outlook

News from the Financial Services Compensation Scheme | November 2018

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CHIEF EXECUTIVE'S STATEMENT

Mark Neale, Chief Executive

"We know from our research that consumers who understand FSCS protection make different choices about the scale of their retirement saving and the products they buy."

This latest edition of *Outlook* follows our strategy for the 2020s, which we published a fortnight ago.

At first sight, there is little overlap. Our strategy looks forward to the challenges of the next decade and describes FSCS's priorities in meeting those challenges. *Outlook* has a much shorter timeframe: it updates on FSCS's experience so far this year and the prospects for what remains of 2018/19.

In reality, though, what FSCS is seeing and doing now underlines some of the key themes of the strategy. This will be seen when we publish our Plan and Budget for 2019/20 in January.

The foreground is dominated by the continuing growth in pensions claims. Despite raising a levy on life and pensions advisers in April of £75m – the maximum allowable for nine months from June 2018 to March 2019 – we expect a deficit by year end of just under £70m. This will, I am afraid, necessitate a supplementary levy falling on the retail pool. We shall announce the size of that supplementary levy in January.

These short-term financial implications should not, however, obscure the longer-term challenge of tackling the causes of rising pension claims and so stemming future compensation costs.

We see some common factors underlying these claims. We see consumer vulnerability as people seek to maximise their income in retirement and are persuaded to make unwise investments, usually held within a Self-Invested Personal Pension (SIPP), or to trade in valuable rights in defined benefit schemes. We see many examples of mis-selling as both regulated, but also increasingly unregulated advisers, promote risky, illiquid investments. We see providers who fail to perform rudimentary due diligence on these investments. We see advisory businesses which are under-capitalised or under-insured for the risks they run. And we see directors and advisers involved in failure who re-invent themselves and come back for more.

We believe that there are steps that we can take, in partnership with the regulators and the industry, to mitigate these risks.

Those steps focus partly on educating consumers better about the risks they face and the scope of FSCS protection. We know from our research that consumers who understand FSCS protection make different choices about the scale of their retirement saving and the products they buy. We, therefore, designate one pillar of FSCS's strategy for the 2020s as *promote* – raising awareness of FSCS protection.

We designate another pillar of FSCS's strategy as *prevent* to describe the actions we can take in support of the regulators to improve foresight and intelligence sharing in order to identify risks early and to act promptly to pre-empt them.

We have also made significant strides this year in taking forward two other pillars of our strategy: improving our service to customers – *protect* – and enhancing our resilience – *prepare*.

Our partnership with Capita, which launched in July, is key to both.

In these early days of the partnership, we and our partners have prioritised maintaining the quality and accuracy of claims handling. To this end, FSCS has helped Capita to induct over 100 additional new staff, including new staff specifically charged with reviewing the accuracy of decisions. The new partnership operates a new accreditation programme to encompass both FSCS's and our partner's claims handlers. This has helped in reducing the overall percentage of both complaints and appeals received after a decision being communicated. The Complaints Team in turn have reduced the complaint resolution time by 22 per cent since April 2018.

Despite this backdrop of higher-than-forecast volumes and an increase in the complexity, FSCS continues to reduce the time taken to process customers' claims.

Our preparedness this year has been tested by nine credit union failures, by a further significant insurance failure and by the failure of Beaufort Securities.

In all standard cases, we have compensated depositors in the failed credit unions within seven days. We are confident that this capacity could be scaled to deal with the failure of any bank, building society or credit union for which insolvency and FSCS pay-out is the preferred resolution approach.

In May, the Danish insurer Alpha Insurance failed. We have been working in collaboration with the liquidator and Danish Insurance Guarantee Fund to compensate policyholders and return premium. With the assistance of brokers, we have facilitated the replacement of 177,000 Guaranteed Asset Protection (GAP) policies and 10,000 Motor policies. We are currently working on Return of Premium payments for other products and policyholders but, as with other recent failures such as Enterprise, we have found that some of the data held by the insurer is of a low quality. This raises complexity and causes delays as the liquidator identifies which policyholders are entitled to compensation.

We continue to compensate claims from the recent failures of Enterprise and Gable and significant continuing costs are expected in respect of the motor claims from these insurers over the next two years.

As a result of these insurance failures, we are expecting a deficit for general insurance of over £10m. This is below the threshold which would automatically trigger a supplementary levy, but we expect to levy in the light of updated forecasts in January.

