

FSCS Podcast- Episode 25: 4 things you might not realise FSCS protects

Lila Pleban 00:01

Welcome to Protect Your Money with FSCS, the podcast from the Financial Services Compensation Scheme. I'm Lila Pleban, Chief Communications Officer at FSCS, and in this series, the fantastic FSCS team will help you understand how we can help to protect your money, so you can feel confident your money is safe. I hope you enjoy the podcast!

Jess Spiers 00:29

Welcome to the FSCS podcast. I'm your host, Jess Spiers, and I'm Senior Content Manager at FSCS. So FSCS, which is the Financial Services Compensation Scheme, exists to protect customers of authorised financial services firms that have gone bust by paying eligible people compensation. So, we protect lots of financial products, but not all of them. So, this podcast series is designed to help you understand our protection and why it is so important.

I think most people know us for our deposits protection. So, you might recognise the FSCS logo from your banking app or the branch of your bank or building society. But we actually protect a lot more than just deposits. FSCS's range of coverage is actually the broadest in the world among compensation schemes. So today, we are spotlighting four things that we protect that you might not be aware of, and that's mortgages, insurance, debt management plans, and funeral plans. Now, we've spoken about all of these on previous episodes of the podcast. We're bringing them all together today to highlight that the scope of our protection might be wider than you realise.

And joining me today to explain it all is Alethea Beharie-Campbell, who is Recoveries Legal Specialist at FSCS. Welcome Alethea.

Alethea Beharie-Campbell 01:40

Hi Jess, thank you for having me.

Jess Spiers 01:42

Welcome to the podcast. And of course, we will be asking Alethea our usual question at the end of the episode. And that's that we're all about keeping your money safe at FSCS. But what was the toy that got you breaking open your piggy bank as a child?

Okay, so let's jump in then. So, although we often talk about the products that are FSCS protected, like bank accounts and investments, people often don't know we protect advice, up to £85,000 per person, per failed firm. So that includes pension advice and investment advice, plus the mortgage advice we're going to be talking about now. So, Alethea, FSCS can protect mortgages in two ways. Could you tell us a little bit more about those?

Alethea Beharie-Campbell 02:32

Of course. We can protect mortgage advice and mortgage endowments. So, let's take mortgage advice first. You may be eligible to compensation from FSCS if you've received bad mortgage advice that caused you to lose money, or if you were mis-sold a mortgage endowment. In all cases, the firm, the broker or advisor you dealt with must have failed for us to be able to help, and there are other eligibility criteria, which you can find on our website. We always say that it's important to make sure, and check, if anyone you use is authorised and whether FSCS protection could extend to you.

Jess Spiers 03:05

Yeah, absolutely. That's a really important message we always want to try and get out there. So, have you got any examples of when we might be able to pay compensation for bad mortgage advice?

Alethea Beharie-Campbell 03:14

Yeah, absolutely. So, examples include where we've received claims in the past for bad mortgage advice include, where you've lost money, because you weren't advised about the different types of mortgage and chose a mortgage that was actually unsuitable, if you've lost money because certain details of your mortgage were incorrect. So, for example, a longer term was selected than you actually needed.

Another example is if you've lost money, but you were advised to switch mortgages, but weren't given an adequate explanation of why. It's important to say we can only protect advice that relates to a property in the UK, which is your main residence, so not a commercial or buy-to-let property for example.

Jess Spiers 03:51

Okay, great. That makes sense. So that's mortgage advice. What about mortgages endowments then, it'd be really good to hear about how we can protect those and, probably a good starting point, would be to explain exactly what a mortgage endowment is, just so that everyone listening is on the same page.

Alethea Beharie-Campbell 04:05

Yes, sure. So, an endowment policy is a regular savings plan that that will pay out a lump sum at the end of its term, or if you cash in early or on the death of the policyholder. So, if you think you are mis-sold your endowment policy, and it was linked to a mortgage, you could be eligible for FSCS compensation. Now, you must have lost money as a result of this and must have received the advice after the 28th August 1988.

Jess Spiers 04:31

Okay, and again, have you got any examples of when we might be able to pay compensation for mortgage endowments?

Alethea Beharie-Campbell 04:37

I do. So, I'll use some examples of situations where we've received claims in the past for compensation. So, let's say your advisor didn't properly explain that because the return from your endowment policy is actually linked to the stock market, there was a real risk that your policy could leave you with a mortgage shortfall at the end of its term. Another example is where your endowment is due to pay out after your retirement age, but actually it was clear at the time the advice was given to you, you wouldn't have even been able to carry on paying premiums after your stated retirement age.

We've also had an example where your endowment is not due to mature until after your mortgage loan has finished. And this wasn't made clear to you when you received your advice. So, for more information, and our full eligibility criteria, please visit our website at www.fscs.org.uk.

Jess Spiers 05:24

Absolutely. So, that concludes the first of our four areas of protection that we're talking about today. Next up is insurance.

Alethea Beharie-Campbell 05:32

Okay, so there are three ways FSCS can help if your insurance provider goes bust. And it's worth mentioning here that your provider must have been regulated by the Prudential Regulation Authority for us to be able to help.

