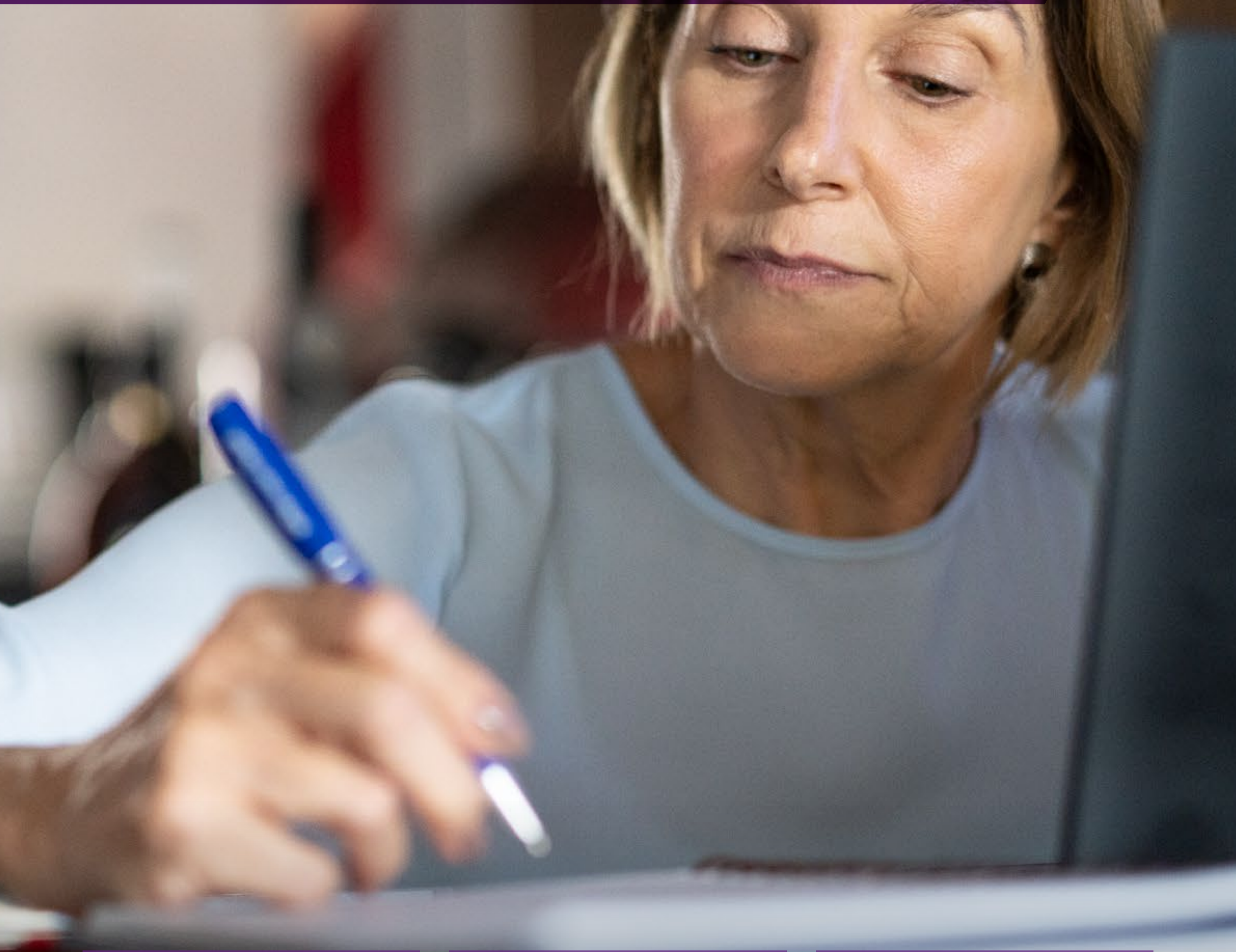
fscs Financial Services Compensation Scheme

outlook

Industry newsletter from the Financial Services Compensation Scheme | May 2021



FSCS UPDATE

- CEO’s Introduction
- The state of the sector

LATEST POSITION

- Annual levy 2021/22

ALSO IN THIS ISSUE

- How the levy is distributed
- Sector overviews

CONTENTS

CEO's INTRODUCTION

Caroline Rainbird
Chief Executive

As we begin a new financial year and lockdown eases, there still remains a great deal of uncertainty in the financial services industry. While the pandemic remains difficult to assess, we are doing all we can to prepare for failures, handle claims and protect consumers.

Our latest levy forecast

In January's *Plan and Budget*, we announced our 2021/22 levy forecast of £1.04bn. This forecast was based on the best information we had at the time, taking account of our own claims data and experience, as well as input from the Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA).