And, as always, there may be new failures or claims against firms that have failed for which we have no allowance today – but will need to keep under review ahead of the new year.

Finally, I should note the substantial work undertaken by FSCS to protect clients of Beaufort Securities, which failed early this year. Not only has FSCS compensated the great majority of those investors for their losses arising from the costs of returning their cash and assets, but we have, in partnership with the special administrators of the Beaufort estate, also been able to arrange for the cash and assets to be transferred to a new provider of brokerage services.

In short, FSCS's experience in the first months of 2018/19 foreshadows in important ways the strategy for the 2020s that we published earlier this month. ■

LEVY UPDATE

The latest forecasts for the funding classes are set out below and the final decisions on each class will be made in the New Year. The figures are based only on known claims.

In 2018/19, as a transitional funding year, we are levying for a "nine-month" year, for compensation costs from July 2018 to March 2019. As such, lower limits set at 75 per cent of the 12-month annual limits apply. This has a direct impact for the Life and Pensions Intermediation class, for which compensation costs in excess of £75m will be levied on the retail pool.

As predicted in April, we expect to raise a levy on the retail pool for the Life and Pensions Intermediation class, and we expect to raise the supplementary levy on the Deposits and General Insurance Provision classes – our stated policy is to do so where a deficit exceeds £20m and to consider whether to do so if in excess of £10m. The Debt Management class will receive a levy for the first time to fund their retail pool contribution, although we have yet to incur any compensation costs in the Debt Management class.

Class	Forecast closing position (£m)	Comments	Reforecast closing position after retail pool contribution (£m)	Status
Deposits (SA01)	(13.5)	Large credit union failure causing adverse variance, supplementary levy expected.	(21.3)	Red
General Insurance Provision (SB01)	(15.0)	Large failure of Alpha Insurance causing deficit. Supplementary levy required at same time as retail pool levy.	(17.5)	Red
General Insurance Intermediation (SB02)	8.4	Falling PPI compensation levels should leave surplus to carry forward to next year.	(13.0)	Red
Life & Pensions Intermediation (SC02)	(69.1)	Retail pool levy required of £69m, £6m larger than initially forecast due to rising claims volumes of SIPPs and Pension Transfer claims.	N/A	N/A
Investment Provision (SD01)	22.0	Surplus expected largely due to higher than expected levy receipts. Expect to use surplus to fund retail pool contributions.	7.8	Green
Investment Intermediation (SD02)	7.6	Higher than forecasted compensation payments offset by recoveries. Supplementary levy required for retail pool.	(3.1)	Red
Home Finance Intermediation (SE02)	7.6	Lower claims volumes and average compensation indicate surplus to carry forward. Low chance of supplementary levy.	4.8	Green
Debt Management	0.0	The funding of the retail pool will be the first compensation costs levy in this class.	(1.4)	Red

Funding indicators

Classes

GREEN - Low risk of supplementary levy
AMBER - Medium risk of supplementary levy
RED - High risk of supplementary levy

Levy timetable

November 2018 – *Outlook* and potential supplementary levies for 2018/19.

January 2019 – Final supplementary levy announcement for 2018/19 plus indicative levies for 2019/20 and payment on account amounts.

April 2019 – Final levies for 2019/20.

From 2019/20 – FSCS will collect on account levies for the first time. Those firms that pay on account levies to the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA) will from 2019/20 start paying on account FSCS levies. We expect to collect 50 per cent of these firms' 2018/19 levies – the maximum allowed by the rules.

FCA Classes	Class Limit (£m)	Contribution to Retail Pool	2018/19 Retail Pool Levy (£m)
General Insurance Intermediation (SB02)	300	31%	21.4
Life & Pensions Intermediation (SC02)	100	N/A	-
Investment Intermediation (SD02)	150	15%	10.7
Home Finance Intermediation (SE02)	40	4%	2.9
Investment Provision (SD01)	200	21%	14.2
Debt Management (SK01)	20	2%	1.4
FCA Provider Contribution Classes			
Deposit acceptors	110	11%	7.8
Insurers – General	35	4%	2.5
Insurers – Life	70	7%	5.0
Home Finance Providers	45	5%	3.2
	1,070	**100%**	**69.1**

