

FSCS into the 2020s Protecting the Future

Executive Summary

FSCS protects consumers when financial services businesses fail and, by doing so, raises confidence in the industry and underpins financial stability.

01: FSCS' mission and why it matters

In Part 1, we explain why this mission matters to our key stakeholders – consumers, our customers, the industry itself, government and regulators – and what each stakeholder expects of FSCS. Consumers need information about FSCS protection so they are reassured when failures occur and so they can make informed choices between financial products. FSCS must pay compensation quickly and accurately whenever it is due to people who use our service. We reach independent decisions and provide a customer-focused service. We have obligations to the industry to pursue recoveries. The regulators and government expect FSCS to be prepared to respond to major failures if called on, but also to work together to reduce the risk of future failures. All stakeholders expect FSCS to operate efficiently.

Our mission is enduring.

02: The evolution of FSCS

In Part 2, we describe how FSCS has evolved since the financial crisis. Since 2011 we have compensated depositors in failed banks, building societies or credit unions within seven days. Thanks to the investments made in modernising our service under our five year strategy – Vision for a Confident Future – begun in 2014, our handling of other claims is now supported by modern, well-controlled online processes which have enabled us to deliver better service and value for money against a backdrop of increasing numbers of claims, in particular claims against advisers.

Our protection, particularly of deposits, is much better known than it was ten years ago. We work with experienced partners with the know-how and resources to ensure we are prepared in the face of major failures or another crisis.

We have recovered roughly £16 billion over the last five years. We have achieved silver accreditation as an Investor in People.

03: A changing world

Part 3 highlights the challenges – continuing and new – we expect to face in the 2020s. We shall continue to protect depositors in banks, building societies and credit unions and be ready, if called on, to support the orderly resolution of a failing firm by returning depositors' money within seven days. We will also continue to handle the failure of insurers. In April 2019 our protection for investment and home finance claims increases to £85,000. Customer expectations of our other services will be higher. And consumers will also face new risks as financial products change and as consumers themselves face more complex choices, particularly over retirement saving. Our levy payers

will expect us to continue to reduce the cost of handling claims and also to play our part, alongside the regulators, in preventing the detriments to consumers which lead to claims.

04: An ambitious FSCS

In Part 4, we set out our ambitions for the 2020s in response to these challenges and explain how we shall realise those ambitions. Our strategy has four pillars.

First, FSCS must be prepared to protect consumers when major failures occur if we are to play our part in underpinning financial confidence and stability. We shall maintain and enhance our current capability to pay out depositors in failed banks, building societies and credit unions in seven days. And to increase the speed of our response to insurance and investment failures which can be costly and expensive, we shall work with the industry, regulators and government to improve the quality of customer information and the operation of insolvencies.

So, prepare.

Second, to build trust in FSCS and confidence in our service, we must provide an outstanding service to our customers day-to-day. That service must continue to guarantee the fast and automatic re-payment of deposits in failed banks, building societies and credit unions. It must provide prompt protection to insurance policyholders, including continuity of insurance cover itself wherever possible. Where consumers make claims to us, we must provide a service that is fast, accurate, easy to use and which puts people back on track. Such a service will also be cheaper and offer better value to levy payers.

So, protect.

Third, we must raise awareness of FSCS' service among consumers across all protected products so that people know how, and to what limits, they are protected if the worst happens and can make informed choices about financial products. An initial priority will be to raise awareness of FSCS protection for retirement savings.

So, promote.

Fourth, following a succession of major firm failures since FSCS' establishment in 2001 and in the face of rising compensation costs, in particular for claims against advisers, FSCS must share what we learn about the causes and consequences of failure with government and regulators and so contribute to improving regulation and preventing future failure. **So, prevent.**

To enable all that we are doing, we shall continue to invest in our people so that they are able to make a difference in an organisation which itself aims to make a difference. We shall look further to exploit technology for both improved services and greater efficiency and through that continue to demonstrate value for money.

FSCS' mission and why it matters

FSCS' mission is to 'provide a trusted compensation service for consumers which raises public confidence in the financial services industry'.

FSCS is the statutory UK compensation scheme to protect consumers of financial services. FSCS protection is triggered when a regulated firm is unable to meet its customers' claims. FSCS covers: deposits; insurance; investments; investment and pension advice; home finance advice and debt management. Our service is free to the individuals and businesses who need our help. By providing this service, FSCS contributes to market confidence, supports financial stability and protects consumers.

