Financial Services
Compensation Scheme

Outlook

May 2025

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 financial 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

Welcome to the latest edition of Outlook. This is my fourth Outlook since I joined FSCS, and I'm delighted to say my first since being appointed as CEO after 16 months as Interim CEO.

I'm proud to lead FSCS because our work matters. We put customers back on track when their financial services firm fails, which in turn helps to build trust, confidence and stability in our financial services system supporting the sector's sustainable growth.

In this edition of Outlook, we provide an update on compensation figures and the levy for 2025/26, following the first look we published in November.

You can find out more and access previous editions at www.fscs.org.uk/outlook

Reflecting on 2024/25

As discussed in November's Outlook and detailed further in this report, surplus balances were substantially reduced across all classes during the 2024/25 financial year as they have been mostly utilised offsetting prior levies. The 2025/26 levy will therefore not be offset to the same extent as in previous years.

Our Annual Report, which will be published in the summer, will include full details of our performance and claims figures for 2024/25, and showcase further examples of our key role in supporting financial stability. The final compensation figures for the year will also be confirmed, and I am pleased to say that levy and compensation figures were broadly in line with our final forecast.

We continue to refine and improve our forecast models. This has led to greater accuracy in our compensation forecasting, although it will always present a challenge due to the variables involved, including the number of firms declared in default, the likely number of claims for each of these firms, and when these claims are likely to come to us.

The transition to our new claims service operating model has been implemented effectively and is now embedded into our day-to-day operations. We delivered a high volume of customer claim decisions last year while maintaining our strong customer satisfaction and quality scores, and our aim is to continue this combination of deep purpose and high performance through the 2025/26 financial year.

As part of our new operating model, I was also pleased to celebrate the first anniversary of our in-house customer contact centre, a change that has brought customer conversations to the very heart of our operation. Our expert team help hundreds of people every day, answering questions about claims and providing reassurance about FSCS protection and how it applies to different financial products.

Beyond our claims service, there have also been key developments in other product areas. In January, we processed our first direct electronic payments for a deposit taker failure using our new portal, with some customers having their savings back within 24 hours of the firm entering insolvency.

As well as providing customers with a trusted compensation service, we also have a duty to pursue recoveries from failed firms and relevant third parties that are achievable and cost-effective. We've had another strong year of recoveries, much of which has been added to the opening balances in the relevant classes, and some of which will be distributed back to customers through additional payments. This efficient use of resource and hard work in pursuing recoveries puts money back into the financial services sector and to the customers who use it.

Continuing the progress in 2025/26

Since our early forecast in November 2024, we've reduced the total levy payable by firms for the 2025/26 financial year from £394m to £356m. We now expect to pay £332m in compensation during 2025/26. These reductions reflect two factors in particular: we exceeded forecast on recoveries in 2024/25, and we're expecting fewer claims in the Life Distribution & Investment Intermediation (LDII) class, with average uphold rates in this class also currently trending lower than historic averages.

We continue to adjust to the large share of our claims that are considered complex and, as such, require more specialist resource, deeper investigation and typically more time. Over two thirds of our advice claims are now considered highly complex, up from one third a few years ago. We continue to develop the partnership between our people and our technology to improve customer outcomes. The use of machine learning and natural language processing to ingest large volumes of data, alongside the recruitment and development of data specialists to lead this work, is one example of this partnership.

Looking further ahead, we're currently preparing our five-year strategy to 2031. This presents an exciting opportunity for FSCS to bridge purpose and performance over the longer term, maintaining positive outcomes for customers, maximising cost-effective recoveries and becoming more of a strategic partner to the industry that funds our work. I look forward to sharing further details in due course.

The next Outlook will come in the autumn, featuring a half-year update and a first look at 2026/27.

Martyn Beauchamp
Chief Executive

Our latest levy update

The annual levy for 2025/26 is now £356m, £38m lower than the indicative levy announced in the November 2024 Outlook.

During 2025/26, we now expect to pay £332m in compensation. This is £36m lower than our first forecast in November.

