

Promote is a key part of the Financial Services Compensation Scheme's (FSCS) strategy. Our ambition is that the full range of FSCS protection is known about and trusted. Promoting the protection we offer helps consumers to make informed and confident financial choices. Our **Promote to Prevent** work centres around raising awareness and helping reduce consumer harm which is driving up FSCS's compensation costs.

This Consumer Research series aims to share the results of our exclusive research on consumer trends, attitudes and behaviours towards financial products and services. It helps us, and stakeholders across the financial services sector, to identify gaps and opportunities to provide consumers with the essential, accurate information they need about FSCS protection.

FSCS can pay compensation when financial firms go out of business. FSCS can protect deposits, insurance policies, some investments, insurance broking, mortgage advice, self-invested personal pensions (SIPPs), pensions advice, payment protection insurance (PPI), debt management plans and funeral plans. For more information on what we cover, visit our website.

Funded by the industry, we are independent and our service is free to use.



FSCS CONSUMER RESEARCH:

Understanding of FSCS protection: identifying the gaps



September 2022

www.fscs.org.uk

Why we're exploring awareness and understanding that FSCS protects different financial products

Welcome to the second in our series of FSCS research papers where we share insights from our exclusive consumer research, highlighting opportunities for us all to improve consumer outcomes.

Although many adults are aware that FSCS protects their money in banks, building societies and credit unions, far fewer know that FSCS can protect other UK-regulated financial products such as pensions, investments, insurance, funeral plans and financial advice.

Awareness of FSCS protection helps to inform people's choices by increasing their confidence in buying protected services and understanding the risks of unregulated products. This research has found that consumers who are aware that FSCS protects different pensions and investments products are at least 15 percentage points more

likely to be confident about choosing and managing the product than those who are not aware.

Why it matters

This is particularly important in the context of a cost of living crisis, high inflation and rapidly rising interest rates. This research has found that 88% of consumers were concerned about the increased cost of living and 74% were worried about a financial recession in July 2022. Consumers of all ages and backgrounds are striving to make their money go further, which could mean taking higher risks.

FSCS is here to provide a safety net, but we're passionate about preventing consumers turning into our customers. One way to do this is by increasing awareness and understanding of the products we cover

and the protection available when firms fail, so people can be empowered when making financial decisions and feel confident that their money will be safe if things go wrong. By sharing our insights and engaging with our stakeholders, we can help highlight the root causes of harm and identify opportunities to support people to make the right decisions with their money.

Lila Pleban

Chief Communications Officer

Find out more

Sign up to be the first to hear about future research here.



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Understanding of FSCS protection

Understanding that we offer compensation when banks and building societies fail is high...

Consumers who have heard of FSCS are very likely to assume that it 'does what it says on the tin', with 78% correctly identifying that it provides compensation when financial providers go bust.

An even higher proportion (83%) expects FSCS to offer protection when asked specifically about banks and building societies collapsing. The vast majority of consumers (over 90% according to this same research) hold a current account, and unsurprisingly this is the product people are most likely to feel confident choosing and managing (see [Figure 3: Confidence in managing and choosing financial products](#)). Awareness that FSCS protects current accounts is also much higher than for any other financial product surveyed (see [Figure 2: Awareness that FSCS protects different financial products](#)).

...but much lower when it comes to credit unions

On the other hand, understanding that credit unions are covered by FSCS protection is much lower at 51% of those who have heard of FSCS. According to the FCA's [Financial Lives Survey 2020](#), only 3% of UK adults held a credit union savings account, with a negligible proportion holding a credit union current account.

This means the majority of the population won't be familiar with their offering or have used their services, which explains why this question got the highest proportion of consumers answering with 'not sure' rather than a flat 'no'.

Compensation paid by FSCS to customers of failed credit unions totalled just under £5m in 2021/22. Although this accounts for a small proportion of both the number of customers helped and the amount of compensation FSCS paid during the year, deposits held in credit unions enjoy the same protection as those held in banks and building societies. This means we automatically compensate eligible depositors in failed credit unions within seven days without them having to do anything, where the credit union is able to provide all the necessary information. In 2021/22 a total of 5,401 customers were reunited with their money within seven days, or fewer. (For more information on the customers we help and the compensation we pay, see our [Annual Report](#)).

