

FSCS Podcast – Episode 21: How we protect the money in your bank, building society or credit union

0:02 - Caroline Rainbird (Jingle)

Welcome to Protect your money with FSCS, the podcast from the Financial Services Compensation Scheme. I'm Caroline Rainbird, FSCS Chief Executive, 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 that your money is safe. Hope you enjoy the podcast!

0:29 - Emma Barrow

Welcome to the FSCS podcast. I'm Emma Barrow, Head of Communications, and I'm stepping into Jess' shoes today as guests host. So FSCS - that's the Financial Services Compensation Scheme - exists to protect customers of authorised financial services firms that have gone bust by paying eligible people compensation. We protect lots of financial products but not all of them, so this podcast is designed to help you understand our protection and why it's so important.

This episode we're going to focus on protection for probably the first thing that comes to mind when you think about money, your everyday bank accounts. FSCS protects the money you keep in your current and savings accounts as long as these are held with a bank building society or credit union, it's authorised by the Prudential Regulation Authority or PRA.

It's the part of FSCS protection that's most well-known. It came into the spotlight recently March 2023, with Silicon Valley Bank UK, which was very close to insolvency, but was bought by HSBC. If the bank had entered insolvency, FSCS would have stepped in. So, we're going to talk today about how FSCS protects your day-to-day money, how it steps in if a bank fails, and bust some myths along the way as well.

So, today I'm joined by Oliver Gordon, who is our Head of Organisational Risk and Resilience at FSCS. And Samantha Wells from our Resolution team. So, Sam, hello.

1:46 - Samantha Wells

Hello, warm welcome to everybody. Yes, I'm Samantha Wells, and I work on the Deposit Compensation team as a Deposit Specialist. My role is really to oversee the end-to-end compensation pay out process for customers of that failed deposit-taker, and to make sure they receive their payment from FSCS as quickly as possible.

2:07 - Emma Barrow

Thanks, Samantha, and Oliver, hello.

2:10 - Oliver Gordon

Thanks so much. Hi, as Emma mentioned, I'm Oliver Gordon, the Head of Risk and Resilience here at FSCS. That perhaps sounds a touch mysterious so let me simplify it. Essentially, my team identifies risks that the organisation may face, and from a resilience viewpoint, makes sure that we are able to continue to operate should those risks crystallise.

2:31 - Emma Barrow

Thank you both. And it is really lovely to have you both with us today, both absolute experts as you're going to demonstrate throughout this podcast. And I really hope you're ready for our traditional question at the end. So just to give the listeners a teaser, our question at the end: Although FSCS is about protecting your money, what toy would have had you breaking open your piggy bank as a child? And I always look forward to hearing those answers so, really looking forward to those at the end.

So, let's get started. Samantha let's start with the basics. What do we actually mean by deposits and deposit protection?

3:15 - Samantha Wells

So that's a very good question. So, accepting deposits or deposit-taking is the name of a regulated activity and if you're already familiar with FSCS protection, you may know that a regulated activity taking place is one of the key things that must happen for FSCS protection to apply. Lots of people will have a current account which, for example, their wages are deposited into. And so deposits can be described as the monies you hold with your bank building society or credit union, and they're collectively termed "deposit takers."

3:48 - Emma Barrow

Great. So, the money that you hold in your current account or as cash savings with banks, building societies and credit unions is what we're talking about today. And that, as you say, is protected as long as that firm is authorised by the PRA. One important thing that we get asked a lot is about limits. And there is a limit of £85,000 per person, per banking licence, not per account, which is one of the first myths I think we're going to bust the day. And so it's important that you know where your money's saved and you know where brands might share a banking licence. That's really important.

We do have a handy protection checker on our website www.fscs.org.uk. You can check your protection on there but also there are lists of all the firm's that PRA regulate on there as well. So Samantha, if the worst happens, how long does it take for FSCS to pay out that £85,000 per person?

4:40 - Samantha Wells

I'm sure a lot of people would want to know about that. The deposit claim types and timescales for actually paying them are set out in the deposit and protection rules by the PRA. That's the Prudential Regulation Authority, little bit of a mouthful there. This means it's not an aim, but FSCS has a legal obligation to pay within these timeframes and that is that we have seven days for the claims we call fit for straight through. So, that's where we have all the information we need to make the payment straightaway.

We then have 10 days to pay what we call not fit to straight through claims and that can be for example, where customers have moved address and they've not updated the deposit-taker with their new details. So, we'd need to trace them first and hopefully locate them at a new address. Or it could be the customer sadly passed away. So, we'd need details from the next of kin or executor plus a bit of evidence and to confirm who we should be paying instead.