FSCS is operationally independent but accountable to the Bank of England and the Financial Conduct Authority and operates within the rules set by the regulators. It is funded by the industry through levies.

In delivering this mission, FSCS aims to respond to the interests of all its key stakeholders: - consumers, our customers – the people who use our service, industry levy payers and the regulators and government. These stakeholders have differing expectations and requirements of FSCS.

Our stakeholders

Consumers

Consumers need to be reassured that their money is protected when firms fail and also to understand the scope and limits of FSCS protection when deciding what financial products to buy. Without awareness of FSCS protection, consumers may panic unnecessarily in a crisis, or avoid financial products they need for their well-being, or buy risky, unprotected products.

Customers

Our customers want FSCS to provide a fast, easy-to-use and accurate service which is sensitive to their personal situation and needs and which enables them to keep on track in the event of a financial failure and to move on with their lives.

Industry

The industry expects FSCS, as a major creditor of failed businesses, to recover as much as it can from the estates of those businesses, or from third parties responsible for consumers' losses, in order to offset the costs of compensation. The confidence produced by FSCS protection is important to financial services firms in marketing their own products. Accordingly, the industry shares an interest with FSCS in raising awareness of FSCS protection.

Government and regulators

Government and regulators want to be assured that FSCS is always ready to respond to major failures or a crisis. FSCS must be able to gear up to provide as effective and as efficient a service at times of both individual and industry stress as at other times. This is especially important if banks, building societies or credit unions run into difficulty when FSCS' commitment to return deposits automatically in no more than seven days underpins public confidence and reduces the risk of liquidity runs.

FSCS can also contribute to the prevention of future failure and its associated costs by sharing with the regulators and industry the insights we gain from our work protecting consumers and making recoveries. We share analysis of emerging issues, our understanding of why failures have occurred and intelligence about those who may have responsibility for past failure.

Maintaining Trust

The trust of all our stakeholders is best maintained if FSCS is rigorously independent in its judgments, efficient in its operation, resilient in the face of financial failure and customer focused in the delivery of its services. It also depends on demonstrating that, while FSCS meets eligible compensation costs, the Scheme also works with the industry and regulators to learn the lessons of past failure in order to reduce the costs of failure in the future.

We describe as customers the people who make claims and use our service in order to underline that, although our decisions are independent, our service must be responsive and empathetic.



02 The evolution of FSCS

Since its establishment in 2001, FSCS has developed and deepened its capability.

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In the immediate aftermath of the financial crisis, our focus was primarily on protecting depositors in failing banks, building societies and credit unions by ensuring that we could return deposits automatically in days, not weeks. FSCS has had the capability since 2011 to pay out the great majority of depositors in seven days. We have achieved this with approximately 50 credit unions since 2011 and one small bank, paying out over £60 million to customers of these failed firms.

In the latter half of this decade, we have modernised and professionalised other aspects of our service as we have implemented our Five Year Plan and Vision for a Confident Future. That Vision identified seven key imperatives for FSCS' development in the second half of this decade. FSCS has made significant progress as a result of the investments we have made and the steps we have taken to implement our Vision:

Modernising our service

- we have adopted a business model of outsourcing the handling of claims (other than seven day deposit claims) which enables us to transfer the volume risk of an unpredictable workload;
- we have upgraded our claims handling platform, which we now share with our outsource partners, so ensuring that claims and data can be distributed in bulk electronically, efficiently and with low risk;
- we have enabled customers to claim online since 2016 and now receive over 95% of claims by this route (exceptions to this include seven day deposits claims that do not require any claim application and insurance claims that are settled within days of agreement with the handlers);
- we have revised our outsourcing model in 2018 so that we work with a sole strategic partner, whose capabilities, expertise and digital technologies will enable the transformation FSCS needs further to improve our service.

Diversifying compensation routes

- we have provided continuity of insurance for policyholders of a number of failed general insurance companies by working with brokers to establish and fund new cover;
- we have worked with insolvency practitioners to return automatically the cash and assets belonging to the clients of failed broker dealers.

Raising awareness

- we have raised public awareness of FSCS protection of deposits to record levels of around 80% of adults, so increasing confidence and reducing the risk of a run on a bank.

Improving value for money

- we have significantly reduced our claims processing time and cost;
- on a like for like basis claims handling costs have reduced by 23% (£5.2million) over the last five years.

