office

Financial Services
Compensation Scheme
10th Floor
Beaufort House,
15 St Botolph Street,
London, EC3A 7QU

Stay connected

FSCS Facebook
FSCS Instagram
FSCS LinkedIn
FSCS Twitter
FSCS Podcast