Based on the latest data available, we have revised the levy forecast for 2021/22 to £833m. This reforecast is £206m lower than the indicative levy announced in January. There are two main reasons for this reduction. Firstly, due to the extension of government support schemes, some firms that looked likely to fail this year could now fail in the 2022/23 financial year and beyond. Secondly, in 2020/21, we saw lower claims volumes relating to insurance failures than had been expected. There are also a number of self-invested personal pension (SIPP) operator claims that we now expect to be paid in 2021/22, rather than in 2020/21. These factors have led to a £96m surplus for the 2020/21 financial year, which has been used to offset the previously forecasted £1.04bn levy. We are going through an incredibly uncertain period and therefore the levy may have to be revised again later in the year.

Our forecast of an £833m levy for 2021/22 represents an increase of £133m compared to the 2020/21 levy of £700m. This is due to a number of factors, including higher value pension advice claims in the Life Distribution and Investment Intermediation class, payouts for the General Insurance Provision class and failures of SIPP operators in the Investment Provision class, in line with trends we have seen over the past years.

As a number of classes are likely to breach the amount they can be invoiced in a year, the £833m will include a £116m retail pool levy. This is a separate pot other classes are required to contribute to if they have not reached their maximum levy limit, and when one class exceeds its limit.

In order not to raise a higher levy than we need to, we will keep the industry updated and invoice the £116m levy to fund the retail pool at a later point in the year when the amounts required are more certain. Firms will be given 30 days' notice before we invoice the retail pool levy.

How we forecast the levy

Each month we conduct our forecasting analysis. This involves collating data and input from a number of sources, including the FCA, PRA, Money and Pensions Service (MaPS), the Financial Ombudsman Service and claims management companies (CMCs). We use this data to build our understanding of the volume and value of claims which feeds into our forecast.

Key figures

£1.04bn
January 2021 *Plan and Budget* forecast

£833m
May 2021 updated *Outlook* forecast, which includes £116m retail pool levy

While it may be welcome to see the levy decrease in the short term from our original forecast in January, I would like to emphasise that we do not call this a successful outcome or 'good news'. The levy funds the compensation and service we provide, which protects consumers, helps to improve market stability and contributes to increased confidence in the finance sector generally. However, we appreciate that the levy is too high, and the increasing costs could put pressure on some firms' finances, particularly when set against a challenging economic backdrop.

It is my belief that in order to deliver a sustainable reduction in the levy over time, all stakeholders need to work together to drive meaningful change. By tackling the root causes of the problem, not just the symptoms, we are aiming to see a sustained reduction in the levy and more relevantly for all concerned – including the industry – an increase in good outcomes for consumers.

We also believe that solutions are needed which drive consumers towards simpler products and services, address bad practices, and create more financial resilience in firms. To crackdown on poor conduct, we are calling for the industry to do its bit via whistleblowing and the flagging of bad practice among firms and individuals, as well as considering appropriate and potentially mandatory standards of behaviour and practice.

How we are tackling the rising levy

While the pandemic has had an impact on our forecasted claims and failures, this should not distract us from the fact that in recent years, the levy has primarily been driven up by rising claims and compensation costs amongst a number of classes – often related to poor investment and pension advice.

FSCSs strategy for the 2020's includes a key focus on collaborating with regulatory and industry stakeholders to build a better understanding of the drivers for firm failures, with the aim of reducing consumer harm and, in time, the levy. We are using our unique data and insights to help our regulatory partners address bad practices, for example, by identifying cases of phoenixing and tackling scams.

What is phoenixing?

Phoenixing is where someone, usually a company director, escapes the liabilities in one company and sets up another. While not illegal, there are cases where individuals break industry rules. For example, a director giving bad advice or mis-selling, closes down its company and recreates themself as a claims management company. This director then targets the customers of the failed company by submitting a claim to FSCS on their behalf and also takes a commission on compensation paid. By tackling phoenixing, we hope over the medium term that this will help discourage bad practice and reduce the number of firm failures which result in FSCS liabilities.

We are also working hard to promote the FSCS protection available for consumers, so they are able to make better financial decisions. We are currently focusing on pensions and investments, as these are complicated products that require a certain level of financial knowledge and understanding. To help guide consumers and help them make the right decisions for them, we recently launched a consumer awareness campaign encouraging people to visit the FSCS website to find out how to check if their pension and investment products are FSCS protected.

Fighting consumer scams

While we are working hard to raise awareness of FSCS protection, we are fighting against a backdrop of an increasing number of consumer scams. The scale of the issue is truly shocking, and I sadly suspect what is being reported is only the tip of the iceberg. We are reporting to the FCA at least one phishing attempt and at least one fake investment website per day. To help tackle this, we are working with the Serious Fraud Office and anti-scams campaigners to help identify and report scams. But we also believe there needs to be tougher regulation by including financial scams in the Government's Online Safety Bill.

Our consumer investment market Call for Input response

We have made a number of recommendations to the FCA to help improve outcomes for investors. These included excluding firms and individuals involved in multiple failures from the financial services industry, and ensuring all financial services providers are required to communicate FSCS protection to consumers. A full update will be provided by the FCA in due course.