Achieving excellence as a creditor

- we have recovered £20 billion from the 2008 bank failures (£16 billion of this recovered within the last five years) and repaid all the £20.5 billion borrowed from HM Treasury in 2008. We have also returned £375 million of other recoveries to the industry in the last five years.

Deepening contingency planning

- FSCS is now well integrated into the Authorities' planning for future failures and, in the cases of banks, building societies and credit unions, is clear which firms it would be asked to pay-out in the event of failure;
- we have established an efficient and effective service for verifying the single customer view files of banks, building societies and credit unions to support a fast pay-out.

Engaging our people

- we have maintained both Best Companies to Work For and Investors in People accreditation;
- we have been recognised in multiple national awards for our work in change management, diversity and inclusion, human resources and legal services.

In summary

FSCS is more resilient, more efficient, better controlled and, at least in so far as our protection of deposits is concerned, better known.

We shall continue to make progress against all these imperatives.

As a result of these changes, business performance and delivery for our customers have significantly improved:

Customer Satisfaction is above

80%

Claims Processed Within Published Timescales are above

95%

Claims Received Online are above

95%

Consumer Awareness of Deposit Protection is above our target of

70%

In The Last Five Years, Claims Handling Costs reduced by over

20%



03 A Changing World: Challenges for the 2020s

FSCS' mission to protect consumers will be as relevant in the 2020s, as will the seven imperatives of our Vision for a Confident Future. FSCS must maintain its commitment to the fast re-payment of deposits in failing banks, building societies or credit unions and, to that end, continue to work with the industry to improve the quality of single customer view files. We must also maintain our preparedness to meet any eventuality and commitment to maintaining awareness of deposit protection.

But the new decade will also throw up new challenges for FSCS. Retail financial markets and firms will adapt to the challenges and opportunities of Brexit. Consumers will adopt new financial products and have higher expectations of the service they should receive. Technology will offer new opportunities to improve the ease and speed of our service and reduce its cost. Consumers will face more demanding choices and face correspondingly higher risks, but often with limited financial capability or other vulnerabilities. The industry, and consumers themselves, will expect FSCS to work with the regulators to reduce the risk of future failure.

FSCS must adapt to this changing environment and changing expectations.

Rising Expectations and Widening Customer Base

Almost all adults in the UK now enjoy FSCS protection for at least one financial product: 97% of adults have a bank, building society or credit union account; over 75% of UK households have an insurance policy protected by FSCS.

Customer service expectations are steadily rising as financial services firms harness digital technology to make their services more convenient and easier to use. Over 70% of adults conduct financial transactions online.

FSCS' customers expect our service to match that of other firms. Feedback from our customers, who have used our claims service, is that they are relieved FSCS exists. They like many aspects of our current service. They find it easier to claim online and welcome the ability to track claims. Generally, they find us friendly and helpful to deal with.

But customers also find our process daunting, especially for complex claims. People can be put off by the time taken to gather the required information and evidence from third parties. Customers feel we could provide clearer and fuller explanations of our decisions. These frustrations

contribute to the use of representatives to bring claims to FSCS – now running at 75% of claims in 2017/18 – despite the fact that our service is free.

In partnership with the regulators who make our rules, we must also ensure that our protection keeps pace with consumers' adoption of new products. FSCS should not protect consumers from risks they willingly and knowingly take on. But we should be alert to the evolution of existing products and to the development of new ones – whether inside current protection or totally new. For example, from 2018, FSCS protected money placed with debt management companies for the first time.

Technology & Data Security

The pace of technological change is an opportunity to meet rising expectations, but also brings new risks. We must invest in digital technology to realise our customers' expectations of speed, ease and customisation, while maintaining a paper-based application route for those customers who prefer it. Exploiting digital technology will also ensure that FSCS remains a cost effective service for our levy payers – delivering better service that costs less.

As more and more business is done electronically, the focus we have on keeping our customer data secure and confidential remains paramount. Effectively managing cyber security is critical to retaining customer and stakeholder trust.

Choice, complexity and vulnerability

People are making more sophisticated financial decisions, particularly as they near retirement following the liberalisation of retirement saving. With choice comes greater risk and the need for better information. We must help ensure consumers make informed choices and are aware of how FSCS protects them and of the protection limits.

Many people lack the knowledge to exercise these choices confidently. A quarter of 55-65 year olds with a defined contribution pension do not know the size of their pension pot. Only half have given thought to how to manage financially in retirement.

