

## Plan and Budget: 2016/17

Financial Services Compensation Scheme



Strategic  
Direction >

Management  
Expenses >

Compensation  
Costs and  
Levies >

Annual Levy  
2016/17 >



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# Chairman's Foreword



Lawrence Churchill  
Chairman

The plan and budget for 2016/17 sets out FSCS's plans for the third year of our five-year strategy, *Vision for a Confident Future*, which we published in 2014.

The Chief Executive's report highlights the progress we want to make in some key areas over the coming year. In my foreword, I wanted to touch on two issues.

The first is to note that for the second year in succession we are budgeting for management expenses to be lower than the previous year. Operating costs are falling for the second year: management expenses are coming down, from £69.1m in 2015/16 to a proposed budget of £67.4m in 2016/17. We work hard to keep the costs of operation down and I'm sure this reduction will be welcome news to levy payers.

Everyone agrees that a compensation scheme in financial services is a must-have, not just a nice-to-have. FSCS is just as important now as it was in the financial crisis eight years ago, if not more so, as we are protecting more people for more products. As a result of 5.5 million people being auto-enrolled in employer pension schemes, there are more people that have the potential to benefit from FSCS protection than ever. Pension freedom is opening new areas of the market.

My second comment is to set out why I believe that more consistency in the levels of protection across our industry classes would benefit consumer confidence and why the time has come to work towards this change.

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# £67.4m

proposed management expenses  
budget in 2016/17

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FSCS works, people use it, and it pays out. And as we know, this increases confidence in the sector which in turn helps boost UK financial stability as a whole.

Consumer confidence is an important contributor to financial stability and consumers can only be confident if they know about something and it makes sense to them. Consumer awareness of the level of deposit protection hit an all-time high in late 2015, which was thanks in no small part to deposit takers writing to all depositors about the change in coverage from £85,000 to £75,000 following implementation of the new Deposit Guarantee Schemes Directive (DGSD).

However, awareness of protection levels for financial services products more generally is alarmingly low. This is partly due to the complexity of having different limits, deterring clear messaging, where differences arguably owe more to the past than to the market place of today and tomorrow, particularly following pension reform. [FSCS recently published a paper on trust<sup>1</sup>](#), which made clear that consumers are less aware of the existence of FSCS protection for advice. Greater awareness of FSCS protection would add to trust and confidence in the industry (and it's something we are working on).

I would expect a significant reduction in consumer risk and a significant increase in understanding and confidence in financial services from more harmonised limits.

I look forward to taking this forward with the PRA and FCA, alongside the recommendations of the Financial Advice Markets Review and the Funding Review.

<sup>1</sup>*Mind the Gap: Restoring Consumer Trust in Financial Services*; commissioned by FSCS and produced by Nick Chater, Director of Decision Technology and Professor of Behavioural Science at the Warwick Business School.

# Chief Executive's Overview



Mark Neale  
Chief Executive

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**£1.7m**  
fall in management  
expense budget

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Welcome to our Plan and Budget: 2016/17. This publication performs two rather different functions.

First, the Plan and Budget explains the strategic priorities for the development of FSCS itself and supports the joint Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA) consultation on the annual FSCS management expenses levy limit. And, second, it provides our stakeholders, and particularly our levy payers, with a first indication of the levies we expect to raise for the year ahead, 2016/17. These levies are based on next year's forecast compensation costs.

FSCS's strategic development continues to be guided by the seven imperatives of our Five Year plan. You will recall that we published this road map for FSCS - *Vision for a Confident Future* - in January 2014 so we are now entering the third year of the five.

At the core of our vision is the modernisation of our claims handling. We implemented an automated process for deposit claims in 2011, which enables us to pay out to the great majority of savers in failed banks, building societies and credit unions within seven days. This year we have streamlined our handling of other claims by putting in place a modern claims handling platform which we share with our outsource partners, who handle the majority of claims. We have also begun to pilot an online portal through which customers can submit claims. Once operating at its full potential, this new system will enable FSCS to scale up and down efficiently in response to the unpredictable demands we face. And it will enable us to provide a faster, more efficient service and transform the experience of our customers.

Implementing the new process, and the lessons learned in doing so, also mean that we are making changes to our internal organisation. Specifically, we are reducing our previous dependence on outside contractors and putting in place the permanent capacity to support

the IT and data infrastructure on which we, our customers and our outsourcers now depend. The recruitment of a Chief Operating Officer and Chief Information Officer are part of this. This switch from more expensive external to cheaper internal resources contributes to the overall reduction in our management expenses.