Conclusion

No matter what the next 12 months hold, we are prepared for all outcomes. We appreciate the uncertainty can be difficult for firms to plan for, so we will continue to keep the industry regularly updated, with our next forecast due in October's *Outlook*.

We are passionate about supporting consumers and bringing about real and sustainable change. We have a clear set of recommendations on what needs to be done and are here to do all we can to offer our unique perspective and insights on the issues. The key to a better financial services market lies in working together proactively – as regulation alone cannot be expected to solve the complex problem of the rising levy. We need multiple interventions and fundamental shifts across the sector. It is only by taking these steps in an integrated and coordinated way that we can improve outcomes for consumers and help deliver a financial services sector that works for everyone.

THE STATE OF THE SECTOR

In this section, we provide an overview of some of the recent trends we have seen since 2017 which have impacted the levy.

We continue to see high levels of claims relating to unsuitable pension advice and compensation payouts, which have driven up costs in the Life Distribution and Investment Intermediation (LDII) class. These claims are increasingly complex, and therefore can be costlier to process. We have also seen high levels of self-invested personal pension (SIPP) operator failures, which contribute to the rise in costs in the Investment Provision class.

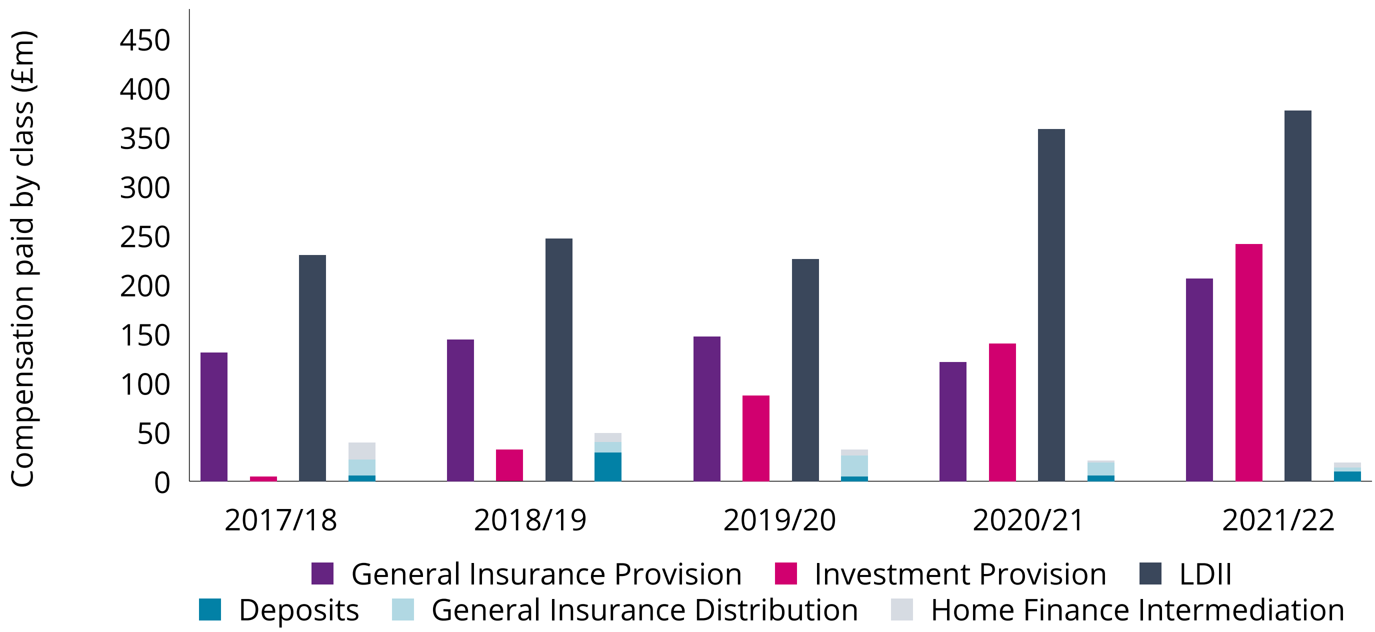
In March 2021, the court reached a decision on the London Capital & Finance plc (LCF) judicial review. It agreed with our decision on the approach taken with LCF claims to date, which involved some complex legal issues. We have now finished reviewing all of the evidence we received from LCF and Surge, and we have 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.

The Treasury has also announced the details of the government's compensation scheme for LCF customers, which has been set up in recognition of the unique and extraordinary circumstances surrounding LCF and its collapse. The scheme will be available to all bondholders who FSCS has not been able to compensate. The government will be providing further details on how the scheme will work in due course, and they have confirmed that bondholders do not need to do anything at this stage.

The compensation costs of the General Insurance Provision class are expected to increase to £206m in 2021/22, compared to £121m in 2020/21. This increase is due to pay-outs relating to legacy failures (e.g. pre 2020/21) and recent failures, such as that of East West Insurance Company Ltd. and Prometheus Insurance Company Ltd. (formerly Tradewise Insurance Company Ltd.)