Just over half understand that we offer protection for bad advice or mis-sold products...

At least one in six people who have heard of FSCS think we don't provide compensation for bad advice (16%) or mis-sold products (18%), while almost three out of ten (around 29%) are not sure.

KEY FINDINGS

83%

of adults who have heard of FSCS understand that it offers protection when banks or building societies collapse. 55% understand that we offer protection for bad financial advice and 51% know that there are different compensation limits depending on the type of product that fails.



77% of adults who have heard of FSCS are aware that it protects current accounts. Awareness is much lower for personal pensions (39%) and investments (37%).



83% of adults are confident about choosing and managing current accounts compared to 44% for personal pensions and 38% for investments.



Those who are aware that FSCS protects pensions are significantly more likely to say they are confident choosing and managing personal pensions than those who are not aware (58% vs 42%).



This is also the case for investments, where awareness that FSCS protects these products results in confidence levels rising by 15 percentage points (50% vs 35%).

FSCS may be able to offer compensation when consumers are given bad financial advice, for example where:

- > a financial adviser, authorised by FCA, has misadvised a consumer to transfer out of a defined benefit pension and the consumer has lost money as a result
- > the adviser has subsequently gone out of business and
- > the customer's claim to FSCS meets the qualifying conditions for FSCS to pay the customer's claim under our rules.

However, this type of claim can be complex and can depend on (amongst other things) the individual's risk tolerance and how sophisticated of an investor they are.

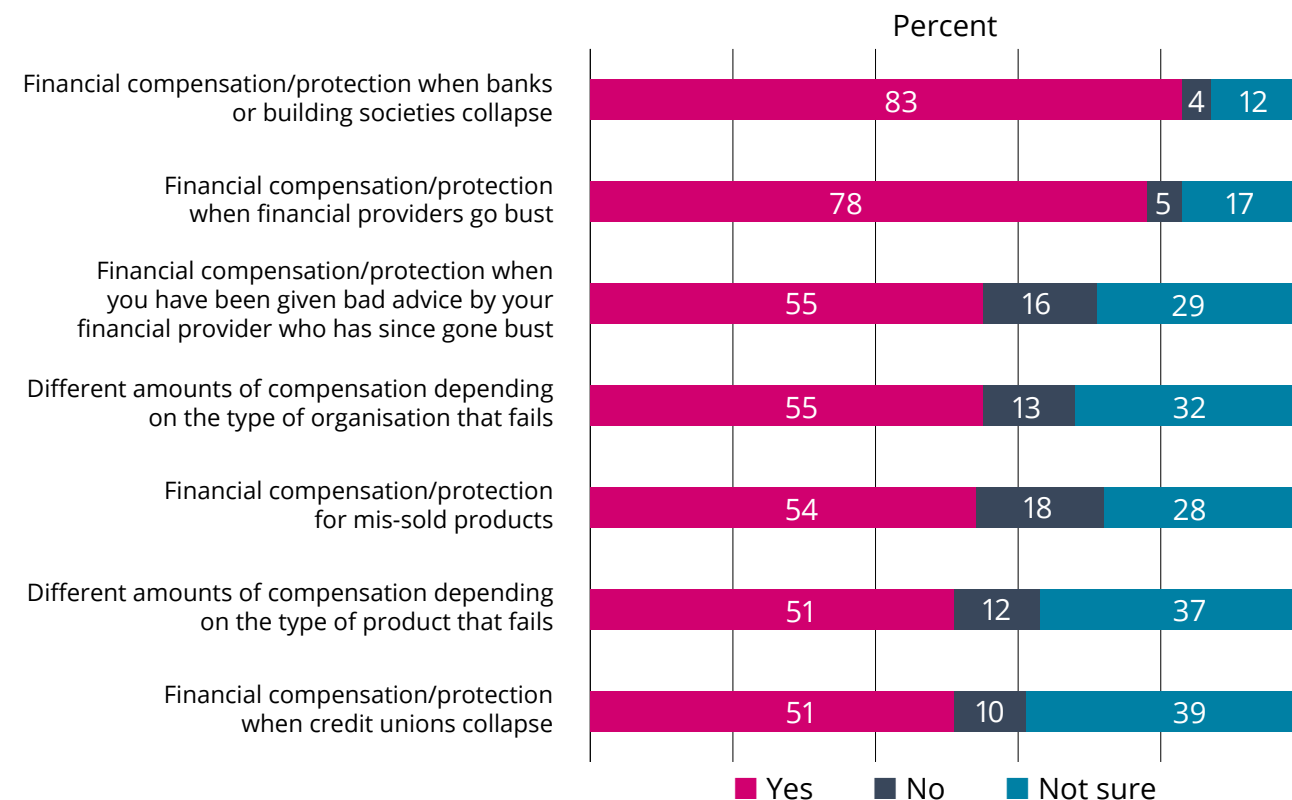
...highlighting the complexity around this area of our protection