We have also made provision in our budget for 2016/17 for work with HM Treasury and UK Asset Resolution Limited (UKAR) on realising value from the Bradford & Bingley estate to enable FSCS to make repayment of its loan of £15.7bn from HM Treasury. This is the only outstanding loan from HM Treasury.

Of course, our reducing management cost forms only a small part of our indicative levy for 2016/17, which amounts to £363m, compared to £319m this year. The bulk of the levy reflects our forecast of compensation costs and offsetting recoveries.

We cannot accurately predict the volume or nature of claims in any year. However we expect that claims from retirement savers who have been badly advised to hold risky investments in their Self-Invested Personal Pensions (SIPPs) will continue at current levels.

We have therefore indicated a levy of £80m falling on life and pensions intermediaries in 2016/17. The levy on investment intermediaries, based on the three-year average, is set at £108m, slightly down on 2015/16. This reflects the continuing expectation of demands on FSCS for claims made on this sector. We also forecast increased levies on the deposits and general insurance provision and intermediation classes.

These levies bring into sharp relief the importance of the FCA's forthcoming Funding Review which, in consultation with the industry, will examine how our levies are pooled across firms.

We understand the issues faced by some firms in meeting our costs and the perceived unfairness of paying for someone else's mistakes. We are grateful to those who have already shared their concerns over the way levies are currently determined and, with the FCA in the Funding Review, look forward to further debate on how best to resolve these concerns, while maintaining protection for the consumer.

Finally, we have made three significant appointments: Jimmy Barber has been appointed to the role of Chief Operating Officer, Kathryn Sherratt as Chief Financial Officer and Paul Brocklehurst as Chief Information Officer. Jimmy and Kathryn have also both joined the Board. I am excited to have them on board as we pursue the Five Year Vision, and take Connect (our online claims handling system) to the next level, prepare to implement the results of the Funding Review and maximise value from the estate of Bradford & Bingley.

As always we are grateful for the continued support of our levy payers, both through funding and the communication of our service to the public. I look forward to updating you further over the coming months.

# Strategic Direction: taking forward our Five Year Vision



FSCS is pursuing a five year strategy to modernise and improve our service to consumers, while improving value for money for our levy payers. You will find at the annex a summary of the progress we have made in taking forward the strategy in 2015/16 (its second year) and our priorities for 2016/17.

The top priority in 2016/17 will be to bed down our new claims handling system for non-deposit claims (Connect) which we introduced in May 2015. The implementation of Connect completes the major programme of investment which we began following the financial crisis in order to ensure that FSCS is equipped to protect consumers in a wide range of circumstances, including another crisis. Connect brings our out-source partners, who handle the majority of claims, onto the same claims handling platform as FSCS and so facilitates the rapid and secure electronic transmission of claims. It also enables customers to make claims to FSCS through an electronic portal which is currently being piloted.

With these investments now substantially complete, we are able to continue to reduce our spend on change. We do, however, have more work to realise the full benefits of Connect during 2016/17. This involves strengthening our capacity to manage future change and to manage and develop the IT and data infrastructure which supports our claims handling capability. We are now providing an IT service to both our customers and out-source partners. There are some short-term costs associated with this bedding down and a more fundamental shift towards strengthening internal capability and away from the use of contractors. This pushes up our staff costs, while reducing our contractor costs.



We have begun this process by re-organising our senior management structure to create a Chief Operating Officer (COO) command which brings together responsibility for the delivery of our compensation service and the IT and data infrastructure which supports it. A new Chief Information Officer role will report to the COO with a specific remit to define our IT and data strategy, and to put in place the capacity to develop, test and implement changes to our core systems.

If FSCS is to fulfil its role of maintaining trust and confidence in financial services, we must also continue our efforts to ensure that the public knows about FSCS protection.

We have made good progress in raising awareness of protection for deposits in partnership with the industry. However, after four years of a flat budget, we are proposing to spend more in 2016/17. This will support our work to raise awareness of the new deposit protection limit of £75,000, which became effective

from 1 January 2016, and enable us to continue to engage with people using a range of channels, especially digital. We recognise that there is more to do to raise awareness of FSCS protection in other product markets and will be working in collaboration with the Authorities and the industry to develop a strategy to achieve this.