Jess Spiers 05:43

Yeah, that's right. So, what is the first way that we can step in if an insurer fails?

Alethea Beharie-Campbell 05:47

So, the first way is where your policy is replaced with a policy from a new insurer. The broker who sold you the policy or the insolvency practitioner finds another insurance company to cover you instead. During this period, your cover goes completely uninterrupted. So, this could be pretty simple if the failed insurance firm provides only one, or a few, types of insurance cover, but this isn't always the case. Now, if a new policy can be arranged, and it's an insurance product FSCS covers, FSCS could help by paying compensation towards the cost of the policy. So, the compensation actually goes towards paying the insurance premium of the replacement insurance policy. So, this is the payment a customer makes to an insurance company in exchange for their insurance policy.

Jess Spiers 06:29

Okay, that's right. And, you know, as we say, with everything we always consider on a case-by-case basis whether or not we can pay compensation. So, what would people need to do in this scenario Alethea?

Alethea Beharie-Campbell 06:39

So that's the great thing, Jess people don't actually need to do anything. The benefit of this is that you wouldn't even have to find a new replacement policy yourself, you'll be given the details of your new insurer and policy, once it's in place. There's no gap in cover here. There will always be an opt out option if you're not satisfied though with the arrangement.

Jess Spiers 06:55

Okay, could you tell us a little bit about the second way that FSCS can help if an insurer fails?

Alethea Beharie-Campbell 07:01

This is where you get a refund based on the cost of the insurance premiums you paid for your insurance policy. So just to explain, firstly, what insurance premiums are, so they're the amount of money you pay for your insurance policy. So, the amount the insurance company charges you for the policy you're buying. So sometimes you pay it all upfront in one go. And sometimes you pay in regular instalments. So, the price of your premiums depends on various things, for example, the level of coverage you're buying, where you live, or your age. A good example is where drivers who have recently passed their driving test will typically pay more than experienced drivers.

Jess Spiers 07:36

Yeah, that's right. And something that's really important to mention here is that when you buy your insurance policy, the insurance premium is only one part of the total cost you pay for that policy. There are other things included in the cost as well. So, things like, broker or insurance company fees, admin costs, and that kind of thing.

Alethea Beharie-Campbell 07:52

Yeah, absolutely. And FSCS can only pay compensation on the insurance premium part of your policy. So not for other things like fees, or admin costs that you mentioned, this can have a really big impact on how much money you get back. And it often means you get back less than you paid for your policy, as it's only the cost of the premiums that we can pay compensation for. The policy premium refund also covers any un-used portion. So, if there's one year left on the 10-year insurance policy, you'll get roughly 10% back.

For most types of general insurance policy, we can pay back 90% of the value of your remaining insurance premium, even if it's a type of insurance, where FSCS may cover outstanding claims made under the policy up to 100%. So as of all of our claims, we can't guarantee you'll be eligible, it depends on each person's circumstances, and we have to have a look at each claim on a case-by-case basis. But most UK customers or failed insurance firms that are regulated by the Prudential Regulation Authority will likely be eligible for compensation.

Jess Spiers 08:54

Okay, great. So, let's talk about the third and final way that FSCS can help when an insurer fails. And that is when you're eligible for FSCS compensation. So, imagine your insurance firms gone bust and you've got a valid insurance claim. So maybe something happens while you're away on holiday and you need to claim on your health insurance, or your dog suddenly needs an operation, and you need to claim on your pet insurance. What happens here?

Alethea Beharie-Campbell 09:19

So, we don't handle these things ourselves, the insolvency practitioner will have appointed someone to handle them on behalf of the insurance company that's gone bust. But, when it's time to pay these claims, that's where we can step in to pay compensation. Now provided you're eligible we can pay either 90% or 100% of the claim depending on the type of insurance.

So, examples where we can pay 90% include, pet, travel, home and property insurance. Examples of where we can pay 100% is third party motor insurance, employers' liability and whole of life insurance. As we already said, as with all of our claims, it really does depend on each person's individual circumstances and eligibility set out by the Prudential Regulation Authority. Now, what I'd really suggest is to listen to podcast number six to find out more about what happens if your insurer goes bust, and it's definitely worth visiting our website for more information.

Jess Spiers 10:11

Okay, that's it for insurance then and next on the list of things that we're talking about today that you might not realise FSCS protects is debt management plans. Of all the financial products we protect, debt management plans are probably the least well known. And they're actually also quite a new product to come under our protection. We've covered them since 2018. So, Alethea, let's start with explaining what a debt management plan is.

Alethea Beharie-Campbell 10:36

So, a debt management plan is basically a plan that lets you pay off your debt at a rate you can afford. Now, if you do find yourself in debt and use a firm to arrange the debt management plan FSCS may be able to protect you if the firm goes bust. Now if you're eligible, we can pay up to £85,000 per person, per failed firm. And that's compensation we pay automatically, you don't need to come to us to make a claim.