The conditions and limits to the protection we can provide can be confusing for the average consumer to understand in advance of making the relevant decisions. To be eligible for compensation, the adviser must have been regulated by the **Financial Conduct Authority (FCA)** or the **Prudential Regulation Authority (PRA)** at the time the advice was received. This means our rules don't allow us to help people who have entrusted their money to unauthorised agents, including scammers.

Figure 1: Understanding of FSCS protection

Base: 4,896 UK adults aged 18+ who have heard of FSCS

"Which of the following services do you think are provided by the Financial Services Compensation Scheme (FSCS)?"



Source: FSCS/Dynata, February 2021 – July 2022

In addition, the regulated adviser must also have gone out of business, or otherwise be unable, or likely to be unable, to pay claims against it for FSCS to be able to help. If still trading, customers need to make a complaint with the advice firm first, then to the **Financial Ombudsman Service** as applicable.

Recipients of bad advice might not realise they can claim compensation until much later down the line. For instance, it may take years for individuals to understand that they were misadvised and have lost money as a result. This can result in a delay between consumer harm occurring and affected people being in a position to make a claim with us. In fact, we pay most of our compensation against claims that have been made for advice given five or more years ago.

Self-invested personal pension (SIPP) and other pensions advice claims resulted in £217 million in compensation costs in 2021/22 – the highest across all the types of claims FSCS handles. This level of consumer harm shows how important it is for us to work with our stakeholders to raise consumer awareness and understanding of the protection we provide.



Recipients of bad advice might not realise they can claim compensation until much later down the line.

Awareness that FSCS protects different financial products

We can protect deposits, insurance policies, some investments, insurance broking, mortgage advice, self-invested personal pensions (SIPPs), pensions advice, payment protection insurance (PPI), debt management plans and funeral plans. For more information on what we cover, visit our [website](#).

Gaps in consumer awareness and understanding are evident when it comes to differences in the amount of compensation provided by FSCS (see **Figure 1: Understanding of FSCS protection**). This research found that only 51% of adults who have heard of FSCS think we have different compensation limits depending on the type of product that fails, with 12% assuming this is not the case and the remaining 37% not being sure. The amount of compensation we can pay depends on the type of claim.

FSCS's website offers useful information and resources to help consumers understand our protection, including our Protection Checker tools for **banks & savings, pensions** and **investments**.



Protected

Retail banking products see highest level of awareness of FSCS protection...

A majority of adults who have heard of FSCS correctly identify that we protect current accounts (77%), savings accounts (71%) and cash ISAs (61%).

These products are relatively simple to understand and manage, and even consumers with basic needs are likely to come across them early on in their financial journey. This means people of all walks of life are likely to have experience using these products on a regular basis.

...in part explained by the role our FSCS Protected badge plays

In addition, the PRA requires all authorised banks, building societies and credit unions to inform new and existing customers that FSCS protects their deposits, both when opening new accounts, and at least once a year – using an information sheet. Deposit takers must prominently feature

FSCS materials using stickers, posters and leaflets in branch. They can feature the FSCS Protected Badge on websites, mobile apps, customer information sheets and in advertising campaigns. As a result, our FSCS Protected Badge is widely recognised by consumers. This research has found that 62% of UK adults have seen the FSCS Protected Badge before (average between February 2021 and July 2022).