Value for money will continue to be an area of focus as we exploit our investment in Connect to achieve process efficiencies - both internally and at our outsource partners. We shall continue to focus on enhancing the effectiveness of our procurement activity, deepening our supplier relationships and ways of working. Building on our cultural awareness programme we will continue our internal disciplines of strong financial governance, monitoring and reporting to demonstrate that we are spending money wisely.

In the pursuit of recoveries, we will be working with HM Treasury to realise the value from the Bradford & Bingley run-off, currently overseen by UKAR. We have made a provision in the management expenses budget to fund this work. We have also made provisions for further recoveries costs; in particular, we are exploring the options to make recoveries for Payment Protection Insurance (PPI) claims.

For our people, our plan is to successfully implement the new Executive Team, Chief Operating Officer and Chief Information Officer structures. This will enable us to integrate the delivery of our compensation service and the IT/ data that supports it.



# Management Expenses



**£2m**

net fall in spending  
on major recoveries

## Management expenses budget

The FSCS Board approved a management expense budget of £67.4m, which is £1.7m lower than both the 2015/16 budget and the latest forecast outturn for 2015/16. The PRA and FCA are consulting on the FSCS management expenses levy limit based on this budget.

Figure 1 breaks down FSCS's management expenses budget for 2016/17 alongside the budget for 2015/16 and the latest expected total for this year. Like last year, we have split the 2016/17 management expenses budget between firms regulated by the PRA and FCA in figure 2.

The key drivers of the 2016/17 budget are:

- A change in our business model to increase our internal capability to support our new claims handling system and so reduce our dependence on expensive external consultants.

We are strengthening the senior management team; improving internal business analysis and change release management; relying more on enhanced IT infrastructure and improving the customer experience.

- A reduction in **strategic change investment**, as we have completed the major investment programme and are consolidating and enhancing our new infrastructure for claims handling. The focus is on bedding down the new claims handling process. Alongside improved internal capability, this will result in a reduced number of external contractor hires.
- A net fall of £2m in spending on **major recoveries**, as the litigation against IFAs for misadvising consumers to buy Keydata products has concluded. Our role in the run-off of Bradford & Bingley, with UKAR overseeing the business on behalf of HMT, continues for the time being. We are investigating our options to recover the costs of PPI mis-selling. These latter claims would be against lenders and only pursued if we are satisfied that it would be cost-effective to do so.

Figure 1: Management expenses budget

	2015/16 Budget (£ million)	2015/16 Forecast (£ million)	2016/17 Proposed budget (£ million)
<b>Continuing operations</b>			
Staff costs	16.5	16.1	18.2
Contractor costs (non-change)	1.2	2.7	0.9
Facilities	2.1	2.3	2.5
IT	3.3	3.4	4.1
Communications	4.2	4.3	4.8
Legal & professional	2.6	2.8	2.9
External providers	0.8	0.7	0.9
Other and contingency	0.6	0.5	0.5
<b>Subtotal existing operations</b>	<b>31.3</b>	<b>32.8</b>	<b>34.8</b>
Outsourced claims handling	12.1	13.8	11.5
Independent Insurance claims handling contribution	0.0	(0.4)	(1.7)
Outsourced printing & scanning services	0.9	0.9	0.9
<b>Operational total</b>	<b>44.3</b>	<b>47.1</b>	<b>45.5</b>
Strategic change portfolio	12.4	12.4	10.1
<b>Operational &amp; Investment expense total</b>	<b>56.7</b>	<b>59.5</b>	<b>55.6</b>
Bank charges	4.8	4.0	6.0
Interest received	0.0	(0.5)	0.0
Keydata Investment Services Limited recovery expense	3.0	0.2	0.0
Other recovery expenses including PPI	0.0	1.3	2.5
Major banking failure related Management expenses	3.0	3.0	1.5
<b>Total management expenses (excl. pension deficit funding)</b>	<b>67.5</b>	<b>67.5</b>	<b>65.6</b>
Pension deficit funding	1.6	1.6	1.8
<b>Total management expenses</b>	<b>69.1</b>	<b>69.1</b>	<b>67.4</b>
Contingency reserve for major failure	5.3	-	5.3
<b>Total management expense levy limit</b>	<b>74.4</b>	<b>69.1</b>	<b>72.7</b>



## Allocation to funding classes

The FSCS 2016/17 management expenses budget is split between the PRA and FCA industry sectors or funding classes. All costs have been identified as either “specific” or “base” costs. Specific costs are allocated to the relevant sectors and base costs spread between them.