Funding indicators for six months to 30 September 2018

Deposits

Deposits (SA01)	Original Forecast 2018/19 (£m)	Latest Actuals & Forecast 2018/19 (£m)	Variance (£m)
B/Forward 2017/18	(0.0)	2.4	2.4
Compensation	(4.2)	(25.4)	(21.2)
Recoveries	0.0	2.9	2.9
Management Expenses	(14.0)	(12.3)	1.7
Annual Levy receipts	19.0	18.9	(0.1)
Forecast Closing Balance 30/6/19	0.8	(13.5)	(14.3)
Retail Pool levy contribution	(7.2)	(7.8)	(0.6)
Total	**(6.4)**	**(21.3)**	**(14.9)**

The main variance from the annual levy is because of the failure of the Dial-A-Cab Credit Union at the start of September. FSCS stepped in to protect the London-based credit union's 1,250 taxi-driver customers. This failure, which cost over £21m, was the largest deposit failure since the financial crisis of 2008.

The higher-than-expected compensation costs are because of the average pay-out value rather than the volume of customers. Dial-A-Cab depositors received an average of £23,000 in compensation, compared to £500 for other credit union failures.

The deficit is partly funded by recoveries from the Legacy Banking failures and other recoveries received this year totalling £2.9m. We plan to raise a supplementary levy, both for the class deficit and the retail pool.

This class will be required to fund a retail pool levy of £8m, so the total deficit to be collected in January will be £21m.

General Insurance Provision

General Insurance Provision (SB01)	Original Forecast 2018/19 (Nine Months) (£m)	Latest Actuals & Forecast 2018/19 (Nine Months) (£m)	Variance (£m)
B/Forward 2017/18	14.6	32.5	17.9
Compensation	(96.7)	(138.7)	(42.0)
Recoveries	1.0	3.9	2.9
Management Expenses	(6.9)	(5.0)	1.9
Annual Levy receipts	89.0	92.3	3.3
Forecast Closing Balance 31/3/19	1. 0	(15.0)	(16.0)
Retail Pool levy contribution	(2.3)	(2.5)	(0.2)
Total	**(1.3)**	**(17.5)**	**(16.2)**

FSCS's total costs for the 2018 financial year are £42m greater than the levy forecast. This is because of a combination of £23m projected for the Danish company Alpha Insurance, which was declared bankrupt on 8 May 2018 – soon after the final levy was announced (and for which no allowance was made) – and an increase in forecast costs for Enterprise Insurance, as further policyholder and claims data is received.

Although the opening balance for the class was better than forecast, this is largely because of the timing of a £13m settlement made just after the start of 2018/19 levy year.

This class will be required to fund a retail pool contribution of over £2m, so the total deficit to be collected in January is expected to be about £18m.

General Insurance Intermediation

General Insurance Intermediation (SB02)	Original Forecast 2018/19 (Nine Months) (£m)	Latest Actuals & Forecast 2018/19 (£m)	Variance (£m)
B/Forward 2017/18	4.8	5.3	0.5
Compensation	(11.8)	(8.1)	3.7
Recoveries	0.0	2.2	2.2
Management Expenses	(7.9)	(7.5)	0.4
Annual Levy receipts	16.0	16.5	0.5
Forecast Closing Balance 31/3/19	1.1	8.4	7.3
Retail Pool levy contribution	(19.6)	(21.4)	(1.8)
Total	**(18.5)**	**(13.0)**	**(5.5)**

FSCS has not yet experienced the expected increase in PPI claims volumes following publicity around the 29 August 2019 deadline for PPI complaints. As a result, the overall volumes and the overall compensation payment forecast has been reduced by £4m.

No supplementary class costs levy is expected.

Levy payers should note, however, that they will shortly be required to fund the compensation claims costs attributable to the failure of Welcome Financial Services Ltd. The funds provided by the firm will be exhausted, having met claims worth a total of £71m, and this is included in the forecast.

This class's retail pool contribution of £21m will be partly funded by a class surplus of £8m, so the additional levy will be £13m.

Life & Pension Intermediation

Life & Pension Intermediation (SC02)	Original Forecast 2018/19 (Nine Months) (£m)	Latest Actuals & Forecast 2018/19 (£m)	Variance (£m)
B/Forward 2017/18	(20.4)	(15.4)	4.9
Compensation	(108.7)	(116.5)	(7.8)
Recoveries	0.0	(0.3)	(0.3)
Management Expenses	(9.2)	(10.8)	(1.6)
Annual Levy receipts	75.0	73.9	(1.1)
Forecast Closing Balance 31/3/19	(63.3)	(69.1)	(5.8)
Retail Pool levy contribution	N/A	N/A	0.0
Total	**(63.3)**	**(69.1)**	**(5.8)**

As expected, we shall be raising a supplementary levy for claims on the class, which will trigger the retail pool. This is forecast at £69m.