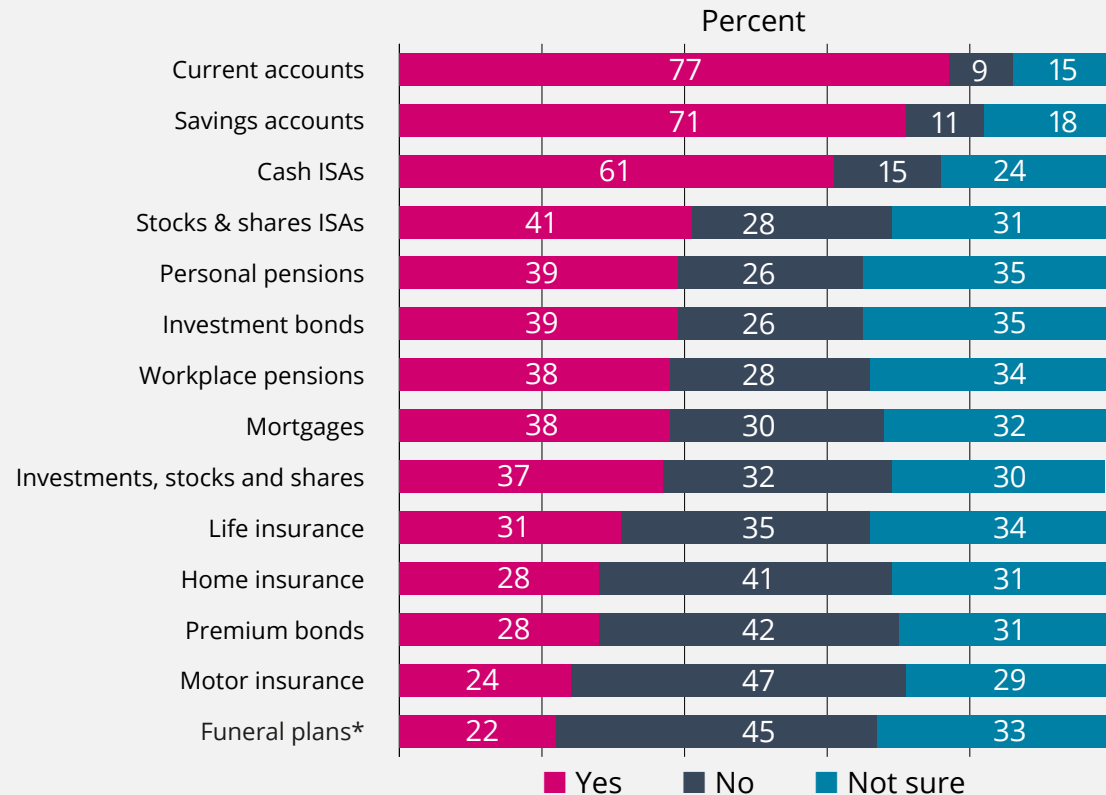
We also know that many providers, particularly new entrants in the deposits sector, see the FSCS Protected Badge as a way of reassuring customers of their legitimacy. Many will proactively work with FSCS to ensure they can use the FSCS Protected Badge as soon as they have received a banking license or become authorised by the regulators.

At FSCS, we're currently exploring ways to leverage the power of our FSCS Protected Badge, including the options to expand its use to providers other than deposit takers.

Figure 2: Awareness that FSCS protects different financial products

Base: 4,896 UK adults aged 18+ who have heard of FSCS

"Do you think the following financial products are covered by the Financial Services Compensation Scheme (FSCS)"



Note: This list of products was presented to survey respondents to assess overall awareness levels among consumers. Not all products are protected by FSCS. For more information on what we cover, visit our [website](#).

* Funeral plans became regulated by the FCA and protected by FSCS on 29 July 2022. The base is 580 UK adults aged 18+ who have heard of FSCS, June and July 2022

Source: FSCS/Dynata, February 2021– July 2022

Awareness that FSCS protects pensions and investments is much lower...

Pensions and investments are complex products, especially when compared to deposits. The protection we offer in these areas is also complex, reflecting the wide variety of options available to consumers. **Figure 2** provides an indication of overall consumer awareness levels, but not all products are protected by FSCS.

FSCS must determine claims submitted to it under the rules set for it by FCA and PRA as applicable. FSCS cannot pay compensation to a customer unless the customer's claim meets the qualifying conditions for payment under those rules. For example, some products such as Premium Bonds are instead backed by HM Treasury. Mini-bonds, which can be marketed simply as 'bonds', in general are not protected by FSCS. Other products and circumstances aren't protected by FSCS at all, including (but not limited to) cryptoassets, crypto coins and cryptocurrency (e.g. 'Bitcoins') none of which are protected by FSCS. For more information on how FSCS protects bonds and other investments, visit our [website](#).