The graph below outlines the trends we have seen since 2017/18, with the LDII class, as well as Investment Provision, generally driving the levy increases.

Figure 1 - Compensation paid by class (2017/18 – 2021/22)



HOW THE LEVY IS DISTRIBUTED

In this section, we explain how the levy is distributed across different classes.

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

Firms authorised by the Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA) contribute towards an annual levy which funds the cost of running our service and the compensation that we pay out to customers of failed firms. Each firm pays an amount that relates to its size and the type of business it conducts. For example, an insurance broker pays a levy according to the value of its policies that are FSCS protected, compared to the total of all FSCS-protected policies held by the General Insurance Distribution sector.

The decision-making process for funding compensation costs is set out by the FCA and PRA, and splits the industry into nine different compensation funding classes as noted in the table on the right hand side.

Levies are split by funding class, so how much a firm pays is based on the proportion of business it carries out and the total cost of failures of other firms in each of the classes it belongs to. Each class has a separate levy funding limit, and if costs exceed the threshold, they are shared across the wider retail pool.

The FCA and PRA set a limit on the amount that can be levied on each funding class in a year, by reference to what each class can be expected to afford in a year. The class limits are set out in the PRA Rulebook and FCA Handbook in FEES 6 Annex 2.

The levy invoiced for each class is based on a number of factors – including:

- its opening balance for the year (i.e. any class surplus or deficit carried forward from the previous year).
- compensation costs for each class.
- management expenses.
- its retail pool contributions to help compensate other classes that have reached their limit.

In addition, there are also FCA provider classes. These do not attract compensation costs themselves, but do have to contribute to the compensation costs of other classes.

Where the firms underlying two classes are the same, we have grouped together the costs. For example, the Deposits and Deposit Acceptors classes' costs are combined throughout this document and going forward are referred to as 'Deposits'.

For situations where there are two different groups of firms underlying a class, we have separated these out. According to the FCA rules, the Home Finance Intermediation class includes both home finance intermediaries and providers. As the underlying firms of this class are different, we have split them up into separate 'Home Finance Provider' and 'Home Finance Intermediation' sections.

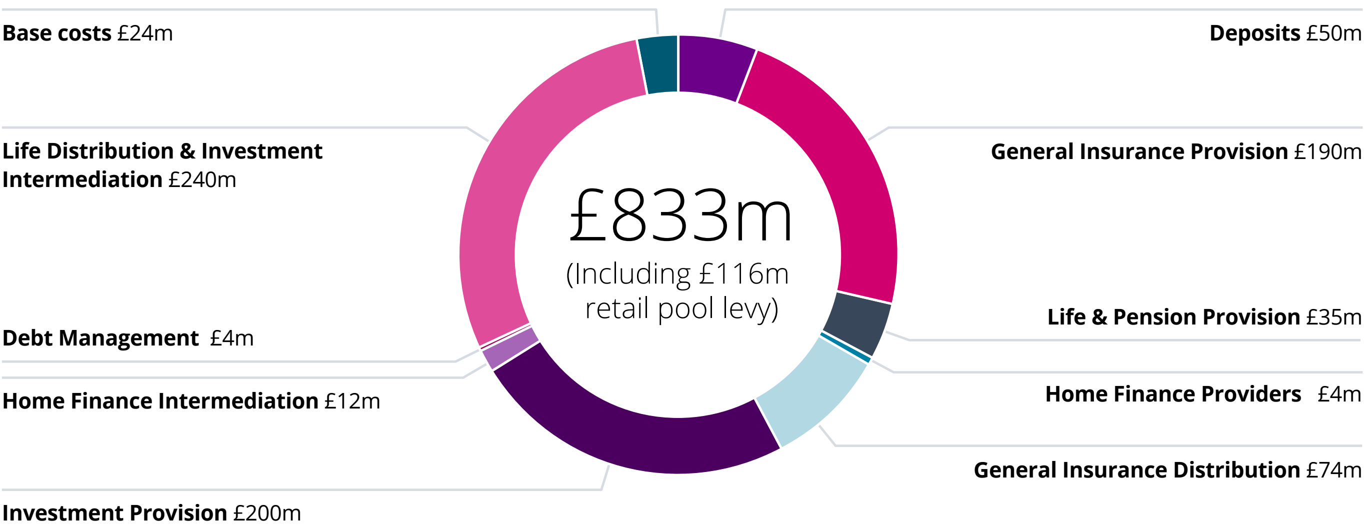
For the levy year 2021/22, the limits are:

PRA classes	Deposits	£1,500m
	Life & Pensions Provision	£690m
	General Insurance Provision	£600m
FCA classes	General Insurance Distribution	£410m (including provider contribution of £100m)*
	LDII	£330m (including provider contribution of £90m)*
	Home Finance Intermediation	£55m (including provider contribution of £15m)*
	Investment Provision	£200m
	Debt Management	£20m
	Deposit Acceptors	£105m (only if the retail pool is triggered)

* Since 1 April 2019, product providers are required to contribute approximately 25% of the levies falling to the FCA intermediation classes, from the first pound.