Roughly half of UK adults show characteristics of potential vulnerability: they have low financial knowledge or low financial resilience, poor health or have experienced a life event affecting their financial well-being, or some combination of these things.

We know, however, that when consumers are aware of FSCS protection it affects the choices they make. In

February 2018 FSCS published research which showed that consumers who were aware of FSCS made different choices about financial products than those who were not aware. Those aware of FSCS protection were also more likely to seek independent financial advice.

So FSCS is protecting more people, who have high expectations of the service they should expect, but less confidence (and potentially greater exposure to losses) in the face of the complex choices they must make.

Prevention as well as protection

Our industry stakeholders recognise the role that FSCS protection can play in giving consumers the confidence to seek independent financial advice and buy financial products. But FSCS must also be proactive in sharing its insights and intelligence with the regulators in order to reduce the risk of future failure. Since its establishment in 2001, FSCS has paid out hundreds of millions in compensation as a result of firm failures, often precipitated by the mis-selling of products unsuitable for mainstream investors. These have included: split capital investment trusts, bonds secured on second-hand life policies (so-called death bonds) and, more recently, a variety of illiquid and unregulated investments held within Self-Invested Personal Pensions (SIPPS). FSCS paid £405 million in compensation in 2017/18. Of this, roughly £185 million was accounted for by complex mis-selling claims against pension and investment advisers. Our analysis suggests that, without intervention, compensation costs may continue to grow strongly over the next three years, driven primarily by escalating pension claims.

Understanding the financial lives of UK adults – Findings from the FCA's Financial Lives Survey 2017

FSCS protection makes a difference, 2018

An Ambitious FSCS – Protecting the Future

As we near the close of our Five Year Vision and Plan we must build on and accelerate the progress we have made. FSCS must be ambitious in meeting the challenges of the 2020s. We think those ambitions are best summarised as:

preparing to respond to
major failures or to another
financial crisis

Prepare

Prevent

working with the regulators
and industry to prevent
future failure and
its associated costs

Protect

providing an outstanding customer experience to those people who need to use our service

Promote

raising awareness of, and trust in, FSCS protection as our contribution to financial confidence and stability



Prepare

Why this matters

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

What we are aiming for

FSCS is prepared and able to deal with major failures or another crisis with well-exercised contingency plans in place, backed by the necessary capabilities and good customer information.

Our approach

We shall maintain and exercise contingency plans for all eventualities, including the failure of banks, building societies and credit unions when FSCS' commitment to seven day pay-out must be capable of being made good, including in the face of multiple, simultaneous failures. To this end, we shall undertake annual exercises to test our preparedness to respond to simultaneous bank, building society or credit union failures and to other major insurance and investment failures.

To ensure we maintain and improve our capacity to support the resolution of failing, banks, building societies and credit unions, we shall work with regulators and the industry to improve the quality of single customer view files on which we rely for fast pay-out. FSCS currently reviews firms' SCV files on behalf of the Bank of England and, where necessary, works with supervisors and firms themselves to address weaknesses which would compromise a successful pay-out of depositors within seven days. Alongside our own reviews of SCV files, we shall expand the capacity of our newly-established self-service verification capability so that firms can test and improve their own data. We shall also aim to find faster and more convenient ways to pay customers so that, as far as practical, there is continuity of access to funds.

We shall work with the regulators and the industry to improve our ability to protect consumers when insurance or investment companies fail. A key here will be bringing about greater quality and consistency of customer information to facilitate faster pay-out and the provision of new insurance. We shall also work with the regulators and insolvency profession to find ways of increasing the speed and lowering the cost of returning funds and assets to clients when investment companies fail.