The costs are allocated as follows:

- i. Costs that are wholly attributable to a type of business are allocated to that specific sector.
- ii. Overhead costs are split between specific, on the basis of the proportion of frontline staff full time equivalents (FTE), and base costs, on the proportion of support staff FTE. The sector-specific overhead costs are then allocated across the classes using timesheet data.
- iii. Total base costs are split 50:50 between the PRA and FCA (who will then apply their overall class allocation matrix to spread between their fee classes).

## Contingency reserve for major failure

The Management Expenses Levy Limit (MELL) includes an additional contingency reserve, within which FSCS can increase management costs without further consultation in response to unforeseen failures. This reserve is not levied on the industry unless in response to a major crisis or urgent need. The reserve for 2016/17 has been set at £5.3m, which is the same level as in 2015/16 and 2014/15.

The reserve level does not reflect the specific or known costs of any particular future failures. It is indicative of the short-term costs of, for example, dealing with large defaults, within tight timeframes.

We do not expect to raise more than our budgeted expenses, unless there is a specific event or events that require us to do so. In line with our usual practice, we will inform the relevant parties, such as the PRA and FCA, before raising a levy against this reserve.

# £5.3m

reserve for 2016/17,  
the same level as  
2015/16 and 2014/15

Figure 2: Split of management expenses for 2016/17

	FSCS Total costs (£ million)	PRA fee block allocation (£ million)	FCA fee block allocation (£ million)
<b>Base costs total</b>	23.4	11.7	11.7
<b>Specific costs</b>			
- Deposits (SA01)	14.2	14.2	-
- General Insurance Provision (SB01)	5.5	5.5	-
- General Insurance Intermediation (SB02)	9.5	-	9.5
- Life and Pensions Provision (SC01)	0.1	0.1	-
- Life and Pensions Intermediation (SC02)	5.5	-	5.5
- Investment Provision (SD01)	0.1	-	0.1
- Investment Intermediation (SD02)	8.4	-	8.4
- Home Finance Intermediation (SE02)	0.7	-	0.7
<b>Specific costs total</b>	44.0	19.8	24.2
<b>Total</b>	67.4	31.5	35.9

# Compensation Costs and Levies



Since 1 April 2014, under the rules, FSCS has used the '36-month funding model', which allows us to levy the greater of one-third of the next 36 months' expected compensation costs, or the costs expected over the next 12 months from the date of the levy, subject to the annual class thresholds.

The model, which applies to all industry classes except deposit-takers, is designed to help reduce the volatility of annual levies and the likelihood of interim levies, giving the industry greater certainty. The approach is based on past claims experience, adjusted to reflect current claims trends and market intelligence.

FSCS reviews the claims and costs of previous years and information on current trends to assess costs expected over the next 36 months.



**The 36-month compensation cost levy has a five-step process:**

1. calculate the average figure for compensation paid by the class over the last three years;
2. identify and adjust for any inflationary or exceptional factors in the last three years (where the level of costs is not expected to be repeated);
3. add costs of known or expected defaults for which claims have not yet been paid, but will be payable over the next 36 months;
4. factor in any new or current upwards or downwards claims trends expected over the next 36 months;
5. account for the opening balances for each class.

Management expenses attributable to specific sectors are then added to the final amount required at the end of the five-step process. The forecast costs for management expenses, including outsourcing costs, are calculated for the following 12 months (not 36 months). Each year, the PRA and FCA consult on FSCS's annual management expenses levy limit.

The annual limit on the levy that can be raised on each industry sector – the class threshold – applies to both the specific costs element of management expenses and compensation costs. Where the aggregate compensation costs and management expenses exceed a class threshold, the annual limit cap applies.



# Annual Levy 2016/17

The indicative 2016/17 annual levy amounts to £363m. This compares to the £319m final levy raised in 2015/16. The increases are in the deposits and general insurance provision and intermediation sectors. The reasons for this are outlined on page 21. In addition we forecast that the interest costs for the outstanding bank legacy loans will be £340m. As usual, we will review and confirm the final levies for each class in April.