The Life and Pension Intermediation workstream continues to see the highest volume of new claims.

In 2018, Self-Invested Personal Pension (SIPP) and other pension transfer-related failures made up 45 per cent of all defaults declared and 83 per cent of resulting claims received. This was due to the larger claims volumes that relate to pension advisor defaults.

Based on recent experience, we now expect the recent increases in SIPP advice-related costs to level off in 2019/20.

Since 2016/17, claims relating to other types of pension transfer have increased significantly, for example British Steel pensions. We expect this trend to continue through 2018/19, with a 49 per cent increase in cost from 2017/18.

Although the opening balance deficit at 1 July was not as large as the forecast because of lower-than-forecast volumes of pension transfer claims between April and June, increased Claims Management Company (CMC) activity in this area has increased claims volumes and uphold rates have risen, which has outweighed a fall in the average compensation value.

Investment Provision

Investment Provision (SD01)	Original Forecast 2018/19 (Nine Months) (£m)	Latest Actuals & Forecast 2018/19 (£m)	Variance (£m)
B/Forward 2017/18	(17.7)	(6.8)	10.9
Compensation	(34.6)	(32.4)	2.2
Recoveries	0.0	0.0	0.0
Management Expenses	0.0	(1.8)	(1.8)
Annual Levy receipts	52.0	63.0	11.0
Forecast Closing Balance 31/3/19	(0.3)	22.0	22.3
Retail Pool levy contribution	(13.0)	(14.2)	(1.2)
Total	**(13.3)**	**7.8**	**21.1**

The compensation costs are broadly in line with the original forecast and budget and are mainly claims against Self-Invested Personal Pension (SIPP) operators. We continue to monitor developments in the sector more generally and how they might impact on our approach to claims, notably the recent judicial review challenge of a Financial Ombudsman Service decision and a number of SIPP Operator cases that are currently before the Courts. We are now forecasting that SIPP Operator claims will continue to increase and expect to make 1,369 claims decisions to the value of £31m in this levy period.

In fact, the opening balance was about £10m higher than expected, because of delays in new claims being processed. Following the changes introduced by the Financial Conduct Authority, the class also benefited from higher-than-expected levy tariff data returns – generating a greater total levy receipt than expected.

As at 30 July 2018, when the Financial Conduct Authority set FSCS levy rates for the class, the tariff base was calculated at £7.17bn. Between this date and the collection of FSCS annual levies, more firms in this class have revised their tariff data upwards in consultation with the Financial Conduct Authority over the new rule changes. The effect of this has been that the total levy amount collected by the Financial Conduct Authority/ FSCS in this class is £11m higher than originally forecast.

The overall net claims position is as forecast, leaving the surplus levy receipts to the credit of the class, which will fund the retail pool, so that no supplementary levy is likely at this stage. The surplus will be used to fund the retail pool contribution of £14m. ■

Investment Intermediation

Investment Intermediation (SD02)	Original Forecast 2018/19 (Nine Months) (£m)	Latest Actuals & Forecast 2018/19 (£m)	Variance (£m)
B/Forward 2017/18	22.9	31.0	8.1
Compensation	(59.0)	(68.7)	(9.7)
Recoveries	2.8	9.9	7.1
Management Expenses	(7.9)	(8.5)	(0.6)
Annual Levy receipts	42.0	43.9	1.9
Forecast Closing Balance 31/3/19	0.8	7.6	6.8
Retail Pool levy contribution	(9.8)	(10.7)	(0.9)
Total	**(9.0)**	**(3.1)**	**(5.9)**

Compensation costs are a little higher than forecast – after allowing for the phasing into this year of the first return of fund payments for Strand Capital Ltd.

The levy was raised on the 36-month forecast approach, allowing for a £14m head room for potential uncertainties.

Compensation for Beaufort Securities Ltd and Beaufort Asset Clearing Services Ltd amounts include £10m paid in September for the first tranche of client money, and client assets costs and a further £22m of costs for the special administration over the remainder of the year. Despite the additional £8m in the opening balance, a supplementary levy will be required to meet the full amount of the retail pool levy. As the class will be required to fund the £11m retail pool contribution, an additional levy of £3m will be required.