05:35 – Emma Barrow

Thanks, Samantha. Yeah, jargon is always with this stuff with our "fit for straight through" and "not fit for straight through." I think the key thing for most people listening to this podcast is, typically seven days is what you're looking at. And I know from practice here that often we actually exceed that, and we pay out very quickly where we have the data, which is really good. But as you say, legal obligation is seven or 10 days typically for most claims. And what about if someone holds more than £85,000 in their account? What does that mean?

06:04 – Samantha Wells

So, that means for joint accounts between a couple, protection is still per person, per deposit taker. So, it's essentially doubled to £170,000 between a couple - is an easy way to think of it. You can, however, have three or more joint account holders as well. So, you could have business partners who use the account, but it's in their personal names, or small organisations like a sports team or clubs, and they would have the individual protection up to £85,000. And you've then got temporary high balance protection for certain life events such as inheritance, large personal Injury pay outs, or buying and selling your primary residence. And you can find more about that on our FSCS website.

And then the protection for temporary high balances is in addition to our standard £85,000 limit, and that's up to a million pounds. As it's temporary, it runs first six months from the time the money arrives in your account, or an account held on your behalf. So, that'll likely be a solicitors client account as an example. It also only covers what are termed "natural persons" in legal terms, that means individuals and not companies.

7:15 - Emma Barrow

Yeah, and I know from seeing some of the inquiries that we get, we do get customers asking quite a lot about what we call THB or temporary high balance claims. And asking,

you know, "Would this situation be covered? Would that situation be covered?" And the answer we have to give is we never actually know until the deposit taker fails, and we can look at those specific customer circumstances. But as you say there are there's a list of life events that people can look at. And that shows where typically a temporary high balance protection would apply. Those claims, though they can be complicated. And do they take longer if you've got a temporary high balance?

7:48 - Samantha Wells

Yes, they do. So temporary high balance claims, and there's some other more complex claims we deal with such as group accounts, which are trust and beneficiaries, can take up to three months. Although we would aim to deal with these as quickly as possible on receipt of the necessary evidence. And we're actually given longer under the rules to deal with these types of claims, because of the data gathering and the assessment needed, which often has legalities to consider as well. So, that does take us a bit longer. But as I say, we will try to deal with those as quickly as possible and get those monies to people.

8:21 - Emma Barrow

Super. Thanks so much, Samantha. So, just a couple of key points before we move on to our next section £85,000 is what you've got as coverage as an individual, as long as the firm is authorised by the PRA. You can check that on our website. And that is per person, not per account. I think this definitely is one of the biggest myths that we have. So, if you have, a lot of people do by habit, they have the current account and some savings accounts with the same bank, the £85,000 would be in total. And you can find everything about the limits and temporary balances on our website www.fscs.org.uk.

So, that's what deposit protection is and how much you have. We're going to give Samantha a little break now. So, Oliver, I'd like to ask you what happens if FSCS does need to step in because of deposit takers become insolvent?

9:11 - Oliver Gordon

Well, prepare is a core part of the FSCS strategy. It's all about ensuring we can protect consumers in a crisis or in the event of major failures to maintain public confidence and of course, financial stability. Now, I emphasise consumer there, as this is something that has been brought to light recently, in the case of SVB UK, as all of their direct customers were in fact businesses and not individuals like you or I. Regardless though, FSCS would still have stepped in as businesses are indeed eligible for FSCS protection, but the £85,000 limit still is the same.

9:52 - Emma Barrow

So yeah, we've seen quite a little bit of commentary on that in the media I've noticed after what happened with SVB UK, it is indeed the same protection whether you're a

business or an individual and charities as well. People often don't realise if charities hold their money in bank accounts, which, you know, it's where most people keep their money. It's the same, they also have that protection. Another thing, Oliver that is misunderstood is how we actually fund that compensation. So, if FSCS does have to step in and pay compensation for deposits, how is that funded?

10:23 - Oliver Gordon

Well, firstly, and perhaps really importantly, we are funded by industry and not the taxpayer, it's really important to highlight that. And we do this by raising an annual levy based on the amount of compensation we expect to need. Now, just briefly, for those who don't know, a levy is essentially a financial contribution to the cost of compensation relative to the size of the organisation. So, for example, a bank pays based on the number of protected deposits, it holds compared to the size of the total industry. So, with that context, we go about calculating this levy based on a forecast, which is very carefully put together in collaboration with our regulatory partners. But failure is, of course, hard to predict, as we saw in the case of SVB and so there are many factors involved.

Now, in the event that more funding is required, we can raise a supplementary levy for deposits, we can raise up to £1.5 billion each year, which is funded by that deposit sector that I mentioned. So that's active banks, building societies and credit unions. But in order to meet our seven-day pay out, we couldn't need that money very, very quickly and so if we don't have enough within our own bank account, for example, we have a credit facility, and indeed overdraft, that can get us very speedily up to that £1.5 billion threshold that I mentioned. In an extreme scenario, we also have the ability to access funding via His Majesty's Treasury. And that's where the failure is of such a size, that we're beyond the £1.5 billion that I've already mentioned.