## Our calculations

To be able to levy for the higher of the expected costs under the 36-month approach or the traditional 12-month basis, we calculate the expected compensation costs using both methods and the five-step process explained on the previous page. In most classes, we have applied the 12-month forecast, except for investment provision, where the levels of claims we are receiving indicate a rising trend. We have therefore uplifted the levy amount for this class to reflect this trend. As shown below, we have applied the three-year average for the investment intermediation class.

Figure 4 sets out the alternative 12-month and 3-year figures. The amounts in figure 4 are then adjusted for opening balances, management expenses and projected recoveries by funding class. The result of this is the funding requirement for the levy. The highlighted numbers are the indicative compensation amounts to be levied for in 2016/17.

The effect on the forecast fund balances for 2016/17 of raising these amounts is shown in figure 5. Any surplus/deficit at the year-end will then form the opening balance of the calculation for 2017/18.

# £363m

indicative 2016/17  
annual levy

Figure 3: 2015/16 final levy compared with 2016/17 indicative levies by funding class

Funding classes	2015/16 final levy (£ million)	2016/17 indicative levy (£ million)	Variance (£ million)
Deposits (SA01) <sup>2</sup>	13	28	15
General Insurance Provision (SB01)	62	94	32
General Insurance Intermediation (SB02)	-	19	19
Life and Pensions Provision (SC01)	-	-	0
Life and Pensions Intermediation (SC02)	100	80	(20)
Investment Provision (SD01) <sup>3</sup>	-	2	2
Investment Intermediation (SD02)	116	108	(8)
Home Finance Intermediation (SE02)	5	10	5
<b>Base costs</b>	<b>23</b>	<b>22</b>	<b>(1)</b>
<b>Total</b>	<b>319</b>	<b>363</b>	<b>44</b>

<sup>2</sup> In addition we forecast that the interest costs for the outstanding bank legacy loans will be £340m.

<sup>3</sup> There will be a £16m repayment to firms in the Investment Provision class (that paid the 2011 levy) for monies recovered from Keydata and Lifemark estate.

Figure 4: Forecast compensation costs by funding class

Funding class	2016/17			
	12 month forecast (£ million)	3 year historical average (£ million)	Trend (£ million)	Forecast used in levy (£ million)
Deposits (SA01)	4.20	n/a	n/a	4.20
General Insurance Provision (SB01)	100.35	91.42	n/a	100.35
General Insurance Intermediation (SB02)	13.23	21.25	n/a	13.23
Life and Pensions Intermediation (SC02)	83.99	53.63	n/a	83.99
Investment Provision (SD01)	1.80	0.43	1.96	1.96
Investment Intermediation (SD02)	54.29	115.97	n/a	115.97
Home Finance Intermediation (SE02)	7.02	2.79	n/a	7.02
<b>Total</b>	<b>264.88</b>	<b>285.49</b>		<b>326.72</b>

Figure 5: Forecast funding requirements by funding class

Funding class	Opening fund balance 01/07/2016 (£ million)	Levy refund (£ million)	Compensation 1/7/16 – 30/6/17 (£ million)	Recoveries (£ million)	Management expenses 1/4/16 – 31/3/17 (£ million)	Annual Levy receipts 2016/17 (£ million)	Forecast closing balance 30/06/2017 (£ million)
Deposits (SA01)	(9.51)		(4.20)		(14.20)	28.00	0.09
General Insurance Provision (SB01)	10.52		(100.35)	2.00	(5.45)	94.00	0.72
General Insurance Intermediation (SB02)	3.97		(13.23)		(9.48)	19.00	0.26
Life and Pensions Provision (SC01)	0.17				(0.10)	0.00	0.07
Life and Pensions Intermediation (SC02)	10.29		(83.99)		(5.47)	80.00	0.83
Investment Provision (SD01)	16.64	(16.00)	(1.96)		(0.14)	2	0.54
Investment Intermediation (SD02)	17.66		(115.97)	11.00	(8.43)	108.00	12.26
Home Finance Intermediation (SE02)	(2.14)		(7.02)		(0.72)	10.00	0.12
Base costs	3.29				(23.40)	22.00	1.89
<b>Total</b>	<b>50.89</b>	<b>(16.00)</b>	<b>(326.72)</b>	<b>13.00</b>	<b>(67.39)</b>	<b>363.00</b>	<b>16.78</b>

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# 2016/17

We expect to see a decline in overall claims volumes

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## Claims assumptions

In creating the 12-month forecast, we make assumptions about claims/numbers of firm failures and trends where there is sufficient information to quantify the expected numbers. The outsourcing expenses within the management expenses are also based on assumptions about likely future claims.