The main reasons for these forecast reductions are:

- The successful recovery of more than £56m from the estates of failed firms and relevant third parties. This was more than forecast and led to higher surpluses at the end of 2024/25 in certain classes which has helped offset the 2025/26 levy.
- Lower compensation relating to the Life Distribution & Investment Intermediation (LDII) class. The reduction in this class is due to fewer claims now anticipated and lower uphold rates than the historic average.

No retail pool levy is anticipated in 2025/26 as no class is expected to breach its annual levy limit.

Further details on our compensation and recoveries forecasts for each funding class are included in this report. We'll publish final figures for 2024/25 in our Annual Report in the summer.

Payment on account

All PRA and FCA-regulated firms will be sent an annual levy invoice in summer 2025.

We've already invoiced the largest levy-paying firms in early-2025 as payment on account for the 2025/26 levy. This will be deducted from their annual levy invoice.

Levy breakdown – PRA classes

Deposits

The Deposits class levy remains as forecast in the November Outlook at £29m.

In 2024/25 there were three credit union failures for which we paid out approximately £16m. These costs were higher than anticipated in the November Outlook forecast, resulting in an opening balance deficit of £3m. However, additional recoveries now expected in relation to credit union failures mean that the overall levy remains similar.

Approximately £2m of the levy will be provider contributions to the LDII class and the remainder will cover costs in the Deposits class.

Deposit Acceptors

The Deposit Acceptors class only contributes towards the annual levy if the retail pool is triggered. For 2025/26, a retail pool levy is not currently expected.

Deposits 2025/26 forecast fund balances	November's Outlook forecast (£m)	Latest levy update (£m)	Variance (£m)
Opening balance	1.1	(3.4)	(4.5)
Compensation	(12.0)	(12.0)	0.0
Recoveries	1.0	4.0	3.0
Interest	0.1	0.2	0.1
Management expenses	(14.8)	(14.4)	0.4
Annual levy receipts[a]	26.0	27.0	1.0
Total closing surplus or (deficit)	**1.5**	**1.4**	**(0.1)**
Total levies[b]	**28.6**	**28.8**	**0.2**

a 'Annual levy receipts' excludes provider contributions
b 'Total levies' includes provider contributions to other classes

Levy breakdown – PRA classes

General Insurance Provision

The levy for this class has decreased from £90m to £85m.

The decrease in the levy can be attributed in part to the class surplus being £9m higher than November's initial forecast. This surplus has been carried forward to offset the 2025/26 levy. This was mainly driven by higher than anticipated 2024/25 recoveries for Enterprise Insurance Company Ltd which failed in 2016, with £25m received in the year.

The compensation amount remains in line with the previous forecast at £118m and we're not expecting any new firm failures in 2025/26, therefore all expected compensation costs relate to failures that have already occurred.

Close to 95% of the compensation expected to be paid is in relation to the following six failed insurers:

- Builders Accident Insurance Ltd (declared in default in 1998);
- Chester Street Holdings Ltd (declared in default in 2001);
- East West Insurance Company Ltd (declared in default in 2020);
- Gefion Insurance A/S (declared in default in 2021);
- Green Realisations 123 Ltd (formerly known as MCE Insurance Company Ltd) (declared in default in 2021); and
- Prometheus Insurance Company Ltd (declared in default in 2021).

As stated in our November 2024 Outlook forecast, firms will not be required to pay a provider contribution to the General Insurance Distribution class in 2025/26.

General Insurance Provision 2025/26 forecast fund balances	November's Outlook forecast (£m)	Latest levy update (£m)	Variance (£m)
Opening balance	29.4	38.1	8.7
Compensation	(117.9)	(117.9)	0.0
Recoveries	6.8	6.8	0.0
Interest	0.6	0.9	0.3
Management expenses	(7.3)	(7.6)	(0.3)
Annual levy receipts[a]	90.0	85.0	(5.0)
Total closing surplus or (deficit)	**1.5**	**5.3**	**3.8**
Total levies[b]	**90.0**	**85.0**	**(5.0)**

a 'Annual levy receipts' excludes provider contributions
b 'Total levies' includes provider contributions to other classes

Levy breakdown – PRA classes

Life & Pensions Provision

We don't expect any firm failures to occur in this class during 2025/26.