ANNUAL LEVY 2021/22

BREAKDOWN OF THE LATEST 2021/22 LEVY FORECAST



In this section, we outline our updated levy for 2021/22. We also provide explanations for the classes experiencing the most movement since our indicative levy was announced in January 2021's *Plan and Budget*.

The updated levy for 2021/22 is £833m. This is £206m lower than the indicative levy forecasted in the *Plan and Budget* in January 2021 (£1.04bn). Although the levy is significantly lower than originally forecast, it is still £133m higher when compared to the £700m levy for 2020/21.

The levy invoiced for each class is based on a number of factors – including its opening balance for the year (i.e. any class surplus or deficit carried forward from the previous year), compensation costs for each class, management expenses and its retail pool contributions to help compensate other classes that have reached their limit.

The £833m levy accounts for £844m in forecasted compensation costs, £90.5m in management expenses (as previously announced in the *Plan and Budget*), as well as opening and closing balances and recoveries.

The LDII and Investment Provision classes are expected to breach their class funding limits, and therefore, the retail pool will be triggered for a total of £116m. The amount that each class is forecast to pay, including all provider and retail pool contributions, is shown in Figure 2.

There are two main reasons for the reforecasted levy compared to the indicative levy forecasted in January's *Plan and Budget*:

a) Due to the extension of government support schemes, some firms that looked likely to fail this year could now fail in the 2022/23 financial year and beyond. This will reduce the previously forecasted compensation costs for 2021/22 by £120m;

b) Secondly, in 2020/21, we saw lower claims volumes on recent insurance failures than had been expected. There were also a number of SIPP operator claims that we now expect to be paid in 2021/22, rather than in 2020/21. These factors have led to a surplus for the 2020/21 financial year, which has been used to offset the previously forecasted £1.04bn levy.

We are going through an incredibly uncertain period and therefore the levy may have to be revised again when we publish *Outlook* in October.

Drivers of the 2021/22 levy

- **We are anticipating that the high levels of complex pension advice claims will continue**
  The compensation cost for the LDII class in 2021/22 is forecast to be £377m (compared to £358m in 2020/21). Although it is estimated that a proportion of the claims we had expected for 2021/22 may now fall in 2022/23, the 9% reduction in claims volumes for 2021/22 is offset by a change in the mix of claims in this class. A higher proportion of complex pension claims, with higher average compensation values, are now expected in 2021/22.
- **We expect further failures of self-invested personal pension (SIPP) operators**
  We are forecasting compensation costs of £241m for the investment provision class. The compensation costs for this class is a significant (73%) increase on the £140m cost for 2020/21. This has been driven by ongoing trends of failures in this class.
- **We expect an increase in payouts for the General Insurance Provision class**
  The compensation costs of the class is expected to be £206m in 2021/22, compared to £121m in 2020/21. This increase is due to forecasted payouts relating to legacy failures (e.g. pre 2020/21) and recent failures, such as a £60m forecasted payout for East West Insurance Company Ltd. and £15m for Prometheus Insurance Company Ltd. (formerly Tradewise Insurance Company Ltd.).

Retail pool contributions

The FCA and PRA set a limit on the amount that can be levied on each funding class in a year, by reference to what each class can be expected to afford in a year. The FCA also has rules in place to ensure that if the funding requirements exceed the annual levy limit for that class, the excess is levied more widely on the other classes as part of the retail pool.

Over the coming year, the LDII and Investment Provision classes are forecasted to breach their respective annual levy limits. However, due to the revised forecast in the compensation costs for 2021/22, the total retail pool contribution from other FCA classes has reduced from £252m (in *Plan and Budget*) to £116m.

Collection of levies allocated to the retail pool

As the full impact of Covid-19 on the financial services industry remains to be seen, there are a number of uncertainties around the number, size, and timing of any potential future failures. We have therefore adopted a more flexible approach to collecting levies allocated to the retail pool in 2021/22. It is proposed that levies allocated to the retail pool (£116m) are not raised and invoiced to levy payers immediately. Instead, it will be raised later in the year, at a point when the amounts required are more certain – but still in time to ensure we have the required liquidity to pay claims. We will provide an update on the likely time of invoicing as soon as possible.

This approach will ensure a more accurate amount is raised for the retail pool, reducing the risk of over collection. It will also give relevant firms more time to prepare and set aside these amounts.

⚠

The £833m levy is expected to include £116m for the retail pool, which will be invoiced later this year.

Main drivers of levy movements

Below are summaries of the drivers of the movements seen in each class between the updated 2021/22 levy and the 2021/22 indicative levy.

PRA classes

- **Deposits** – Primarily driven by a £24m reduction in this class's retail pool contribution. Please note that the Deposit Acceptors class is also accounted for in this figure.
- **Life & Pensions Provision** – No change as this class has reached its levy limit.
- **General Insurance Provision** – Primarily driven by a £27m reduction in compensation costs for the class, a £31m increase in its opening balance, and a £23m reduction in this class's retail pool contribution.