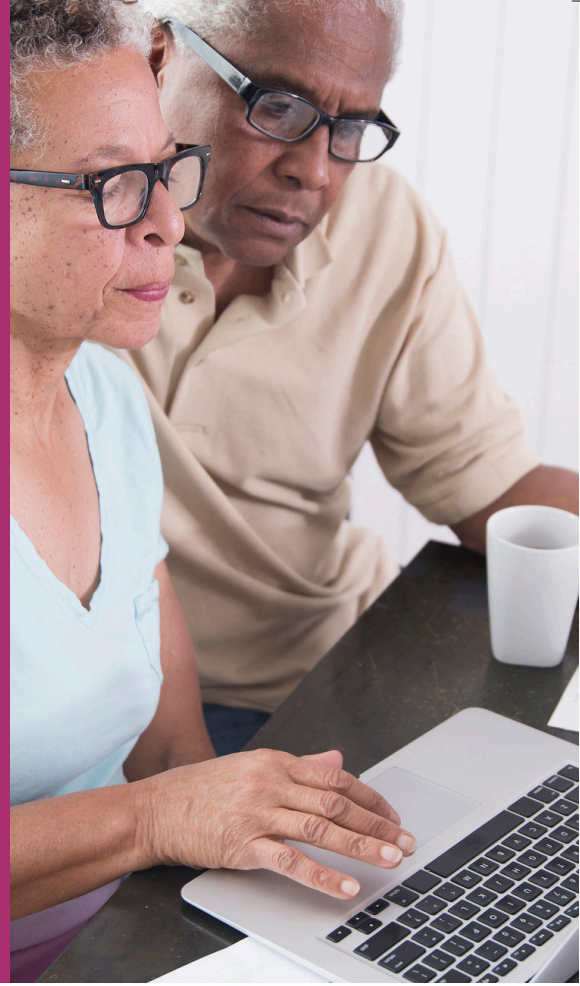
Protect

Why this matters

Our service must meet our customers' expectations if FSCS is to be trusted. That means FSCS protection must be accessible, fast, accurate and easy to use.

What we are aiming for

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



Our approach

Improving customer experience and delivering an outstanding compensation service depends, above all, on speed, accuracy and ease of use. We have already established a fast and automatic service to re-pay deposits when banks, building societies or credit unions fail and will maintain that service in the new decade. We expect that our recently established partnership with Capita will give us access to the know-how and resources to make a similar impact on the delivery of our other services in the 2020s.

In particular, we expect to work with Capita on the exploitation of digital technology and mechanisation to reduce further the complexity our customers find daunting when making claims for mis-selling. We shall increase the flows of information about the progress and outcome of claims. We shall also review the end-to-end claims handling process and identify opportunities to eliminate many of the current delays that arise from the need to seek supporting evidence for claims from third parties. In this respect, improving our service will need us to work in partnership with our industry stakeholders. A faster easier and more accurate service will also be a cheaper service.

We shall also ensure that claims against failed insurers are dealt with promptly so

that individuals and businesses can get on with their lives. Where possible, we shall look to provide continuity for policy holders by working with the industry to re-establish insurance cover and, where that is not possible, to return quickly the unexpired portion of premiums.

We shall also continue our recoveries work, which reduces the cost of levies.

As we improve our service in these respects, we aim to achieve a continuing steady improvement in customer satisfaction.



Promote

Why this matters

Awareness of, and trust in, FSCS protection maintains confidence in a crisis and reduces the risk of panic. Awareness also helps inform people's choices by increasing their confidence in buying protected services and understanding the risks of unprotected services.

What we are aiming for

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

Our approach

Most adults know that their deposits in banks, building societies and credit unions are protected by FSCS. This helps to maintain confidence if a firm gets into difficulty. We shall maintain those levels of awareness of deposit protection in the new decade. But far fewer know that FSCS protects other UK regulated financial products and fewer still understand the scope of FSCS protection of insurance policies, investments and investment advice, home finance and debt management.

This lack of awareness matters. Our research shows that lack of assurance of protection may lead people to save less into pensions than might otherwise be the case and to be reluctant to buy financial advice. As people are faced with increasingly complex choices about financial products, consumers also need greater clarity about what FSCS protects and what it doesn't before they buy a financial product.

We shall encourage people to look for FSCS protection or to ask questions of product providers and advisers about FSCS protection so that they know how, or whether, it will apply in their own situation. Where we gain insights into consumer vulnerabilities, we shall ensure that is fed back to the industry and into the financial education undertaken by our partners in the regulatory family. This in turn will help

consumers to evaluate better the advice they receive.

Customers must also know that they can deal with FSCS directly at no cost so that they receive the full compensation they may be due. To this end, we shall aim to increase the proportion of claims submitted directly to FSCS rather than through representatives.