...reflecting the complexity of these products and the protection available...

In general, FSCS compensation may be available for people who invested, or were advised to invest, and the provider or adviser has since gone out of business (and there is a shortfall in the money or assets it held). The PRA or the FCA must have authorised the provider or adviser, as well as regulated the service and product it provided. The risky nature of investments means their value can go up as well as down, and FSCS cannot accept claims that relate purely to poor investment performance.

When it comes to pensions, generally FSCS can protect when:

- > pension providers fail as long as they qualify as 'contracts of long-term insurance' - for example an annuity
- > investments within personal pensions (e.g. SIPPs) fail
- > regulated advisers have given bad advice concerning a pension, for example to transfer money out of it to be invested elsewhere.


Some pensions, such as defined benefit or occupational pension schemes, are instead protected by the **Pension Protection Fund**. For more information on Pensions and SIPPs, see the **first edition of our Consumer Research series**.

...but the risk of consumer harm tends to be much higher

The current (for firms that failed after 1 April 2019) compensation limit for pensions and investments is £85,000, the same as that of deposits and most other products covered by FSCS (compensation limits may vary depending on when the firm failed, for more information visit our [website](#)). Contracts of long-term insurance, such as annuities, are the only notable exclusion, with customers being protected up to 100% of their claim with no upper limit.

However, a pension is likely to be the biggest pot of investment funds that a person will ever have in their lives. Depending on the amount of the customer's loss, the money we can return to customers may be less than the total amount they lost, something we call 'uncompensated loss'.

In 2021/22, almost 1,400 pensions advice claims had a total loss over FSCS's £85,000 compensation limit, with customers losing just under £140m in uncompensated losses.



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Those who come to us with a pension claim are often close to or at the point of retirement. This means they have limited time to rebuild their pension pots and, for those with uncompensated losses, they may face a much poorer and uncertain retirement than the one they had planned for.

FSCS believes that our current compensation limits remain appropriate for most products and activities covered by FSCS protection and continue to represent an appropriate balance between protecting consumers and the resulting cost to industry levy payers.

There is an important exception when it comes to pension claims. In this specific area we believe that the FSCS compensation limit of up to £85,000 per eligible customer, per firm should be higher. We would like to see it reviewed, with a view to reducing the gap between FSCS's limit and the amount that the Financial Ombudsman Service can tell a business to pay, which is £375,000 as of 1 April 2022.

We also believe there is a strong case for a mechanism that automatically adjusts our limits each year in line with inflation to be introduced. For more information on how we are contributing to the discussion on the future of financial services compensation in the UK, see our publication [The balancing act of compensation](#).

Insuring your insurance

Despite high ownership among consumers, awareness that FSCS protects general insurance products like home insurance and motor insurance ranks low. Although meant to provide peace of mind, people tend to approach these products in a transactional and compliant way, where price is the main purchase driver.

However, when insurers fail we tend to see thousands of customers affected at once, accounting for a high proportion of FSCS claims each year. For example, when an insurer is insolvent and cannot pay claims made under an insurance policy, or return insurance premiums back to customers. Although the number of customers can be large, it is often a much smaller proportion of the value of compensation paid overall by FSCS, mainly because our first step is to try and replace affected policies with equivalent ones with a different insurer. Increasing awareness that we protect insurance can help reassure customers of regulated firms that we can step in if something goes wrong. It is also likely to result in consumers being more vigilant when shopping for insurance products, for example by being more inclined to check who the underwriter is and what protection is available with the chosen policy.

This is important because the majority of recent insurance failures we have seen are in connection to overseas insurers, and if the insurer isn't UK-based then FSCS protection can vary. Brexit may also affect FSCS protection if the insurer is based in the European Economic Area (EEA).

For more information on Brexit and FSCS protection, including FSCS protection for insurance policies post Brexit, visit our website.



Confidence in managing financial products

Confidence varies widely by product

The vast majority of adults own at least one financial product and people are very likely to own a variety of them over their lifetimes. 71% of adults feel confident about choosing and managing financial products in general, but responses vary significantly when asked about individual products. Unsurprisingly, consumers are much more likely to be confident (83%) about everyday banking products such as current accounts.