Home Finance Intermediation

Home Finance Intermediation (SE02)	Original Forecast 2018/19 (Nine Months) (£m)	Latest Actuals & Forecast 2018/19 (£m)	Variance (£m)
B/Forward 2017/18	(5.8)	(2.9)	2.9
Compensation	(14.7)	(10.0)	4.8
Recoveries	0.0	0.0	0.0
Management Expenses	(1.2)	(1.4)	(0.2)
Annual Levy receipts	22.0	21.9	(0.1)
Forecast Closing Balance 31/3/19	0.3	7.6	7.3
Retail Pool levy contribution	(2.6)	(2.8)	(0.2)
Total	**(2.3)**	**4.8**	**7.1**

No supplementary levy is forecast. Despite increased claims volumes, many are rejections and the six-month average compensation is down by £10,000 on the April forecast of £55,000.

Over recent years, costs for this class have been driven by claims against Fuel Investments. We expect to complete 250 or so claims against this firm in this financial year, though there could be more in the pipeline.

The surplus will be used to fund the class's retail pool contribution of £3m.

TAKING ACTION

What We Did

During the year FSCS has protected consumers across various sectors, raising their confidence in the financial services industry, as shown by the following case studies.

Alpha Insurance

Alpha Insurance, a Danish company that insured thousands of UK taxi and minicab drivers, was declared bankrupt in Denmark on 8 May. As well as insuring taxi drivers through such brands as Protector and Cover My Cab, Alpha provided a range of insurance policies to the UK retail and commercial market including solicitors' professional indemnity insurance, motor insurance, gap insurance and latent defects insurance to insure customers from defects in new-build homes.

The failure posed a logistical challenge for FSCS. By working closely with the liquidator, the Danish Guarantee Fund, the Danish Financial Supervisory Authority (Danish FSA) and Right Choice Insurance Brokers, FSCS secured alternative insurance cover for thousands of eligible customers. On 28 September 2018 we signed off on a deal to replace 10,700 private motor insurance policies.

FSCS also liaised with Premia Solutions to replace 177,000 of Alpha's Guaranteed Asset Protection (GAP) policies, with effect from 12 August, with the new insurer – a Lloyd's of London syndicate. The transfer came after Alpha's liquidator gave notice that these policies would be cancelled on 11 August. Affected policyholders received a letter from Premia Solutions outlining the details of the transfer of their policies.

Where customers bought the Alpha cover on finance terms that required them to assign their rights to the providers, we set up arrangements with the two main providers, Close Brothers and Premium Credit, to arrange for the compensation payments to be applied directly towards paying back the loan.

Beaufort Securities

Beaufort Securities Ltd and Beaufort Asset Clearing Services were placed in Special Administration by the High Court following an application by the UK regulators in March 2018, soon after the US Department of Justice brought criminal charges against Beaufort Securities Ltd and a number of individuals for their alleged involvement in securities fraud and money laundering.

Around 17,000 retail clients and about 500 corporate clients in Beaufort Asset Clearing Services were affected. Almost all individual customers of Beaufort Asset Clearing Services will be protected in full by FSCS for the return of money and assets as a result of the firm entering administration.

The distribution plan, agreed by the High Court in July, allowed FSCS compensation to be paid directly to Beaufort to cover the relevant administration costs, reducing the cash flow demand on FSCS's levy payers while also simplifying the process for Beaufort clients. The court welcomed FSCS's participation in the plan.

FSCS will protect the vast majority of Beaufort's 17,500 clients by compensating them for any shortfall arising from the costs of returning cash and assets. These costs do not need to be taken from client assets and client money. FSCS has arranged for these costs to be met directly with PwC, and the vast majority of individual Beaufort clients are not expected to suffer any loss. Just over 12,000 customers have so far had their portfolio returned whole without any deduction.

We are working closely with PwC and the creditors' committee to ensure that the costs of the estate are kept as low as possible.

Strand Capital

When the investment management firm Strand Capital Ltd was placed into Special Administration in May 2017, the Companies Court appointed Smith and Williamson and LA Business Recovery Ltd as the firm's joint special administrators.

FSCS has already paid a number of Strand customers for claims connected with the return of client money to customers and is working with the joint special administrators to return the remaining client money.

During the summer of 2018, FSCS paid £5.9m to 1,405 Strand Capital Ltd customers in respect of their client cash balance, with payments made to their Self-Invested Personal Pension (SIPP) provider, the most recent being Liberty SIPP on 1 August. The payments relate to client money only and not to assets.

FSCS is still working on returning client money to some remaining customers and is likely to have a role in the return of customer assets.