We shall need to take a different approach if we want to raise awareness of, and trust in, FSCS' protection of the full range of financial products, particularly retirement savings. Specifically:

- trust in our protection depends on raising trust in FSCS itself. So we need to raise the profile of the organisation and give it a definite identity in the eyes of consumers. This means that we must work to ensure that consumers know what FSCS stands for and what FSCS can and cannot protect;
- we cannot, however, succeed in raising FSCS' identity primarily through advertising. The protection of financial products is not in the forefront of people's minds most of the time, but mainly when they buy products or at times of stress. So we must rely on partnership with the industry to make consumers aware of FSCS protection, particularly when products are sold. The evidence of our research is that it is strongly in the interest of the industry to do this;

- we must also be better at exploiting social media to ensure that FSCS' success in protecting our customers is more widely shared and is endorsed by our customers. Although FSCS does not generally have repeat customers, we want those who use our service to be advocates for FSCS;
- with all this in mind, FSCS must work closely with our stakeholders and be proactive in forging strong relationships with them.

Prevent

Why this matters

FSCS compensation costs are rising fast – we project that compensation may rise further from £405 million in 2017/18 driven mainly by escalating pension claims. These costs put pressure on firms' finances and are passed on to consumers who will react by buying fewer financial products.

What we are aiming for

FSCS collaborates with the regulators and industry to prevent future failure and to reduce future compensation costs.



Our approach

FSCS must be able to step in when financial services firms fail, but the lessons from failure can also prevent repetition or future detriment. FSCS shares with the regulators, the Financial Ombudsman Service, the new Single Financial Guidance Body and the industry the obligation to work collectively to identify and implement the interventions which will prevent future detriment to consumers. Failures are a necessary part of functioning markets, but failure arising from mis-selling and poor conduct is avoidable.

When dealing with authorised firms consumers need to be protected whatever the cause of firm failure.

To contribute to prevention and provide insights into the failure of firms, we shall:

- inform joint action by the regulators and industry to identify and address the root causes of mis-selling and other conduct issues which drive compensation costs and to scan the horizon for new threats of mis-selling before they materialise in widespread harm;
- ensure consumers are alerted more quickly to vulnerabilities and risks as they emerge: we shall work closely on this with the new Single Financial Guidance Body;
- collaborate with the regulators and industry to identify ways of improving the resilience of financial services firms so that FSCS is the last

resort, not the first, when claims arise because of mis-selling;

- work with our partners to improve co-ordination across government, industry and the regulatory family to ensure that insights and intelligence are generated and acted on;
- develop FSCS' own capacity to collect, collate and pass on actionable intelligence as a result of compensation and recoveries work. We shall alert the regulators to directors and advisers responsible for mis-selling and, in particular, help the regulators to prevent these individuals re-inventing themselves elsewhere in the regulated financial services market or the regulated claims management market.

Underpinning capabilities: people, technology and value for money

There are three broad but critical areas in which we shall to continue to invest in order to underpin delivery across all parts of the ambition. These are our own people and culture, our technology and value for money.

People & culture

FSCS is an organisation that makes a difference, and in which our people make a difference. This depends in part on our continuing commitment to invest in their skills. As a relatively small organisation of fewer than 200, we aim to give our people wider experience and more responsibility than they would typically expect in a larger organisation.

Culture describes everything at FSCS – the service that we provide to our customers; what we think good looks like in terms of that service; the language that we use; the behaviours and outcomes that we recognise and reward; the way we engage with our partners and most importantly how we live and embed our values of Accountability, Collaboration and Challenge:

Our culture needs to support a proactive, flexible and outward-looking approach which enables FSCS to work harmoniously and effectively with our stakeholders and with our delivery partners.





Technology

Our technology needs to support a service which matches the expectations consumers have of financial service providers. It must be reliable, performant and cost effective. This will include investing in ensuring that our digital channels are simplifying our customers' journey and so making it easier to claim with FSCS. We will also need to ensure that our teams have the technology to help serve our customers – being empathetic, communicating clearly and making the complex simple for customers.

Our technology will have to ensure we keep our customers' data safe, which is an important aspect of them being able to trust us. As a small organisation it will be important we get the support from our strategic partners on building and maintaining this capability.

Value for money

We shall continue to focus on spending money wisely – improving our transparency and accountability.

We shall be clear about what we're trying to achieve and the most efficient and effective way of achieving it. This will include cost benefit analysis on new and strategic investments where appropriate. Clear performance indicators will underpin our commitment to exploit our investments in technology and new working practices.

We shall continue to pursue recoveries wherever it is economic and practical to do so and so reduce the levies we raise on firms to finance our compensation and management costs.

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