Confidence in managing pensions and investments is significantly lower. As mentioned above, pensions and investments can be very complex products, and the stakes tend to be higher when compared to retail banking. Interestingly, a slight majority of adults (51%) say they are confident about managing workplace pensions, a product consumers tend to be only passively involved in managing under auto-enrolment.

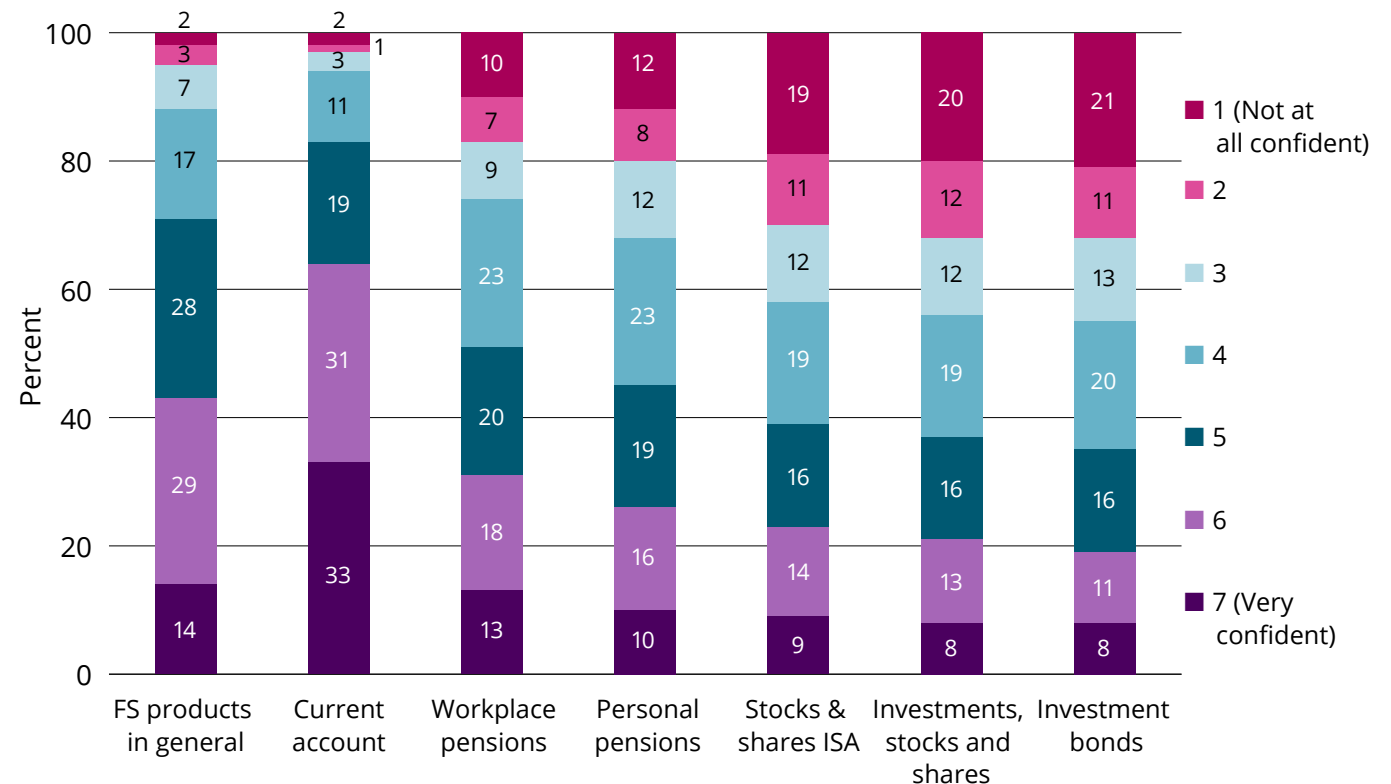
The very fact that default decisions are taken on pension holders' behalf by what they expect to be experts could be giving people a feeling of reassurance. It may also empower them if proactively engaging with it, for example when choosing contribution levels. This can become more relevant amid the current cost of living crisis, which may force some consumers to explore which outgoings they can cut back on.