12:06 - Emma Barrow

Thanks, Oliver. So yeah, that kind of misconception around our funding is something again, we see quite a lot, we see people assuming that it is public money or taxpayer money that's used to fund us. But as you quite rightly say, it's the industry who pay for the cost of our compensation. But regardless of who funds us, we do have a duty to manage our costs. So, we don't have the luxury of a huge workforce sitting around waiting for things to happen. So, how do we make sure that we are prepared, whilst also making sure we're efficient in peacetime, so to speak, how do we make sure we're prepared for those large failures if they happen?

12:41 - Oliver Gordon

Well, firstly, Emma, I think it's incredibly important to say that we have high levels of engagement and a strong positive culture at FSCS with lots of highly skilled people who are very motivated by helping people and solving problems. And I'm not just talking about, you know, our people on the ground here. It also goes across senior

management and the board alike, so we're very lucky to have such engaged people. Consequently, I'm pleased to say that we invest time and resource in our preparedness, which includes extremely realistic war games with our people, and those across the supply chain who are integral to the response, playing out in real time how we would respond to varying scenarios. This live learning by doing is pivotal in FSCS being able to respond in a timely and effective manner to meet the needs of the consumers and stakeholders alike.

13:34 - Emma Barrow

Thanks, Oliver. Yeah, prepare is one of our strategic pillars. And, you know, I witness it first hand at FSCS how well we do that work, and how seriously we take it making sure that we are ready, no matter what happens to be able to step in. Like we said, it's really important for people's confidence that they know that we're here to do that as needed. So back to you, Samantha, when the time comes to put those preparations into practice. How does the deposit-taker insolvency actually play out behind the scenes at FSCS?

14:03 - Samantha Wells

So yeah, you're right, as well to what Oliver was saying before that, you know, it is something I care a lot about - deposits, and I put a lot of heart and soul into making sure everything's just so for customers. But in order to sort of go through how insolvency plays out. The first point to note really is the Single Customer View file. And that contains all of the contact details and balances for customers. So, the accuracy of its data is essential for us to pay our customers correctly and quickly. The SCV file removes the need for application forms and evidence some years ago now. So, the majority of customers don't need to do anything to receive their compensation from us, it's automatic.

What we do, in peace times, as well as we regularly test the data quality of the SCV file from different deposit-takers throughout the year. And then we'll provide feedback to them on actions to take to improve the quality of the file and that's so that if FSCS ever needed to use it for pay out purposes to affected customers, they've then addressed any issues we found with the file at that point. And another thing we do is work very closely with any appointed insolvency practitioner who is dealing with the failure of the deposit-taker.

And we do that in the lead up to, during, and post default and to deal with any customer queries or requests to reissue payments for a variety of different reasons that come up. Could be anything, like I said earlier, from change of address, dog ate my cheque, anything and everything if they didn't get their payment, you know, we will make attempts to get that reissued to them as soon as we possibly can again. And then sort of the ultimate trigger really, for all this to happen, and start the process, is the insolvency practitioner receiving the court order to place the deposit-taker into administration or liquidation. And then the court will appoint them to deal with the matter.

15:50 - Emma Barrow

Great. So, it is amazing, actually, because there's so much that goes on behind the scenes that people don't see, as you mentioned that the SCV file being checked for each firm really regularly throughout every year. We're constantly doing that. And we often call this kind of the invisible effort that goes on behind the scenes at FSCS. The firm is now officially in insolvency. So, what happens next? Because what happens next is what most people will see.

16:13 - Samantha Wells

Yeah, exactly. So, what customers will see is that we've got a landing page that will be set up on our website for every default. And that will contain details of the insolvency practitioner that's been appointed and how they can get in contact with them. A copy of our press release, which just gives further details about the default. And also, very importantly, our Q&A sections. So that will have all of the common queries that customers may have. And we'll have that there for them to access and use as a resource.

As well as that, obviously, payment is the key thing. So, in terms of pay out, we currently have two methods. So, we've got checks for payments, over £1,000 and then we've got what we call cash over the counter, which is a letter you take to your local post office with two forms of ID to get the cash there and then that's used for payments under £1,000.

17:03 - Emma Barrow

Thanks for that, Sam. So, in the case of Silicon Valley Bank, UK, which we mentioned right at the start, FSCS was absolutely prepared to step in and protect customers. But we ended up not being needed. But it was interesting, actually, when SVB UK was all kind of kicking off in the media, because there was an impression that we hadn't paid out on deposits before and it wasn't something we normally do. But we absolutely have done. So, back in 2008 FSCS paid out more than £20 billion to customers of failed banks and building societies. And in recent years deposit failures have been smaller, but they still have been going on, haven't they?