FSCS wrote to those customers on 25 June to let them know their payment had been made. For many customers this payment represents just the first stage in returning property to them.

FSCS is currently working with the administrators on the return of assets to clients. We are also expecting to receive a distribution from the insolvent estate of Strand.

For clients whose losses exceeded the FSCS investment limit of £50,000, any recoveries received that are in excess of the compensation we have paid out will be passed on to claimants so that they are not worse off as a result of having first accepted FSCS compensation.

Dial-A-Cab

In early September FSCS stepped in to protect the 1,250 members of the London-based Dial-A-Cab Credit Union Ltd when it stopped trading and was unable to pay their customers' deposits.

This failure was FSCS's largest deposit failure since the financial crisis of 2008.

FSCS paid more than £21m to Dial-A-Cab's customers within seven days of the failure. A number with savings above the FSCS compensation limit of £85,000 were paid by FSCS and also contacted directly by the administrators. To date, one claim for a "temporary high balance" has been paid.

MANAGEMENT EXPENSES

At this midpoint in the 2018/19 financial year, we are forecast to exceed our £72.7m budget by £1.3m.

While work continues to decrease this potential overspend, the key driver is an unforeseen increase in outsourced claims volumes relating primarily to SIPP and Pension claims (£3.2m).

These rising costs have been partially offset by effective claims price negotiations and broader efficiency savings, giving rise to the total £1.3m variance to budget.

As we continue to review further opportunities to close this expense gap, we remain cognisant of our potential need to utilise our unlevied reserve, which is in place to cover an unforeseen increase in claims volumes.

In addition, there is a potential risk of a VAT liability being payable on the costs of processing Independent Insurance claims of up to £1.5m pending a decision on their treatment from HMRC.

Management expenses	Forecast 2018/19 £m	Budget 2018/19 £m
Claims handling infrastructure and support	**53.8**	**51.0**
Outsourced claims handling	17.8	16.2
Internal claims handling support	7.9	7.5
IT, facilities and central services	23.6	22.8
Investment: systems maintenance and improvement	4.5	4.5
Bank charges	**6.8**	**7.6**
Depositor protection, investment, recoveries and pension deficit	**13.4**	**14.1**
Depositor protection	4.4	4.3
Recoveries	3.6	3.9
Investment: digital and outsourcing	3.5	3.5
Pension deficit funding	1.9	2.4
Total management expenses	**74.0**	**72.7**

RECOVERIES UPDATE

The last edition of *Outlook* noted that FSCS's loan with HM Treasury in respect of Bradford & Bingley could be paid off as a result of loan sales by UK Asset Resolution. On 23 May 2018, loan sales completed and, as a result, the FSCS loan balance of £4.7bn was repaid in full.

On 1 October 2018, FSCS made the final payment for interest accrued up to and including 23 May 2018. As a result, FSCS has no outstanding liabilities to HM Treasury for the failures of 2008/9.

The Legal & Recoveries Team continues to place additional focus and resource on pursuing cross-jurisdictional recoveries, where the underlying investment has failed. This work often arises in the context of pensions mis-selling by an Independent Financial Advisor which is now in failure for FSCS's purposes.

A current example of this recovery work relates to the Harlequin property investments, located in jurisdictions across the Caribbean, where FSCS has paid more than £100m in compensation. As a result of this focus, FSCS is working more closely than ever with other UK agencies, such as the Serious Fraud Office and the FCA, to maximise recoveries. ■

Payment Protection Insurance

Since 2009 FSCS has paid more than £200m in compensation to consumers in respect of Payment Protection Insurance (PPI) mis-selling. In accordance with FSCS's statutory obligation to pursue recovery actions where cost effective and reasonable to do so, FSCS has been pursuing a PPI recoveries project against PPI lenders since Autumn 2015.

This recoveries action followed the Supreme Court's decision in 2014 in the case of *Plevin v Paragon Personal Finance Ltd*, which allowed consumers to bring a claim under the Consumer Credit Act 1974 against lenders for undisclosed commissions in respect of their PPI that were so large that the relationship could not be regarded as fair.

In reliance on the Plevin case, FSCS has pursued lenders whose credit agreements were the subject of PPI policies that FSCS had determined were mis-sold by brokers to consumers – and whom FSCS subsequently compensated. FSCS's position is that the non-disclosure of the commission paid by the consumer in respect of their PPI gave rise to an unfair relationship between the consumer and the lender for the purposes of the Consumer Credit Act.