Figure 3: Confidence in managing and choosing financial products

Base: 13,418 UK adults aged 18+

"How confident would you say you are about managing and choosing financial products?"

"How confident would you say you are about managing and choosing the following financial products?"



Any confident: chose 5, 6 or 7 in a 7-point scale where 1= not at all confident and 7= very confident

Source: FSCS/Dynata, February 2021– July 2022

Confidence increases with awareness that FSCS protects the product

Consumers who are aware that FSCS protects a type of financial product are much more likely to be confident about choosing and managing it. Although this applies to all product types surveyed, it is particularly marked for pensions and investments products, where confidence is at least 15 percentage points higher among those aware that FSCS protects the product compared to those who are not aware.

58% of people who are aware that FSCS protects pensions are likely to say they are confident choosing and managing personal pensions, compared to just 42% of those who are not aware. These figures are 50% vs 35% for investments, stocks and shares.

These results show how important it is for consumers to be aware of and understand the role of FSCS. Awareness of FSCS protection helps to inform people's choices by increasing their confidence in buying protected services and understanding the risks of unregulated products. And, if things go wrong, people may also be more likely to claim with us directly using our [free online claims service](#) and keeping 100% of any compensation awarded, instead of paying a representative to handle their claim.

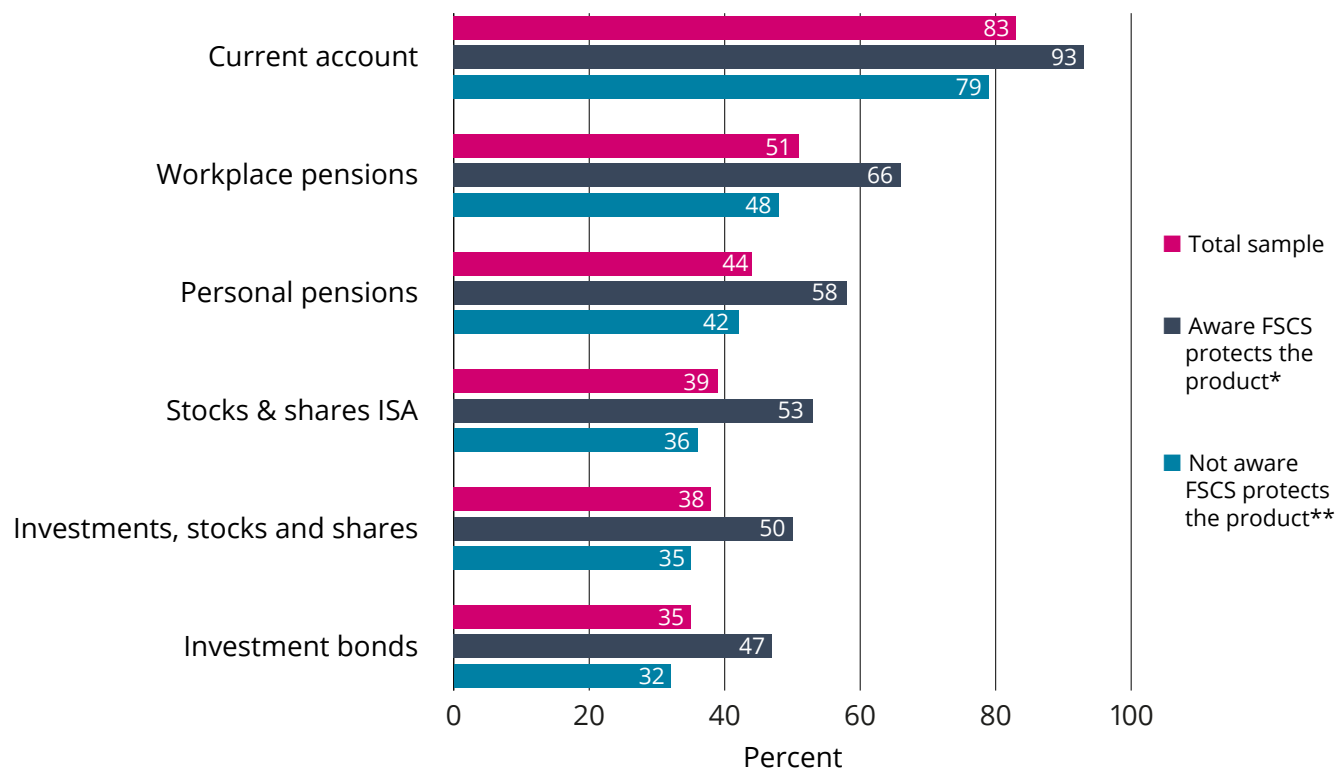
This research also raises new questions when it comes to how FSCS protection can increase trust in regulated financial services providers and in the financial services industry as a whole. These are topics we would like to explore in future editions of this series.