17:36 - Samantha Wells

Yes, they have been much smaller in recent years. So, all the money we've paid out in maybe the last 10 years or so for deposits has been for failed credit unions. And these are typically smaller than banks and building societies. The most recent credit union failure was in Birmingham in September 2022. And we paid around £1.3 million in compensation, which is still a lot of money so, we say small, but relatively speaking to if there were a larger bank to fail, but most customers of credit unions have less than our

compensation limit in their account. So, we're usually able to cover everyone that is eligible.

18:12 - Emma Barrow

So, deposit protection has been something that FSCS has done. Ever since it came into existence in 2001. Things have changed over time, the limit is got higher slowly but surely, as we've just mentioned, maybe the types of deposit taker that have been failing that we've been protecting has been changing. But Oliver, could you tell us a little bit more about maybe what's next for deposit protection?

18:34 - Oliver Gordon

That's a really interesting question. I think what I'd say is, it's clear that the way people hold money is changing, e-money, savings marketplaces, things like that. With the innovation in this space comes complexity for FSCS. Of course, we ourselves working with the wider regulatory family also look for innovation. And so, I'm excited to say that we are currently exploring alternatives to compensating customers via cheque and understanding how we can quickly and efficiently move to electronic pay out.

Now, this may sound easy, but for the reasons that I mentioned in terms of complexity, it is actually quite difficult. And so, this is not going to be an overnight change. However, it does highlight that we are continually trying to find ways to get compensation back in the pockets of customers as quickly as we possibly can.

19:25 - Emma Barrow

Thanks, Oliver. Yeah, I think that's the key point isn't it is trying to keep up with what consumers are doing with their money so that we can protect the most effectively and the cheque pay out thing always makes me laugh a little bit because when I tell people about what I do at work, and we talk about FSCS and I bore them with all the detail! They do often say about deposit-taking and when I talk to him about that they're like cheque pay out? Like you pay by cheque? Is it the 1980s still? And we all have a laugh, but actually when we when I explained to them the reason, we pay by cheque is, by far the quickest thing for us to do and it's very soon secure and very safe, because we can we send it to the customer details that we receive from the bank. So, we know that that is the right person.

And actually, you know, if you have got multiple current accounts, one bank doesn't know about the other one, right? So, it's not actually that easy to get those details. So, cheque payments is one that does come up quite a bit and actually, I'm quite a defender of it, because I do understand that it's, it's secure and safe and, and innovation has caught up there. You know, a lot of banks allow you to scan and pay in checks through an app. So, there's, even if you do get a cheque, it's a lot easier than it used to be to cash it. But it's really good to hear about things moving forward. And it

does sound like there's some really interesting things to come with deposit protection, which is great.

Just a quick reminder, for those of you listening that the website, our FSCS website does have that handy protection checker for deposits. And you can contact us using the details on our site as well if you'd like to find out more or discuss that with anyone. So as a reminder, that website is www.fscs.org.uk. And before we wrap up and go it is time for everyone's favourite part of the podcast! So, at FSCS we're all about keeping your money safe. But what was the toy that would have got you breaking open your piggy bank as a child? So, Samantha, would you like to start us off?

21:18 - Samantha Wells

Thank you, Emma. My dad was always trying to get me to save my pocket money up as a younger kid to buy sort of a larger toy for myself. But I was so obsessed with Lego for a while, I just use my £2 pocket money each week to buy a little box of it. This was back in the late 80s, early 90s, I might add, so because I doubt you could buy a box of Lego for £2 anymore. So, show my age a little bit there!

21:43 - Emma Barrow

You definitely can't buy a box of Lego for £2 anymore. If you listen to one of my previous episodes where I was a guest, I talked about how I rediscovered Lego as an adult and realised how expensive it is. But also, now I'm an adult and have complete freedom with my piggy bank! I could also go a little bit wild, so I share your love of Lego I mean, I know we're recording this audio but just off screen here I've got a cabinet full of Lego models that have been built. I'm not even lying. So, Oliver, over to you what toy would have had you breaking open your piggy bank?

22:15 - Oliver Gordon

Well, without giving my age away here, Emma, I guess that it would have to have been the Sega Master System sounds extravagant and perhaps it wasn't my piggy bank, maybe it was the parents', but the concept is still there. And for those listeners of a certain age, I'm sure that the game Duck Hunt will bring back some magical memories for them.

22:34 - Emma Barrow

Magical memories indeed, Oliver. So, thank you both very much for your answers and thank you both very much for joining me today and to talk to our listeners a little bit more about deposit protection. Just a little bit of a reminder, you can find all of our podcasts on our website www.fscs.org.uk and also the usual places that you find your podcasts as well. Please do follow us wherever you listen so that you never miss a new episode. Thanks for listening!