FCA classes

- **General Insurance Distribution** – Primarily driven by a £71m reduction in this class's retail pool contribution.
- **Investment Provision** – No change as this class has already reached its levy limit for its retail pool contribution.
- **Life Distribution & Investment Intermediation (LDII)** – No change as this class has reached its levy limit.
- **Home Finance Providers** – Primarily driven by a £3m reduction in this class's retail pool contribution.
- **Home Finance Intermediation** – Primarily driven by a £9m reduction in this class's retail pool contribution.
- **Debt Management** – Primarily driven by a £5m reduction in this class's retail pool contribution.
- **Deposit acceptors** – Please see 'Deposits' section above.

Figure 2 – 2021/22 Final levy compared with 2021/22 Indicative levy (announced in *Plan and Budget*), by class

	2021/22 Final levy			2021/22 Indicative levy			Movement
	Levies for own class (£m)	Levies for other classes* (£m)	Total levies (£m)	Levies for own class (£m)	Levies for other classes* (£m)	Indicative levy (£m)	(Updated levy vs indicative levy) (£m)
PRA Classes							
Deposits	24.0	25.6	**49.6**	22.0	49.8	71.8	(22.2)
Life & Pensions Provision	0.0	35.0	**35.0**		35.0	35.0	0.0
General Insurance Provision	166.0	23.8	**189.8**	231.0	47.3	278.3	(88.3)
FCA Classes							
General Insurance Distribution	12.9	60.9	**73.8**	14.4	132.4	146.8	(73.0)
Investment Provision	200.0	0.0	**200.0**	200.0	0.0	200.0	0.0
Life Distribution & Investment Intermediation	240.0		**240.0**	240.0		240.0	0.0
Home Finance Providers		4.3	**4.3**	2.2	6.4	8.6	(4.8)
Home Finance Intermediation	3.6	7.9	**11.5**	5.8	17.1	22.9	(11.4)
Debt Management	0.5	3.9	**4.4**	3.0	8.5	11.5	(7.6)
Base costs	**24.0**		**24.0**	**24.0**		**24.0**	**0.0**
	671.0	**161.5**	**832.5**	**742.4**	**296.6**	**1,039.0**	**(206.3)**

* This includes both retail pool contributions and provider contributions. Please see page 7 for more information.
For more detail on the breakdown of each class's 'levies for other classes', see Appendices A to I.

NEXT STEPS FOR LEVY PAYERS **AND FSCS PUBLICATION TIMETABLE**

Next steps:

- **Summer 2021**: Invoices for the 2021/22 levy are issued to all firms that are required to pay the levy. We have already invoiced £250m for payment on account. In summer, we will be invoicing £467m. Firms that have already made payment on account will have their summer invoice offset against this.
- **Up to March 2022**: Invoices for the £116m 2021/22 retail pool will be issued. The exact date is to be confirmed, as we are waiting for more clarity on the likely figure. We will ensure firms are given 30 days' notice before we invoice the retail pool levy.

Date	May 2021	June 2021	October 2021	January 2022
Publication	***Outlook* - 2021/22**	**Annual Report and Accounts and Class Statements - 2020/21**	***Outlook* - Interim Update - 2021/22**	***Plan and Budget* - 2022/23**
What is it?	Confirmation of the levy figures for 2021/22. These were indicatively forecasted in the previous *Plan and Budget* publication.	The publication of our Statutory Financial Statements. It also includes a Strategic and Performance Report, and the Auditor's Report, as well as an overview of our work during the year. The Class Statements report outlines the sectors that contribute to our funding and how this is spent. It is published simultaneously with the Annual Report and Accounts.	An overview of the levy position at the mid-year point, and the likelihood of a supplementary levy for 2021/22.	A forecast of the 2022/23 levy. If a supplementary levy is required for 2021/22, the amount will be confirmed in this report.

SECTOR OVERVIEWS

In this section, we provide an overview of each class's 2021/22 forecasted fund movements. We note each class's opening balance for the year, compensation costs for the class and any recoveries made by us related to the class. We also outline any management expenses related to the class, and the 2021/22 levy contribution for each class (annual levy receipts), which excludes the impact of provider contributions and the retail pool.

Note that the 'total levies' is the amount of levies firms within the class are expected to pay, including their contributions to other classes through provider and retail pool contributions, as detailed in the appendix. Note that 'total levies' is not a sum total of the forecast fund balances.

Under each table is a short explanation for any variances between the updated levy and indicative levy forecasts.