These assumptions reflect our experience of current claims trends as well as other information from the FCA, PRA, the Financial Ombudsman Service and the industry. Clearly, these may change over time. Recent years have shown that some unexpected larger failures have significantly impacted our estimates. We therefore continually monitor claims trends and prospects for firm failures, reviewing and updating these assumptions, plus any expenses required to pay claims we expect within target service levels.

We expect to see a decline in overall claims volumes during 2016/17, partly because of a reduction in PPI and mortgage endowment claims being received. In contrast, we expect to continue to receive high numbers of Investment and Life and Pension claims. In particular, there is the prospect of unforeseen failures at any time in Investment Intermediation, as demonstrated by the failure of Alpari (UK) Limited, the spread-betting firm, in January 2015.

Where there continues to be volatility in claims levels, we will factor this into our assumptions. We are not aware of any new significant failures or other product-based trends emerging, although we cannot rule them out.

Assumptions about likely future claims are shown in figure 6.



Figure 6: Claims assumptions 2015/16 and 2016/17

Sub class	Claim type	2015/16		2016/17	
		New claims assumptions	Estimate of completed claims	New claims assumptions	Estimate of completed claims
SA01	Deposits*	11,160	10,876	7,000	7,000
SB01	Insurance Provision**	12,000	14,120	13,000	13,000
SB02	Insurance Intermediation (inc PPI, but excluding Welcome Financial Services Ltd)	4,401	4,028	3,720	3,720
SC02	Life & Pensions Intermediation	4,302	4,884	3,900	3,900
SD01	Investment Fund Management	50	40	120	120
SD02	Investment Intermediation	17,295	18,898	3,720	4,020
SE02	Home Finance Intermediation	559	587	600	600
<b>Total claims exc insurance payments</b>		<b>37,767</b>	<b>39,313</b>	<b>19,060</b>	<b>19,360</b>

**Notes:**

\* Excluding major bank failures

\*\* Excluding claims for return of premiums

## Deposits (SA01)

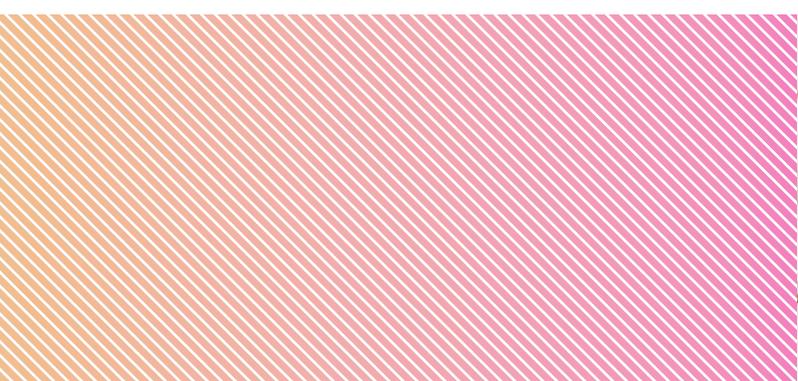
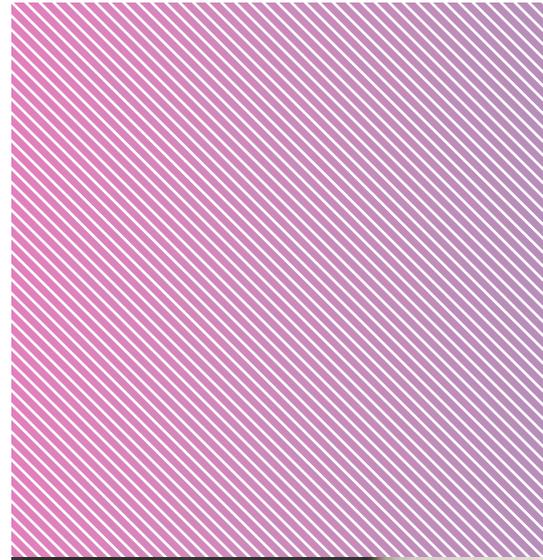
Based on our recent experience of credit union failures, we have allowed for a small number of credit union failures in 2016/17. Our assumptions do not provide for the failure of any other deposit-taker(s) although we have in place the appropriate plans to deal with larger deposit-taker failures if necessary.