Figure 4: Confidence in managing and choosing financial products, by awareness that FSCS protects the product

Base: 13,418 UK adults aged 18+

“How confident would you say you are about managing and choosing the following financial products? – NET any confidence[^]”

“Do you think the following financial products are covered by the Financial Services Compensation Scheme (FSCS) – NET by product type”



[^] Any confident: chose 5, 6 or 7 in a 7-point scale where 1= not at all confident and 7= very confident

* 3,384 UK adults aged 18+ who have heard of FSCS and are aware it protects deposits/savings; 1,953 UK adults aged 18+ who have heard of FSCS and are aware it protects pensions; 2,199 UK adults aged 18+ who have heard of FSCS and are aware it protects investments

** 8,040 UK adults aged 18+ who are not aware FSCS protects deposits/savings; 9,471 UK adults aged 18+ who are not aware FSCS protects pensions; 9,225 UK adults aged 18+ who are not aware FSCS protects investments

Source: FSCS/Dynata, February 2021– July 2022

KEY TAKEAWAYS

- > Understanding that FSCS offers compensation when banks and building societies fail is high, but much lower when it comes to the protection we offer for bad advice or mis-sold products, or that our compensation limits vary depending on the type of organisation or product that fails.
- > Awareness that FSCS protects different products also varies widely. Deposits enjoy high levels of awareness of FSCS protection, in part thanks to a majority of consumers being familiar with our FSCS Protected Badge.
- > Awareness that FSCS protects pensions and investments is much lower, in part due to the complexity of these products and the protection we can offer.
- > The risk of consumer harm tends to be much higher when it comes to pensions and investments. This is because the amounts at stake tend to be very high in products as important to consumers as their pension, and in many cases the money we can return to customers is less than the total amount they lost, something we call 'uncompensated loss'.
- > Confidence in choosing and managing financial products increases with awareness that FSCS protects the product, and this is particularly true for pensions and investments.
- > **This is why FSCS is committed to working with the industry to improve awareness and understanding of its protection. Engaging with regulatory partners, financial services providers and other stakeholders is key in helping people make informed decisions that keep their money safe.**



FSCS is the UK's statutory compensation scheme of last resort for customers of authorised financial institutions. FSCS is an independent body, created under the Financial Services and Markets Act 2000 (FSMA).

FSCS may only pay compensation, up to certain limits, to eligible customers if a firm (or a firm's successor) is authorised by the Financial Conduct Authority (**FCA**) or the Prudential Regulation Authority (**PRA**) and that firm is unable, or likely to be unable, to pay claims against it.

Very broadly, claims relating to insurance, investment products (including pension plans), deposit-taking, mortgage and home finance broking, general insurance broking, debt management plans and funeral plan activities may potentially fall within the scope of FSCS's cover.

FSCS must determine claims submitted to it under the rules set for it by FCA and PRA as applicable. FSCS cannot pay compensation to a customer unless the customer's claim meets the qualifying conditions for payment under those rules.

About this series

This document is the second of a series that aims to share the results of the exclusive consumer research we regularly commission to support our communications strategy. It will help us identify gaps and opportunities and to work closely together with our stakeholders to provide essential, accurate information to consumers about the protection FSCS provides.

Find out more and sign up to be the first to hear about future research here.

Research methodology

All figures presented in this report (unless otherwise stated) come from our brand tracking and consumer research survey, which is conducted monthly by FSCS in partnership with The Nursery. Research was carried out by Dynata among 13,418 UK adults aged 18+, with an average of 750 per month, between February 2021 and July 2022.

If you would like to discuss any aspect of this report, please speak to your usual FSCS contact, or you can email our Research Analyst at irene.salazar@fscs.org.uk



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