Prudential Regulation Authority (PRA) classes

Deposits

2021/22 Forecast fund balances	Final levy forecast (£m)	Indicative levy forecast (£m)	Variance (£m)
Surplus/Deficit	2.4	2.6	(0.2)
Compensation	(10.3)	(8.8)	(1.5)
Recoveries	0.0	0.0	0.0
Management Expenses	(14.9)	(14.9)	0.0
Annual levy receipts	24.0	22.0	2.0
Total levies	**49.6**	**71.8**	**(22.2)**

The deposit class has seen a slight decrease in the amounts firms will have to pay since our indicative levy forecast in the *Plan and Budget*, and is down from £72m to £50m. This is because of a lower retail pool contribution, due to lower claims compensation in other classes. However, the compensation costs for this class have gone up slightly due to a reassessment of the number of credit unions we expected to fail throughout 2021/22.

Life and Pensions Provision

2021/22 Forecast fund balances	Final levy forecast (£m)	Indicative levy forecast (£m)	Variance (£m)
Surplus/Deficit	0.00	0.00	0.00
Compensation	0.00	0.00	0.00
Recoveries	0.00	0.00	0.00
Management Expenses	0.00	0.00	0.00
Annual levy receipts	0.00	0.00	0.00
Total levies	**35.00**	**35.00**	**0.00**

There have been no failures in this class in 2020/21, and we also do not expect any failures in this class in 2021/22. The levy for this class is driven by provider contributions to the LDII class.

General Insurance Provision

2021/22 Forecast fund balances	Final levy forecast (£m)	Indicative levy forecast (£m)	Variance (£m)
Surplus/Deficit	37.4	6.7	30.7
Compensation	(206.0)	(233.0)	27.0
Recoveries	9.3	1.8	7.5
Management Expenses	(6.0)	(6.0)	0.0
Annual levy receipts	166.0	231.0	(65.0)
Total levies	**189.8**	**278.3**	**(88.3)**

The levy for firms in the General Insurance Provision class has been reduced by £88m (see Figure 2) since the forecast published in the *Plan and Budget*. There were three factors that brought about this reduction for 2021/22:

a) The compensation cost forecast for the class has fallen by £27m as we now have better information about the likely costs of previous failures we are still paying claims for;

b) Compensation costs were reduced, in part due to lower than forecasted costs for the failure of East West Insurance Company Ltd, creating a class surplus of £37m that is being carried forward from 2020/21; and

c) Due to a reduction in forecasted failures across other classes, the retail pool contribution has reduced for this class from £43m to £20m.

Financial Conduct Authority (FCA) classes

General Insurance Distribution

2021/22 Forecast fund balances	Final levy forecast (£m)	Indicative levy forecast (£m)	Variance (£m)
Surplus/Deficit	(3.8)	(0.5)	(3.3)
Compensation	(4.5)	(10.4)	5.9
Recoveries	0.0	0.0	0.0
Management Expenses	(7.5)	(7.5)	0.0
Annual levy receipts	17.0	19.0	(2.0)
Total levies	**73.8**	**146.8**	**(73.0)**

The updated levy payable by firms in this class has reduced from £147m to £74m, since the indicative levy in *Plan and Budget*. The class was previously forecast to contribute £132m (53%) of the total £252m retail pool.

The retail pool forecast is now expected to be £116m, and the class's retail pool contribution has subsequently reduced from £132m to £61m.

Investment Provision

2021/22 Forecast fund balances	Final levy forecast (£m)	Indicative levy forecast (£m)	Variance (£m)
Surplus/Deficit	43.2	0.7	42.5
Compensation	(241.4)	(344.7)	103.2
Recoveries	0.0	0.0	0.0
Management Expenses	(9.7)	(9.7)	0.0
Annual levy receipts	209.0	354.0	(145.0)
Total levies	**200.0**	**200.0**	**0.0**

Since the indicative levy published in the *Plan and Budget*, the compensation costs forecast for this class for 2021/22 have reduced from £345m to £241m. There are three reasons for this:

a) Self-invested personal pension (SIPP) operator claims are now expected to be received later based on the latest information we have received.

b) We are also waiting on decisions from the Financial Ombudsman Service around a number of SIPP operator claims which could result in firm failures and subsequent claims landing at a later date than previously expected. This means the costs could be spread beyond the 2021/22 financial year;

c) There is also a class surplus being carried forward from 2020/21 of £43m, due to us continuing to process a number of SIPP operator claims, and we are now expecting these claims to come at a later date, potentially beyond the 2021/22 financial year. This surplus has offset the amount of funding that the class needs for 2021/22.

The levy payable by members of this class remains at the class limit of £200m, the same as 2020/21. As the class will breach its annual levy limit, a contribution from the retail pool will still be required; however, the amount of contribution from other classes has reduced from £154m to £9m which has the effect of reducing the levies in all other FCA classes.