With debt management claims, there has to be a shortfall in the client money a debt management firm holds. Now client money is the agreed amount of money the client sends the debt management firm, often monthly, which is then distributed amongst creditors. Now as with everything we protect, the provider must have been authorised by the Financial Conduct Authority, the FCA, for our protection to apply.

Jess Spiers 11:22

Absolutely and again, worth pointing anyone listening to our website for our full eligibility criteria. So, on to the fourth and final product you might not realise FSCS protects and that is funeral plans. So funeral plans are actually the most recent product come under our protection. We started protecting them from the 29th July 2022.

Alethea Beharie-Campbell 11:43

Yeah, we did. So, if you had a funeral plan and your provider went out of business on or after the 29th July 2022, FSCS may be able to protect you. Now, this includes funeral plans bought before this date, as long as your provider is authorised by the Financial Conduct Authority. Now, there are a few ways we can protect funeral plan customers. And I think it's worth mentioning that we can protect eligible people up to £85,000 per person per firm for all types of funeral planning.

Jess Spiers 12:14

Yeah, that's right. And we really want people to know about this protection because no one should have to worry about themselves or their loved ones not having the funeral that they planned for. So, Alethea, let's start with funeral plan provider claims. Could you tell us a little bit about how FSCS can protect these?

Alethea Beharie-Campbell 12:30

Sure. So, if your funeral plan provider goes out of business, it should have arrangements in place to make sure the new regulated provider can carry out your funeral plan. Alternatively, it may well provide you with compensation. If these arrangements aren't in place, FSCS will protect plan holders of authorised funeral plan providers that have failed. We will work with a failed firm, the FCA and the insolvency practitioner to make sure we have all the information we need. In most cases people won't need to make a claim.

Jess Spiers 13:00

Okay, great. So, could you tell us a little bit more about replacement funeral plans then?

Alethea Beharie-Campbell 13:05

So, where possible, we'll try to give you the option of entering into a new contract with a replacement regulated funeral plan provider. It would be like for like replacement and with the same times as your original plan. Now where that's not possible, it would have terms as similar as possible to the original. Before we complete this process will ask if you want to receive replacement cover. If you don't, you can choose to receive compensation for your plan instead.

Jess Spiers 13:31

Okay, so people do have a bit of a choice here. So, what if they do want to choose to receive compensation?

Alethea Beharie-Campbell 13:37

So, if they would rather receive compensation, FSCS will calculate the amounts by reference to what it would cost to buy the same plan on today's market. If we aren't able to arrange a replacement funeral plan, we will pay you compensation on the same basis. There are other types of funeral plan claim - you may also be able to claim compensation for certain activities carried out by a funeral plan provider or their intermediaries. So, for example, funeral directors and will writers. Examples include advice to take out a funeral plan or the way a funeral plan was set up. Now it is important to mention that the activity itself must have occurred on or after the 29th July 2022.

Jess Spiers 14:18

Absolutely. So, what about a scenario where a funeral plan holder passes away, and the funeral plan provider fails.

Alethea Beharie-Campbell 14:27

So, if a plan holder were to pass away after their funeral plan provider fails, but before the FSCS has yet to secure a new funeral plan contract with a new provider or pay compensation, and their insolvency practitioner of the funeral plan is not able to secure the provision of a funeral, then FSCS may be able to help with a provision of a funeral.

Now if you're a customer's nominated representative or next of kin and this has happened, please contact the named funeral director in the original funeral plan who will advise you on the next steps. Now this will be the named firm of undertakers under the terms of the funeral plan, or in the absence of this information, at the firm of undertakers you have selected. Now, once you've contacted the funeral director, please tell us about your situation, you will find our contact details on our website.

Jess Spiers 15:18

Yeah, that's right. And you know, plenty to take in here. Again, lots of information. So, it's all on our website. If you head there, you can read it in your own time. And we've also produced a podcast all about funeral plans, which is podcast number nine, if you want to go and find that one to listen to.

So that's been our whistlestop tour through some of the things that we protect that you might not have known about. As we've said a few times, there's loads to take in here. So, we would recommend heading over to our website where you'll find all the information and one more time that's www.fscs.org.uk. So, one final thing to do. And that's our question for Alethea. So, at FSCS we're all about keeping your money safe. What was the toy that got you breaking open your piggy bank as a child?

Alethea Beharie-Campbell 16:01

So, Jess, I had a pretty active imagination as a child, and I loved creative things. And if I wasn't saving up for an action figure from a cartoon or film I've recently seen, I'll be breaking the piggy bank for whatever I could get my hands on at the arts and crafts store and filling my house with all my visionary pieces. I think at one point, I had created a Paddington Bear and a superhero village, which I'm pretty sure my mum probably wasn't too pleased about.

Jess Spiers 16:27

Paddington Bear and superhero village sound amazing. I think that might be the most creative answer we've ever had. Thank you. Great. So, thank you, Alethea for helping to explain the four things that FSCS protects that you might not have known about. Hopefully everyone listening has enjoyed the episode today. So, if you do want to hear more from FSCS you can find all our podcasts on our website and wherever you usually find your podcasts. Please do follow us wherever you listen to your podcast, so you never miss a new episode. Thanks for listening!