## General Insurance Provision and Intermediation (SB01 & SB02)

We expect that 2016/17 will see compensation costs for general insurance provision to be broadly the same as in 2015/16.

A significant number of claims for noise-induced hearing loss on employers' liability insurance presented, for example, on the estates of Chester Street Insurance Holdings Ltd, Builders Accident Insurance and Independent Insurance Company Ltd, early in 2015.

Although many of these claims do not result in a payment, the volume of paid claims is still expected to contribute around a quarter of the compensation spend, as we expect the trend to continue. In particular, we expect compensation for employers' liability for mesothelioma claims will continue at a rate similar to last year and will remain the most expensive category of claims for which we pay compensation.



We will also continue to make payments on the recent “passport” firm defaults of Lemma Europe Insurance Company Ltd (2012/13), Balva AAS, European Risk Insurance Company hf (2014/15) and Berliner Versicherung AG (2015/16), although no new claims are expected next year on these estates. The majority of activity on Balva, European Risk Insurance Company and Lemma will continue to relate to claims arising from solicitors’ professional indemnity policies.

We expect PPI claims to continue to be a significant workload for FSCS in 2016/17; but at a slightly reduced level.

### Life and Pensions Intermediation (SC02)

As we have highlighted, FSCS has received a significant number of claims against independent financial advisers in relation to advice given to transfer funds from existing pension schemes to SIPP. The majority of claims concern advice to invest SIPP funds into high risk, non-standard asset classes, many of which have become illiquid.

We expect to see further claims in this category along with other types of life and pension claims throughout 2016/17. However, there remains uncertainty as to the number and value of claims that FSCS will see going forward, which will impact on costs to the industry. FSCS will update the industry on developments.

### Investment Provision and Investment Intermediation (SD01 & SD02)

In the Intermediation sector, FSCS continues to see material volumes of investment claims against independent financial advisers in relation to negligent advice, including advice to invest into Unregulated Collective Investment Schemes (UCIS). FSCS expects to see further such claims.

In addition, FSCS has responded to three investment failures where firms have been placed into the Special Administration Regime: Alpari (UK) Limited, LQD Markets (UK) Ltd and Hume Capital Securities plc. It is possible that similar firm failures could fall to FSCS during 2016/17 and although no specific provision has been made, we have applied the 36-month forecast approach to allow for such unforeseen defaults.

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# £16m

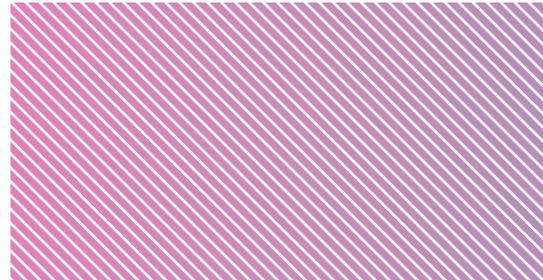
## final Lifemark distribution

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In the Investment Provision sector, having received a final Lifemark recovery, we will be distributing around £16m to those levy payers who met the costs of the default. Separately we had started paying some claims against HD Administrators LLP – a SIPP Operator – in relation to its role in administering investments connected with Arck LLP. The costs in relation to these claims fall under the Investment Provision class and will continue into 2016/17. We have to levy the whole class £2m to cover these costs, therefore the levy in 2016/17 will be £2m.

### Home Finance Intermediation (SE02)

We expect to see similar claims volumes in 2016/17 to those seen in 2015/16. However we are starting to see a slight increase in the proportion of claims that are found eligible for compensation, particularly where claims relate to negligent advice to borrow to invest into overseas property schemes.