Life Distribution and Investment Intermediation (LDII)

2021/22 Forecast fund balances	Final levy forecast (£m)	Indicative levy forecast (£m)	Variance (£m)
Surplus/Deficit	8.7	0.0	8.7
Compensation	(376.9)	(360.5)	(16.4)
Recoveries	3.4	4.8	(1.4)
Management Expenses	(21.5)	(21.5)	0.0
Annual levy receipts	387.0	378.0	9.0
Total levies	**240.0**	**240.0**	**0.0**

The compensation costs for this class has increased from £361m to £377m. Although it is estimated that a proportion of the claims we had expected for 2021/22 may now fall in 2022/23, the 9% reduction in claims volumes for 2021/22 is offset by a change in the mix of claims in this class. A higher proportion of complex pension claims, with higher average compensation values, is now expected in 2021/22, as mentioned on page 9 above. We are also seeing fewer general, lower-value investment claims.

The class is still expected to breach its annual levy limit, so the levy payable by the members of this class remains at the class limit of £240m – the same as 2020/21. The retail pool contribution required has increased from £98m to £107m.

Home Finance Providers

2021/22 Forecast fund balances	Final levy forecast (£m)	Indicative levy forecast (£m)	Variance (£m)
Total levies	4.3	8.6	(4.8)

We do not receive claims from home management providers as they're not eligible for FSCS compensation. However, they do pay a provider contribution for other classes.

Home Finance Intermediation

2021/22 Forecast fund balances	Final levy forecast (£m)	Indicative levy forecast (£m)	Variance (£m)
Surplus/Deficit	2.8	0.8	2.0
Compensation	(5.1)	(6.5)	1.4
Recoveries	0.0	0.0	0.0
Management Expenses	(2.1)	(2.1)	0.0
Annual levy receipts	5.0	8.0	(3.0)
Total levies	**11.5**	**22.9**	**(11.4)**

The levies for this class have reduced from £23m to £12m. This is due to a lower expectation of the number of failures of home finance intermediation firms than forecasted in January and a reduction in this class's retail pool contribution.

Debt Management

2021/22 Forecast fund balances	Final levy forecast (£m)	Indicative levy forecast (£m)	Variance (£m)
Surplus/Deficit	(0.2)	(1.5)	1.4
Compensation	(0.1)	(0.6)	0.5
Recoveries	0.0	0.0	0.0
Management Expenses	0.0	0.0	0.0
Annual levy receipts	0.5	3.0	(2.5)
Total levies	**4.4**	**11.5**	**(7.6)**

We had our first debt management firm failure in 2020/21 and expect see low levels of failures in this class in 2021/22.

APPENDIX

Appendix A – Deposit class 2021/22 levy breakdown

Deposits	Type of contribution	2021/22 Final levy (£m)
Levies for own class	Own class contribution	24.0
Levies for other classes	Deposit Acceptors - Provider contribution to the LDII class	5.0
	Deposit Acceptors - Retail pool contribution	20.6
Total levies		**49.6**

Appendix B – Life & Pensions Provision class 2021/22 levy breakdown

Life & Pension Provision	Type of contribution	2021/22 Final levy (£m)
Levies for own class	Own class contribution	0.0
Levies for other classes	Provider contribution to LDII class	35.0
Total levies		**35.0**

Appendix C – General Insurance Provision class 2021/22 levy breakdown

General Insurance Provision	Type of contribution	2021/22 Final levy (£m)
Levies for own class	Own class contribution	166
Levies for other classes	Provider contribution to General Insurance Distribution class	4.1
	Retail pool contribution	19.7
Total levies		**189.8**

Appendix D - General Insurance Distribution class 2021/22 levy breakdown

General Insurance Distribution	Type of contribution	2021/22 Final levy (£m)
Levies for own class	Own class contribution	12.9
Levies for other classes	Retail pool contribution	60.9
Total levies		**73.8**

Appendix E - Investment Provision class 2021/22 levy breakdown

Investment Provision	Type of contribution	2021/22 Final levy (£m)
Levies for own class	Own class contribution	200.0
Total levies		**200.0**

Appendix F - Life Distribution & Investment Intermediation class 2021/22 levy breakdown

Life Distribution & Investment Intermediation	Type of contribution	2021/22 Final levy (£m)
Levies for own class	Own class contribution	240.0
Total levies		**240.0**

Appendix G – Home Finance Providers class 2021/22 levy breakdown

Home Finance Providers	Type of contribution	2021/22 Final levy (£m)
Levies for own class	Own class contribution	N/a
Levies for other classes	Provider contribution to Home Finance Intermediation class	1.4
	Retail pool contribution	2.9
Total levies		**4.3**

Appendix H - Home Finance Intermediation class 2021/22 levy breakdown

Home Finance Intermediation	Type of contribution	2021/22 Final levy (£m)
Levies for own class	Own class contribution	3.6
Levies for other classes	Retail pool contribution	7.9
Total levies		**11.5**

Appendix I – Debt Management class 2021/22 levy breakdown

Debt management	Type of contribution	2021/22 Final levy (£m)
Levies for own class	Own class contribution	0.5
Levies for other classes	Retail pool contribution	3.9
Total levies		**4.4**

CONTACT FSCS

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 Linkedin
FSCS @FSCS
FSCS Facebook