FSCS's PPI recoveries project has now come to a successful resolution with a total recovery of almost £20m. This recovery will be used to offset the costs falling on insurance intermediaries. ■

FSCS STAKEHOLDERS

Building consumer awareness and understanding – and industry engagement

Increased consumer awareness of FSCS has the potential to build better understanding, knowledge and – ultimately – greater trust in the UK's financial service industry. This is as important as ever.

We have maintained overall UK adult awareness of FSCS and deposit protection at 79 per cent. Last year we reached an agreement with deposit takers to use the FSCS Protected badge alongside their own logo on the information sheet required under the Deposit Guarantee Schemes Directive, as well as online, in their mobile apps and in advertising. This was part of an initiative to help raise awareness of our deposit protection amongst UK consumers. Deposit takers have until March 2019 to fully implement the agreement. From our research so far, many firms are already compliant, which is very encouraging.

But we want awareness of the full range of FSCS protection to be higher.

To drive wider financial stability, FSCS will continue to need industry support alongside our own marketing communications programmes, so that FSCS protection is part of people's financial decision making.

In March 2018, FSCS published the findings of a large-scale behavioural experiment which showed a link between the choices people make in retirement and their awareness of FSCS. In a nutshell, those aware of FSCS were less inclined to buy riskier products and more inclined to opt for those the Scheme protects. They were also more likely to take advice and less likely to question the cost of that advice.

Despite this, our mystery shopping exercise showed a clear gap in the quality of information firms are providing to their customers about FSCS. For example, 61 per cent of mystery shoppers had to proactively prompt an adviser for information about the Scheme. The overall awareness score on the compensation limit for pensions was only 23 per cent.

Raising awareness of our broader coverage is an important issue and working with industry is one of the ways in which this can be achieved. Our recently founded pensions working group is an example of FSCS and industry working collaboratively to resolve such an issue.

FSCS WEBSITE

Following consumer testing earlier this year, we have redesigned and simplified our website, and have made it more mobile-friendly. It directs people to our coverage, limits, and information about firm failures quickly and easily.

With nine in ten UK households now having access to the internet and using it regularly, ensuring our online information is easy to read and understand is a priority.

Our work is based on the principle of clear consumer communication journeys. Whether starting with an online search, a newspaper article, a digital advertisement, media partnership or, indeed, industry partnerships and communications, people are directed to the most useful FSCS website page and onto our Claims Service when they need it.

Alongside this, we know how important our industry relationships are and in 2019 we want to investigate how to work together even more closely. As well as the industry working groups, we will share more information and promotional materials with industry to ensure consumers are as well informed as possible about FSCS protection.

Click onto www.fscs.org.uk to see our new website.