# Annex

## Key achievements in 2015/16 – second year of strategy



### Vision imperative

Modernising our service to consumers

#### Achievement

- 99.3% of deposit claims completed within 7 days
- New claims handling platform (Connect) implemented and rolled out to outsourcers
- New framework for outsourced claims handling contracts executed and Welcome PPI processing migrated to FSCS outsourcers
- Pilot of customer portal underway
- Verification of Single Customer View (SCV) files now in-house, bringing closer control and savings
- Independent Insurance claims processing management taken over by FSCS
- 69% customer satisfaction (up from 65%)



### Vision imperative

Diversifying how we deliver compensation to provide maximum convenience and continuity for consumers

#### Achievement

- Deposit Guarantee Schemes Directive (DGSD) changes implemented, including claims for temporary high balances, interim payments and cross border payments
- Adaptation of Alpari portal for claims and payments



### Vision imperative

Raising awareness of FSCS protection to boost confidence

#### Achievement

- Consumer awareness is currently more than 70% (up from <10% when we started), following the change to the FSCS deposit limit; confidence in 'money safe' is 76%; 'Protected' logo adopted by some firms, and 90% compliance in branches for previous disclosure requirements



**Vision imperative**  
Improving value for money (VFM) to drive value and strengthen accountability

**Achievement**

- Increased the cultural awareness of VFM across FSCS through the use of tailored internal communications and by including VFM within our annual 'Best Companies' People Survey for 2015/16
- Review of permanent/contractor resource mix completed
- Annual buying plans for each key area of spend in excess of £1m written which contribute to strategic procurement planning
- Greater options analysis on projects and their delivery methods



**Vision imperative**  
Achieving excellence as a creditor to maximise the value we recover from failed businesses

**Achievement**

- Icesave -Icelandic litigation settled and recoveries finalised in January 2016
- Dunfermline liability cap agreed - £335m now repaid
- Closure of Keydata IFA litigation and Lifemark final distribution now received – over £100m recovered



**Vision imperative**  
Deepening contingency planning to be ready to respond effectively to crises

**Achievement**

- Established new disaster recovery site at shared Bank of England facility (by March 2016)



**Vision imperative**  
Engaging our people to be even more agile and professional

**Achievement**

- Operations reorganisation to achieve upskilled and more flexible workforce successfully implemented
- Achieved Investors in People accreditation
- Implemented a Master Vendor Agreement for recruitment

## Focus for 2016/17 – third year of strategy



**Vision imperative**  
Modernising our service to consumers

### Focus

- Begin to realise the benefits of our new claims handling process for customers
- Continue to develop and deliver our customer strategy



**Vision imperative**  
Diversifying how we deliver compensation to provide maximum convenience and continuity for consumers

### Focus

- Continue to work with the PRA and Resolution Directorate at the Bank of England on supporting the Bank's objectives for executing an orderly resolution and continuity of access
- Continue to work with HM Treasury following the Review of the Special Administration Regime (SAR) for Investment Banks



**Vision imperative**  
Raising awareness of FSCS protection to boost confidence

### Focus

- Engage with our audience using topics that interest them and through people they listen to, including a digitally-led marketing programme aimed at reaching different audiences who are not aware of FSCS or a protection scheme
- Continue our regular programme of tracking and evaluating awareness throughout the year
- Explore further adoption by the industry of the FSCS badge
- Move towards a longer-term strategy for insurance



**Vision imperative**  
Improving value for money (VFM) to drive value and strengthen accountability

### Focus

- Organisational changes are in progress to strengthen in-house capability and capacity in IT, Data and Change Management
- Closer analysis/working with the market to achieve better outcomes across our procured services, such as Data and IT
- Introduction of our new electronic tendering and contract management tools to improve the efficiency and auditability of our procurement process, provide improved management information and bring us into line with regulatory partners.
- Build on our internal cultural awareness progress to develop a sustainable approach to VFM



### Vision imperative

Achieving excellence as a creditor to maximise the value we recover from failed businesses

### Focus

- The run-off of Bradford & Bingley continues, with UKAR overseeing the business on behalf of HM Treasury
- Potential claims for recoveries including PPI costs



### Vision imperative

Deepening contingency planning to be ready to respond effectively to crises

### Focus

- Scenario testing with the authorities and home/host state Deposit Guarantee Schemes stress tests
- Refresh internal contingency plans for all sectors
- Adoption of a new disaster recovery provision strategy, which enables us to respond effectively to disruptions



### Vision imperative

Engaging our people to be even more agile and professional

### Focus

- Successfully implement the new Executive Team, Chief Operating Officer and Chief Information Officer structures to integrate the delivery of our compensation service and IT/Data which supports it
- Develop a set of core learning interventions, appropriate to every level of responsibility and at all stages of development, experience and expertise
- Launch our new career development learning pathways
- Work on the consolidation of our rewards portfolio, offering increased flexibility for all employees
- Work to provide a wider range of secondment opportunities
- Implementation of Cascade, our new payroll bureau provider

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