The levy for this class is driven by provider contributions to the Life Distribution & Investment Intermediation (LDII) class. As the expected compensation costs for the LDII class have reduced, the levy for 2025/26 will be £13m, which is a £5m decrease on the indicative levy published in November.

Life & Pensions Provision 2025/26 forecast fund balances	November's Outlook forecast (£m)	Latest levy update (£m)	Variance (£m)
Opening balance	(0.6)	(0.6)	0.0
Compensation	0.0	0.0	0.0
Recoveries	0.0	0.0	0.0
Interest	0.0	0.0	0.0
Management expenses	0.0	0.0	0.0
Annual levy receipts[a]	0.0	0.0	0.0
Total closing surplus or (deficit)	**(0.6)**	**(0.6)**	**0.0**
Total levies[b]	**18.0**	**12.7**	**(5.3)**

a 'Annual levy receipts' excludes provider contributions
b 'Total levies' includes provider contributions to other classes

Levy breakdown - FCA classes

General Insurance Distribution

The levy in this class is unchanged.

As stated in the November 2024 Outlook, there will be no levy required for firms in this class as we're not expecting any new firm failures. We're also continuing to see a decrease in payment protection insurance (PPI) claims, which remain the main claim type in this class and are relatively low value, averaging less than £5,000 per claim paid.

The 2024/25 class surplus was carried forward and will be sufficient for compensation payments in 2025/26.

General Insurance Distribution 2025/26 forecast fund balances	November's Outlook forecast (£m)	Latest levy update (£m)	Variance (£m)
Opening balance	4.8	4.6	(0.2)
Compensation	(0.6)	(0.4)	0.2
Recoveries	0.0	0.0	0.0
Interest	0.0	0.0	0.0
Management expenses	(0.8)	(1.2)	(0.4)
Annual levy receipts[a]	0.0	0.0	0.0
Total closing surplus or (deficit)	**3.4**	**3.0**	**(0.4)**
Total levies[b]	**0.0**	**0.0**	**0.0**

a 'Annual levy receipts' includes provider contributions
b 'Total levies' excludes provider contributions from other classes

Levy breakdown - FCA classes

Life Distribution & Investment Intermediation (LDII)

The levy payable by firms in this class is now £87m, a £36m decrease from November's indicative forecast. The main reasons for the reduction are:

- A £30m higher opening balance carried forward from 2024/25 as this class:
  - Received higher recoveries than expected in 2024/25, mainly in relation to C.I.B (Life & Pensions) Ltd which failed in 2015 with £13m received. The majority of these recoveries are expected to be paid to customers in 2025/26 where their losses were in excess of the compensation limit, rather than to offset the 2025/26 levy.
  - Paid £10m less compensation in 2024/25 as we received fewer new claims from customers than expected.
- Around £29m lower compensation costs in 2025/26 as a continued lower flow of new claims into FSCS is anticipated with no new large failures expected. The uphold rate on defined benefit pension transfer claims is also expected to be about 30% lower than previously forecast. The driver of the reduction in uphold rate relates to claims where it was determined that the customer did not lose money.

Life Distribution & Investment Intermediation (LDII) **2025/26 forecast fund balances**	**November's Outlook forecast (£m)**	**Latest levy update (£m)**	**Variance (£m)**
Opening balance	13.5	42.9	29.5
Compensation	(151.7)	(123.1)	28.6
Recoveries	4.0	0.0	(4.0)
Interest	0.9	1.3	0.4
Management expenses	(35.6)	(35.3)	0.3
Annual levy receipts[a]	170.0	120.0	(50.0)
Total closing surplus or (deficit)	**1.0**	**5.9**	**4.8**
Total levies[b]	**123.6**	**87.3**	**(36.4)**

a 'Annual levy receipts' includes provider contributions
b 'Total levies' excludes provider contributions from other classes

Life Distribution & Investment Intermediation (LDII) *continued*

This class will receive provider contributions for approximately 25% of its levies from the Life & Pensions Provision (£13m), Investment Provision (£18m) and Deposit Acceptors (£2m) classes in 2025/26.