FUNDING REVIEW

FSCS Funding class structure from April 2019

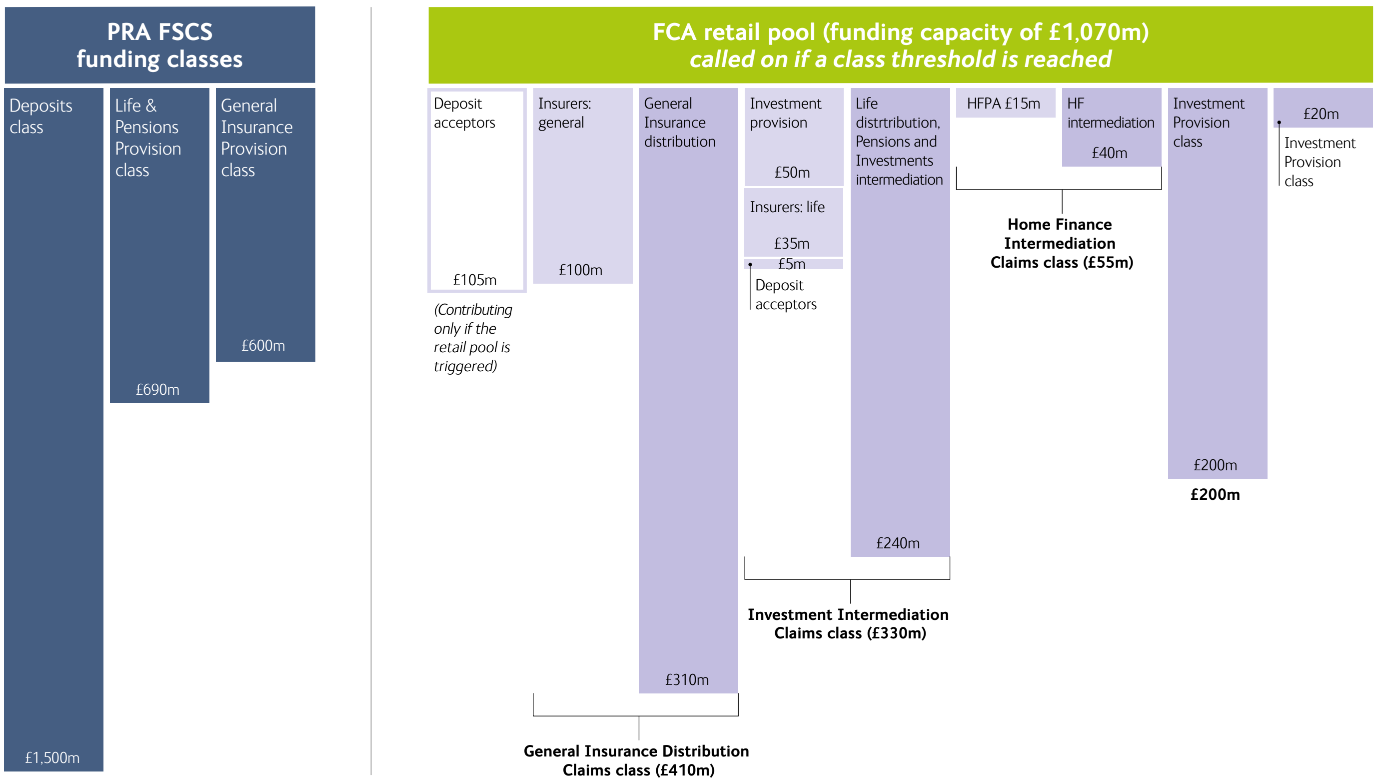
In recent years, the industry has expressed concern about the volatility of FSCS levies and the impact of this on intermediaries. The *Financial Advice Market Review* of 2016 looked at the variability of FSCS levies and suggested that FSCS funding should be reviewed to reduce volatility in FSCS levies.

Following the *Financial Advice Market Review*, the Financial Conduct Authority carried out a review into FSCS funding in 2016, resulting in a new funding model for FSCS. The new model, along with most of the changes, comes into effect on 1 April 2019.

The new funding arrangements merge the Life and Pension intermediation and Investment Intermediation funding classes into one, to reduce volatility.

Product providers will also contribute around 25 per cent of the compensation costs which fall to the intermediation classes. Provider contributions will start from the first pound. The use of the retail pool will also be expanded to include Investment Providers.

New Class Structure (April 2019)



In addition, some of the FSCS limits will change from 1 April 2019, as outlined below:

Class	Current limit	New limit
Investment Provision	£50,000	£85,000
Investment Intermediation	£50,000	£85,000
Life & Pensions Intermediation	£50,000	£85,000
Home Finance Intermediation	£50,000	£85,000
Long term care insurance	£50,000	100% of the claim

The Financial Conduct Authority has recently closed a consultation paper relating to the Professional Indemnity Insurance (PII) requirements for Personal Investment Firms, which were looked at under the funding review, and has just published its final policy statement. The Financial Conduct Authority also expects to consider the case for consulting on risk-based levies for Financial Conduct Authority classes in 2019.

UK WITHDRAWAL FROM THE EU

While the UK is a member of the EU, or for as long as the UK continues to be bound by EU obligations during an implementation period, the UK financial system will continue to be regulated in accordance with its existing obligations as an EU Member State. FSCS will continue to protect depositors, policyholders, investors and others.

The Government has put in place a programme of action designed to avoid disruption in the unlikely event of a no-deal scenario. This work includes putting in place a Temporary Permissions Regime for firms that are passporting into the UK before Exit, to allow them to continue operating for a limited period of time while their application for full authorisation is considered.

The Prudential Regulation Authority and Financial Conduct Authority are consulting on the implementation of a temporary permissions regime, including what a no-deal scenario may mean for FSCS coverage. Generally, for consumers dealing with UK authorised firms in the UK, there will be no change in FSCS protection. Any changes affecting FSCS, and the coverage we provide, will be consulted upon by UK regulators.

FSCS will continue to work closely with HM Treasury, the Bank of England and the Financial Conduct Authority on the implications of EU withdrawal for FSCS and consumers to ensure clear and consistent messaging to stakeholders.

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

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