In November's Outlook we referenced TenetConnect Ltd and TenetConnect Services Ltd Services Ltd which went into administration on 5 June 2024. We're now receiving claims against these firms, and this is included in our latest forecast.

Distribution of additional payments to customers

Where we've paid a customer the maximum amount of compensation (currently £85,000) but they have losses above this limit, we can sometimes make a top-up payment if we recover funds from the estates of failed firms and/or relevant third parties.

Levy breakdown - FCA classes

Investment Provision

Since the indicative levy was published in November, the forecast for this class has increased by £8m from £97m to £105m. This includes £18m as provider contributions to the LDII class.

The main reason for the increase is in relation to £16m lower recoveries income in this class for past SIPP operator failures. Recoveries income is also now expected to offset less of the levy, as we anticipate more of this will be paid out to customers where their initial claim was capped at the maximum compensation limit, but they had losses in excess of this.

This increase in the levy is slightly offset by a £7m reduction in compensation as we expect to receive fewer new SIPP operator claims from customers, which make up the majority of the claims in this class.

Investment Provision **2025/26 forecast fund balances**	**November's Outlook forecast (£m)**	**Latest levy update (£m)**	**Variance (£m)**
Opening balance	1.3	0.2	(1.1)
Compensation	(84.8)	(77.9)	6.9
Recoveries	20.0	3.8	(16.2)
Interest	0.3	0.7	0.4
Management expenses	(7.3)	(8.0)	(0.7)
Annual levy receipts[a]	71.0	87.0	16.0
Total closing surplus or (deficit)	**0.6**	**5.8**	**5.2**
Total levies[b]	**96.8**	**105.2**	**8.4**

a 'Annual levy receipts' excludes provider contributions
b 'Total levies' includes provider contributions to other classes

Levy breakdown - FCA classes

Home Finance Intermediation

The levy in this class is unchanged.

As announced in November's Outlook, firms in this class will not be required to pay an annual levy in 2025/26.

We're not expecting any new firm failures in this class and the compensation payments are forecast to be approximately £250k. This amount is for failures that have already occurred, and the 2024/25 surplus is sufficient to cover these costs.

Home Finance Providers

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

As we're not expecting a retail pool levy in 2025/26, the Home Finance Provider class is not required to pay any contributions to the Home Finance Intermediation class, or any other class.

Home Finance Intermediation 2025/26 forecast fund balances	November's Outlook forecast (£m)	Latest levy update (£m)	Variance (£m)
Opening balance	0.8	0.7	(0.1)
Compensation	(0.3)	(0.3)	0.0
Recoveries	0.0	0.0	0.0
Interest	0.0	0.0	0.0
Management expenses	(0.3)	(0.3)	0.0
Annual levy receipts[a]	0.0	0.0	0.0
Total closing surplus or (deficit)	**0.2**	**0.2**	**0.0**
Total levies[b]	**0.0**	**0.0**	**0.0**

a 'Annual levy receipts' includes provider contributions
b 'Total levies' excludes provider contributions from other classes

Levy breakdown - FCA classes

Debt Management

The levy in this class is unchanged.

As stated in November's indicative levy forecast, we're not expecting any firm failures or compensation costs for the Debt Management class during 2025/26, and the levy remains nil.

Debt Management **2025/26 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
Interest	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 or (deficit)	**0.0**	**0.0**	**0.0**
Total levies	**0.0**	**0.0**	**0.0**

Levy breakdown - FCA classes

Funeral Plans

The levy in this class is unchanged.

In 2025/26, we're not expecting any firm failures or compensation payments for funeral plan customers. Therefore, as stated in the indicative levy forecast from November 2024, no levy is payable in 2025/26.

Funeral Plans 2025/26 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
Interest	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 or (deficit)	**0.0**	**0.0**	**0.0**
Total levies	**0.0**	**0.0**	**0.0**

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 X
FSCS Podcast